

# **Strategy Implementation and Control**

Only Study Guide for  
**MNG3702**

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# CONTENTS

OVERVIEW	v
LESSON 1: INTRODUCTION TO STRATEGY IMPLEMENTATION AND CONTROL	1
LESSON 2: STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT	11
LESSON 3: THE LEARNING ORGANISATION	28
LESSON 4: RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION	38
LESSON 5: ORGANISATIONAL CULTURE AND STRATEGY	49
LESSON 6: RESPONSIBLE STRATEGIC LEADERSHIP	56
LESSON 7: ORGANISATIONAL STRUCTURE AND STRATEGY	66
LESSON 8: STRATEGIC CONTROL AND RISK MANAGEMENT	70
REFERENCES	80



# OVERVIEW

Dear Student

Welcome to module MNG3702 entitled *Strategy Implementation and Control*. In this module, we explore the implementation and control of strategy as part of the strategic management process. We will provide you with detailed theory and applications of the theory pertaining to strategy implementation and control. We will also provide you with additional opportunities to evaluate decisions and choices with regard to strategy implementation and control in practical business situations - which is a requirement to pass this module.

## 1 PURPOSE OF THE MODULE

Students who complete this module can identify, analyse, interpret and critically evaluate the choices made in implementing and controlling business-level strategy, and think strategically when making recommendations on strategy implementation and strategic control measures in practical situations. The module has seven specific learning outcomes:

Specific outcome 1: Conceptualise the fit of strategy implementation and control within the broader strategic management process.

Specific outcome 2: Develop a plan for strategic change in an organisation.

Specific outcome 3: Develop a framework for resource allocation for successful strategy implementation in an organisation.

Specific outcome 4: Develop a plan for an organisation to become a learning organisation.

Specific outcome 5: Construct an organisational architecture for successful strategy implementation.

Specific outcome 6: Develop a plan and tools for strategic control in an organisation.

Specific outcome 7: Develop a risk management framework for successful strategy implementation and control in an organisation.

## 2 PRESCRIBED BOOK

The following book is prescribed for this module:

Venter, P & Botha, T (eds). 2019. *Practising strategy - a southern African context*. 2nd ed. Cape Town: Juta.  
ISBN 9781485125150

## 3 FRAMEWORK OF THE MODULE

To ensure that you will be able to achieve the module outcomes, we will provide you with eight lessons. Each lesson will focus on a specific learning outcome and it will be

presented in a certain format. Firstly, you will be referred to the appropriate chapter that you need to study in the prescribed book, for example:



#### Read

Lesson 1 is based on chapters 1 to 7 of the prescribed book. You should read these chapters before you commence your study of Strategy Implementation and Control.

Secondly, each lesson will provide you with the specific outcomes that you should be able to achieve after studying the lesson and the corresponding chapter or chapters of the prescribed book. It is extremely important that you take cognisance of these outcomes, since you will be tested on them in the examination, for example:



#### Learning Outcomes

After you have completed the lesson, you should be able to

- define the term *strategic management*
- explain what strategy implementation and control entails
- demonstrate an understanding of where strategy implementation and control fits into the strategic management process

Thirdly, all the key concepts are highlighted in the text, for example: ■M| Key

#### Concepts



Strategic management is the process for planning, implementing and controlling strategy for the organisation.

Throughout each lesson, we provide you with activities and feedback on the activities. It is vital that you attempt these activities - they provide an opportunity for you to apply the theory in practice, to evaluate decisions and choices with regard to strategy implementation and control critically, and to make recommendations in practical business situations. An example is provided below:



#### Activity

Since its founding in 1929, Edgars Consolidated Stores Ltd (Edcon) has established itself as one of the leaders in South Africa's clothing, footwear and textile retail arena. Visit the Edcon website (<http://www.edcon.co.za/about-strategy.php>) and identify statements of the long-term strategic direction of the company.

In this space, you can write your answer.

## Feedback

*In this space, guidelines are provided to answer the questions posed in the activity.*

Each lesson also contains questions for discussion on the Discussion Forums on myUnisa. You are strongly encouraged to participate in these discussion forums, since they provide you with another learning opportunity. An example of this is provided below:

### Discussion Forums

Questions for discussion on the myUnisa Discussion Forums

It is widely held that the primary responsibility of top management is to determine an organisation's goals, strategies and structure and to implement strategic control systems.

- Do you agree with this statement? Substantiate your answer.
- Explain the role of middle-, lower- or first-level managers in terms of strategic management.

Lastly, each lesson contains a tool that allows you to work towards continuous assessment. PLEASE NOTE: These assessments are for your own personal development and will not be assessed. In the lessons, continuous assessment will be indicated as follows:

### Continuous Assessment

*Go to the online **Assessment** tool on myUnisa, and complete the questions based on **Strategy Implementation as Change Management**, before you continue with the next lesson.*

## 4 OUTLINE OF THE MODULE

The following table provides you with the outline of the module. For each lesson, the title as well as the corresponding chapter in the prescribed book are provided.

Table 1.1: Outline of Strategy Implementation and Control

Lesson	Title	Chapter in prescribed book
1	Introduction to strategy implementation and control	1 to 7
2	Strategy implementation as change management	8
3	The learning organisation	9
4	Resource allocation for strategy implementation	10
5	Organisational culture and strategy	11
6	Responsible strategic leadership	12
7	Organisational structure and strategy	13
8	Strategic control and risk management	14

## 5 HOW TO USE THE ICONS IN THIS STUDY GUIDE

In this study guide the following icons are used:



Key concepts

The key concepts icon draws your attention to certain keywords or concepts that you will come across in the chapter concerned.



Learning outcomes

The learning outcomes icon indicates what aspects of the particular chapter you have to master and demonstrate.



Read

The read icon directs you to certain sections of the prescribed book which you should read for background information.



Activity

The activity icon refers to activities that you must do to develop a deeper understanding of the learning material.

#### Assessment

When you see the assessment icon, you will be required to test your knowledge, understanding and application of the material you have just studied.

#### Feedback

The feedback icon indicates that comments are provided on how you could have answered the self-assessment activities.

## **6 CONCLUDING REMARK**

We wish you all the best with your studies and trust that it will contribute to your personal success and development. We are looking forward to being your partners in this exciting endeavour.

Kind regards

Lecturers

Strategy Implementation and Control

(x)

# Lesson 1

## INTRODUCTION TO STRATEGY IMPLEMENTATION AND CONTROL

Lesson 1 is based on chapters 1 to 7 in the prescribed book. You should read these chapters before you commence your study of Strategy Implementation and Control.

Before we commence our study of *Strategy Implementation and Control*, it is important to refresh our memory and understanding of the concept *strategic management*. Although module MNG3701 entitled *Strategic Planning* is a prerequisite for module MNG3702 (*Strategy Implementation and Control*), for some qualifications students are permitted to register for both modules simultaneously. For this reason, we will commence this module with an overview of Strategic Management by first discussing the traditional approach and then the contemporary framework thereof.

### Learning Outcomes



After you have completed the lesson, you should be able to

- define the term strategic management
- explain the contemporary strategic management framework
- demonstrate an understanding of where strategy implementation and control fits into the strategic management process
- identify the components of organisational architecture
- demonstrate a basic understanding of organisational architecture and its role in strategy implementation

### 1.1 STRATEGIC MANAGEMENT

Take a moment and formulate a definition of the term *strategic management*. When you Google the term you will literally find hundreds of different explanations of the term. A closer look at all these definitions will reveal certain common elements. Firstly, strategic management is about setting direction for an organisation as a whole, setting goals and crafting a strategy. Secondly, strategic management is about implementing and executing strategy, and then over time and through a controlling process, initiating whatever corrective adjustments and corrections are deemed appropriate. This view is considered a more traditional view of strategic management and it provides us with a good starting point to understand strategic management. The traditional view of strategic management boils down to three distinct phases, namely strategic planning, implementation and control. This is also referred to as the process perspective of strategic management.

## Key Concepts



Strategic management is the process for planning, implementing and controlling strategy for the organisation.

More recent views of the strategic management concept suggest that strategy is not this sequential and discrete, in other words, following a neat process of planning, implementing and controlling strategy. Instead, it is a rather messy, overlapping and iterative process. Independent of the approach followed (the traditional view or the more contemporary view) to develop and manage strategy in an organisation, the purpose of strategic management is to ensure that the organisation applies four key elements, namely:

- 1 a clear and consistent long-term strategic direction in terms of what the organisation wants to achieve in future
- 2 a profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible
- 3 an objective knowledge of the key resources, capabilities and weaknesses that the organisation possesses as well as their value to allow the organisation to build on these and develop a distinct competitive advantage
- 4 a proper alignment of organisational strategies, structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives

Although we acknowledge the contribution of traditional strategic management perspectives to our understanding of this important field, we also need to acknowledge and incorporate newer thinking in our perspective of strategic management. To this end, we have devised a contemporary framework of strategic management. Before we take a closer look at the contemporary strategic management framework, let us try to apply each of these key elements of strategic management to a South African company, Edcon, to enhance your understanding thereof. The first activity below, focuses on element 1, namely the determination of a clear and consistent long-term strategic direction in terms of what the company wants to achieve in future.



### Activity

Since its founding in 1929, Edgars Consolidated Stores Ltd (Edcon) has established itself as one of the leaders in South Africa's clothing, footwear and textile retail arena. Visit the Edcon website (<http://www.edcon.co.za/about-strategy.php>) and identify statements of the long-term strategic direction of the company.

Edcon's vision is to ensure that the company remains "The Places to Go" in its chosen markets and to entrench its position as southern Africa's largest non-food retailer. The company focuses on distinctive retail formats, exceptional value proposition and choice of product, focused customer groupings and creating unique experiences for its customers.

The following activity focuses on element 2 of the strategic management process, namely a profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible.



### Activity

Access the Edcon Acquisition Proprietary Limited Unaudited Trading update for the 13 weeks ended 23 December 2017 that is available online: <https://www.edcon.co.za/pdf/announcements/2018/edcon-acquisition-proprietary-limited-trading-update-q3-2018.pdf>. Critically evaluate the external environment of Edcon to identify the opportunities and threats that the company faced during the fourth quarter of 2017.

### Feedback

*During the fourth quarter of 2017, Edcon faced a number of threats, such as the following:*

- *low consumer confidence*
- *increased competition for the Edcon Group from established market participants as well as new market entrants*
- *weaker consumer demand*
- *tight credit conditions*
- *low growth in consumer disposable income*
- *high unemployment rates and high fuel prices*
- *fierce price competition through ongoing promotions and clearance activity by competitors*

*Apart from the threats, Edcon also faced a number of opportunities, for example:*

- *Edcon found a buyer for its Legit business*
- *information technology*

The next activity deals with the third element of strategic management, namely an objective knowledge of the key resources, capabilities and the weaknesses that the organisation possesses as well as their value to allow the organisation to build on these and to develop a distinct competitive advantage.



## Activity

Access the Edcon Acquisition Proprietary Limited Unaudited Trading update for the 13 weeks ended 23 December 2017 that is available online: <https://www.edcon.co.za/pdf/announcements/2018/edcon-acquisition-proprietary-limited-trading-update-q3-2018.pdf>. Critically evaluate the internal environment of Edcon to identify the most important resources that the company has access to and its most important capabilities. Also, identify the weaknesses in the company's internal environment that are evident in this report.

## Feedback

The most important resources and capabilities of the company during the third quarter of 2017, were the following:

- well-managed input costs
- negotiation skills with suppliers in terms of rebates and discounts
- foreign exchange management - Edcon applies a strategy of hedging committed foreign denominated orders

Apart from the resources and capabilities, the report also highlights certain weaknesses of Edcon, for example:

- the company had to sell its Legit business and exit non-profitable international brands
- Edcon had to close unprofitable stores
- weak financial performance (the company had to be taken over by banks and bondholders in 2016 to avoid collapse)

The last activity focuses on element four of strategic management. This element entails a proper alignment of organisational strategies, structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives.



## Activity

Read the feedback in terms of the previous three activities provided. Then, read the following article: Edcon of South Africa plans to Close Chains in Recovery Plan, which is available online <https://www.bloomberg.com/news/articles/2018-07-04/edcon-of-south-africa-plans-to-shut-down-chains-in-recovery-plan>. Do you agree with Edcon's decision to close its chain stores Red Square and Boardmans in an attempt to lure customers to its flagship Edgars clothing stores. Substantiate your answer.

## Feedback

*Edcon struggled for many years to perform better financially. An analysis of the company's external environment indicates weak consumer spending and weak economic growth leading to weak sales and profits. The current poor economic situation in the country (and even worldwide) has a direct influence on the company, which will not change or improve dramatically in the near future. There are few opportunities that the company can explore to improve its poor financial situation. An analysis of its internal resources and capabilities, reveals very poor financial performance over a number of years (you may have a look at the annual reports of the company for the past five years that are available online). The company had to be taken over by banks and bondholders to avoid its collapse. The recovery strategy will cut floor space by 17% over five years to boost profitability, so that Edcon can focus primarily on Edgars. Edcon will retain its CNA and Jet divisions. Its recovery strategy is probably the only possible strategy that will save the company from liquidation.*

### Questions for discussion on the myUnisa Discussion Forums

It is widely held that the primary responsibility of top management is to determine an organisation's goals, strategies and structure and to implement strategic control systems.

- . Do you agree with this statement? Substantiate your answer.
- . Explain the role of middle-, lower- or first-level managers in terms of strategic management.

## 1.2 A CONTEMPORARY STRATEGIC MANAGEMENT FRAMEWORK

In this module, we adopt the contemporary strategic management framework, which is also the framework used in the prescribed book. This framework is depicted in the figure below and gives us a clear indication of where strategy implementation and control fits into the strategic management process:

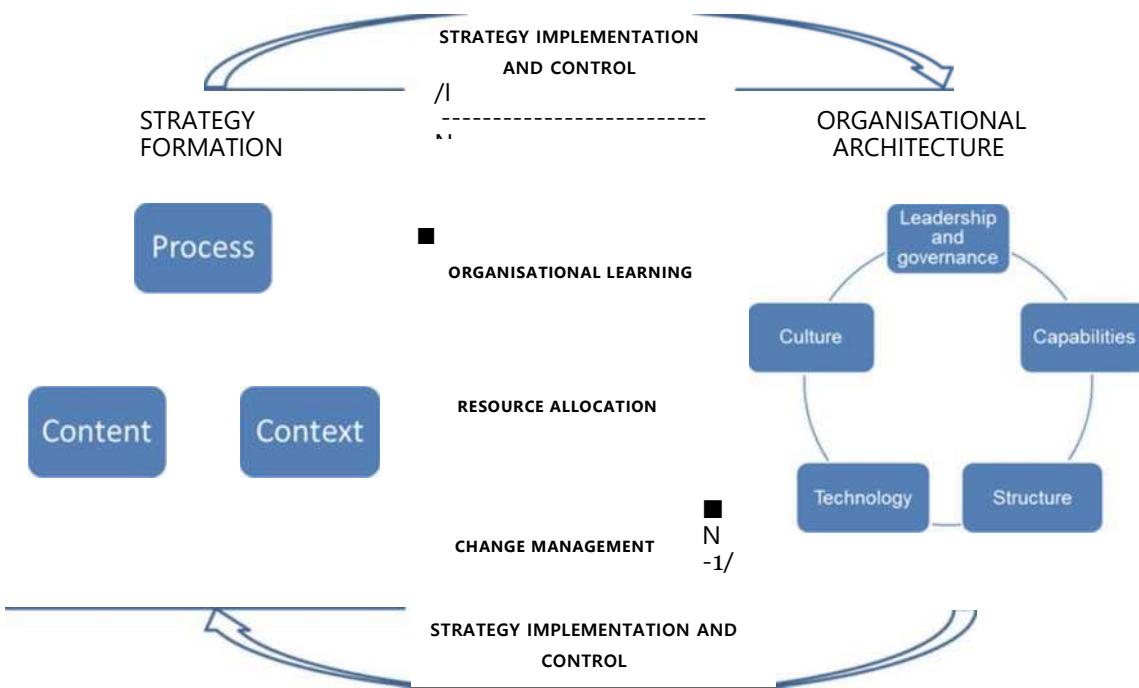


Figure 1.1: A contemporary strategic management framework

Source: Venter (2019:12)

## ***Strategy formation***

As indicated in figure 1.1, strategy formation consists of three components: process, context and content.

Process. In the first place, there are certain general processes, which can be both formal and informal, to develop strategy. This addresses the question "how" strategy develops in the organisation. The process (or traditional) perspective of strategic management is addressed in chapter 3 of the prescribed book and was also covered in module MNG3701 entitled *Strategic Planning*. According to this perspective, strategic management consists of three stages. The first stage is strategic planning, which is a conceptual process that consists of an environmental analysis and the development of strategies. The second stage is called strategy implementation, which is also referred to as the action phase. During this phase, all staff in the organisation are tasked with implementing the strategies. The third and last stage is strategic control, which is also referred to as the review or monitoring phase. The strategy review phase is aimed at monitoring progress and providing feedback. The *process* part of strategy formation also relates to strategists and strategising, which are explained in chapter 4 of the prescribed book and covered in module MNG3701.

Context. Strategy is always context bound. In other words, it takes place in a certain external and internal context, and this provides us the "why" of strategy. Organisations function in a globalised economy and therefore need to explore its global, continental, regional, country, industry, and internal issues and forces. The external context and the risks it presents is explored in chapter 5 of the prescribed book, while the internal context and the strategic resources and capabilities of the organisation is covered in chapter 6 as well as in the MNG3701 module.

Content. The content of strategy refers to the actual development of strategies (i.e. the "what") to compete in industries and to create shareholder value, and is examined in chapter 7 of the prescribed book as well as in the MNG3701 module.

In figure 1.1, the lines between the above three components (process, content and context) indicate that the components are interrelated. Strategy is a process, which takes place in a certain context, with the aim to develop actual strategies to compete in industries and to create value. Next, we look at strategy implementation.

## **Strategy implementation**

The actual strategies developed during strategy formation, should be implemented and controlled. Therefore, figure 1.1 indicates arrows between strategy formation, implementation and control. Strategies are implemented through various elements, indicated in the organisational architecture block of figure 1.1, namely leadership and governance, capabilities, structure, technology and culture. Organisational architecture also influences the future strategic direction, therefore an arrow leads from the organisational architecture block to the strategy formation block. Strategy implementation consists of three important elements, namely change management, organisational learning and resource allocation.

Change management. The alignment of organisational architecture with strategy formation does not happen naturally, and the organisation has to put in place formal processes to manage the large-scale change associated with strategy. This aspect is explored in lesson 2 (chapter 8 of the prescribed book). You will notice the one-way arrow between strategy formation and organisational architecture in terms of change management. The reason is that various management processes are specifically aimed at aligning architecture with strategy, thus following a top-down approach.

The learning organisation. The less formal processes of organisational learning to recognise and respond to the need for change is discussed in lesson 3 (chapter 9 of the prescribed book). You will notice the two-way arrow between strategy formation and organisational architecture in terms of organisational learning. The reason for this is that organisational learning is iterative. Organisational architecture also influences learning, which can then have a bottom-up effect on strategy formation.

Resource allocation. The allocation of resources to portfolios, programmes, projects and organisational structures responsible for giving effect to strategy is the topic of lesson 4 (chapter 10 of the prescribed book). You will notice the one-way arrow between strategy formation and organisational architecture in terms of resource allocation. The reason is that various management processes are specifically aimed at aligning architecture with strategy, thus following a top-down approach.

Next, we look at the last part of strategic management, namely strategic control.

## **Strategic control**

Continuous environmental scanning (both formal and informal) helps to ensure monitoring and control processes. On the one hand, environmental scanning and control need to ensure that the strategy as planned is on track and to alert key decision makers if interventions are required. This is represented by the arrow from left to right. On the other hand, leaders, strategists and other role players in the organisation (e.g. market intelligence experts) may pick up signals from the environment that could affect the strategy formation process. This is represented by the arrow from right to left. This aspect is examined in more depth in chapter 14.

## **Organisational architecture**

Organisational architecture is a management tool that is used to describe the workings of an organisation, especially with regard to the alignment of strategy and the organisation. It is a model of the organisation that can be shared by everyone involved in managing change and aligning strategy with structure. There are many different perspectives on organisational architecture and what it comprises of, but for purposes of this module we have focused on the three main elements, namely culture, leadership and governance, and structure.

Culture. Organisational culture is so powerful that no plan will work if it is counter to the culture of the organisation. In lesson 5 (chapter 11 in the prescribed book) we focus on organisational culture and its vital role in aligning strategy and organisational architecture.

Responsible leadership. Lesson 6 (chapter 12 in the prescribed book) deals with the closely related issue of leadership and its role in strategy implementation and governance.

Structure. The structure of the organisation refers to the physical manifestation of the organisation in terms of geographical distribution, positions, reporting and communication lines and so on. The role of structure in the alignment of structure and strategy is the topic of lesson 7 (chapter 13 in the prescribed book).

## **Resources and capabilities**

The success of organisations is very dependent on their possession of unique strategic resources and valuable capabilities that form the foundation upon which the organisation is built and can grow. The role of resources and capabilities in the alignment of structure and strategy is the topic of chapter 5 in the prescribed book, which you have already covered in your studies for the module MNG3701.

You will notice that the elements of organisational architecture in figure 1.1 are linked. This indicates that these elements are interrelated. Together, these elements also provide inputs to the future strategic direction and strategy formation, therefore an arrow from organisational architecture to strategy formation is also indicated in figure 1.1.

## **1.3 STRATEGY IMPLEMENTATION AND CONTROL**

In the following seven lessons, we will focus on the important aspect of strategy implementation and control and where its fits into the strategic management process. We will also indicate the role of organisational architecture in strategy implementation and control. *Strategy implementation and control* refers to all the informal and formal practices and processes that embed the strategy (as developed during strategy formation) in the *organisational architecture* and make the strategy a part of the organisation's DNA. If you think about building a house, you may realise that it is a complex business. It is not simply about stacking bricks and putting a roof on top. Firstly, there is the process of designing the house, and during this process, the rules of structural design and the rules of the municipality have to be considered. Architectural and engineering capabilities are required to draw up the plans and to calculate the costs of the project. Only after the plans have been approved can building begin. During this phase, certain skills (e.g. project management, building, plumbing and electrical installation skills) and technologies (e.g. earthmoving equipment) are required. The plans (which are an expression of the vision and goals of the architect and the owner) provide the guidelines for what should be built, how it should be built and what materials should be used. Building a house (or any other building) entails a complex combination of various subsystems. An organisation is also a construction, albeit in more than just the physical sense. It involves people, and for that reason, we could say that organisations are social constructions that are constructed by the people who are involved in it. This social construction is in a sense also architecture, although it is more fluid than a physical building and continuously evolves. The organisational architecture is a holistic representation of the key subsystems of an organisation and their interaction with each other, which can be used to align the operational aspects of an organisation with its strategic objectives. At the heart of the notion of organisational architecture is the idea that the key subsystems in the organisation all have to be in balance and consistent with each other. In our framework for this module, we used a simplified version of the organisational architecture that includes leadership and governance, capabilities, structure, technology and culture as the main organisational components.

Strategic management is essentially about effecting change in the face of internal and external environmental factors, and for that reason, managing strategic change is an important element of strategy implementation. This aspect is addressed in lesson 2. Planned change processes are developed to align the organisational architecture with the strategy, and for that reason it is more "top-down" and as a result a one-way arrow. But strategy implementation is an iterative and flexible process, and without the ability to learn and adapt, organisations will fail at it. For that reason, organisational learning (lesson 3) is also important, as it emphasises the ability of the organisation to dynamically adapt to its environment, even to the extent of exerting an influence on strategy formation. In contrast to planned change processes, organisational learning is a much more organic and iterative process, where elements of organisational architecture can "learn" (such as leadership at middle-management level) and can also influence strategy formation; for that reason, it is a two-way arrow.

Strategic choices made by the organisation ultimately have to reflect in the organisational architecture. This module also addresses the alignment of organisational culture

(lesson 5), the critical role of responsible strategic leadership (lesson 6), and the alignment of organisational structure (lesson 7) with strategy.

A large part of strategic success has to do with the allocation of sufficient resources to ensure the successful implementation of strategies. This aspect is expanded on in lesson 4. Like planned change processes, the purpose of resource allocation in strategy implementation is to align the organisational architecture with the strategy, and as a result it is also a one-way arrow.

Because the environment is constantly changing, strategy and strategic management can never be static. It will always face risks and require interventions in the face of key changes in the environment. For that reason, the final Lesson (lesson 8) focuses on strategic control and risk management.

#### Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Introduction to Strategy Implementation and Control, before you continue with Lesson 2.*

## 1.4 CONCLUSION

In this lesson, an overview of strategic management and the traditional strategic management process were highlighted. Then, the contemporary strategic management framework, upon which this module is based, was introduced. This framework provided you with an indication of the topics that will be addressed in each subsequent lesson in this study guide and the corresponding chapters in the prescribed book that you need to study. You should now be ready to embark on your study of Strategy Implementation and Control. We sincerely hope that you enjoy the journey with us.

# Lesson 2

## STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT

Lesson 2 is based on chapter 8 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of strategy implementation as change management.

I refreshed your memory in lesson 1 in terms of the contemporary strategic management framework that we adopt in this module and in the prescribed book. Lesson 2 is the first lesson that addresses strategy implementation as well as a key element thereof, namely change management.

Researchers and practitioners agree that strategy implementation is the most difficult part of the strategic management process. Research indicates that it is much easier to formulate a strategic plan than to implement it and that it is at the implementation stage that strategies often fail. The fact remains - the best strategy in the world will get nowhere without efficient and effective operations to implement it. In this lesson, we will first focus on strategy implementation and what it essentially entails, after which we will address strategic change and the management thereof.



### Learning Outcomes

After you have completed this lesson, you should be able to

define *strategy implementation*

differentiate between *strategy formation* and *strategy implementation* explain the various barriers to successful strategy implementation explain the principles in overcoming the barriers to strategy implementation make recommendations to overcome barriers to strategy implementation to an organisation

discuss change as a fundamental strategy implementation element differentiate between the various types of strategic change identify the type of strategic change evident in an organisation differentiate between the various models of planned change identify the model of planned change evident in an organisation that went through a change process

explain the barriers to successful strategic change and ways to overcome them make recommendations to overcome barriers to successful strategic change to an organisation

## **2.1 DEFINING STRATEGY IMPLEMENTATION**

Take a moment and formulate your understanding of strategy implementation. You will find many different definitions of the term "strategy implementation" on the internet and in various strategy textbooks. In this module, we will adopt the following definition:

Strategy implementation is the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase. Selected strategies are turned into action in order to realise the vision, mission and goals of the organisation during strategy implementation. It is the phase of the strategic management process where management aligns strategic leadership, organisational culture, organisational structures, reward systems, policies and resource allocation with the chosen strategies.

### **Key Concepts**

Strategy implementation is the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase. It is the phase of the strategic management process where management aligns strategic leadership, organisational culture, organisational structures, reward systems, policies and resource allocation with the chosen strategies.

## **2.2 THE DIFFERENCES BETWEEN STRATEGY FORMATION AND STRATEGY IMPLEMENTATION**

Strategy formation and implementation differ from each other in a number of ways:

- . Strategy formation is regarded as the intellectual phase of strategic management, while strategy implementation is the "action" phase.
- . Internal and external forces drive strategy formation, whereas strategy implementation is mainly driven by internal, organisational and operations-related forces.
- . Strategy formation requires strategists to be intuitive with good analytical and forecasting abilities, while strategy implementation requires strategists to have excellent motivation and leadership skills, in other words, people-related skills.
- . Strategy formation is regarded as the main responsibility of senior management, whereas the lower or first levels of management are regarded as having the responsibility to implement strategies.
- . Strategy formation is concerned with the overall goals and objectives of the organisation, whereas strategy implementation is concerned with the deliberate choice of a set of activities or steps needed to achieve strategic goals.
- . Strategy formation follows a top-down approach - strategic goals and plans are developed that lead to the development of tactical and operational goals and plans. On the operational level, goals and plans for portfolios, programmes, projects, deliverables and activities are developed. Strategy implementation follows a bottom-up approach - the execution of activities will lead to the realisation of planned

deliverables, deliverables will realise project goals, the realisation of project goals will lead to the realisation of programme and portfolio goals. Then, the realisation of portfolio goals will lead to the realisation of operational, tactical and ultimately strategic goals.

As stated in the introductory paragraph of this lesson, the best strategy in the world will get nowhere without effective and efficient operations to implement it. The following case study provides proof of this statement.

## The DaimlerChrysler merger of 1998

On 7 May 1998, Daimler-Benz Aktiengesellschaft in Germany, the manufacturers of the iconic Mercedes-Benz range, and Chrysler Corporation in the United States of America (USA), signed a merger contract to establish a new company - DaimlerChrysler AG. The newly formed *Aktiengesellschaft* was organised and existed under the laws of the Federal Republic of Germany. Daimler, who proposed the merger and dominated the strategy, paid US\$35 billion for Chrysler. The intention of the merger between the two companies was twofold - (i) to safeguard its long-term competitiveness, mainly by reducing the new company's production costs; and (ii) to increase the new company's footprint dramatically, especially in North America. Sadly, the merger between the two companies is probably one of the most famous international mergers that ended in failure.

Figure 2.1 illustrates the DaimlerChrysler Management Board responsible for managing DaimlerChrysler AG and represents the new company in its dealings with third parties. Jurgen E Schrempp from Daimler and Robert E Eaton played key roles in the merger process.

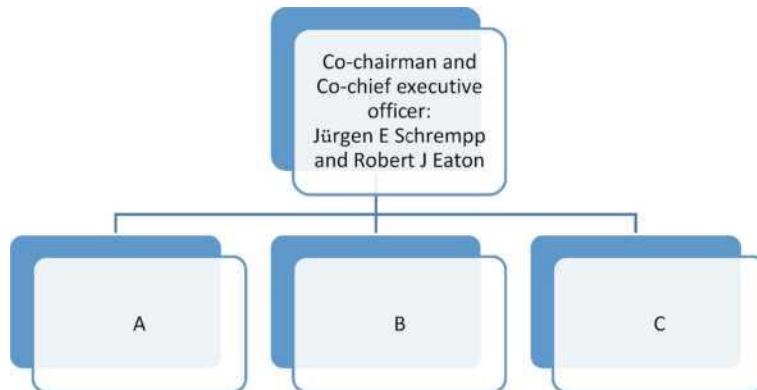


Figure 2.1: DaimlerChrysler AG Board of Management

Group A consisted of board members that represented the following interests in the company:

- . Research and technology
- . Services
- . Aerospace
- . Commercial vehicles
- . Sales and marketing: Mercedes-Benz

Group B consisted of board members that represented the following interests in the company:

- . Passenger cars: Mercedes-Benz
- . Passenger cars and trucks: Chrysler and integration
- . Corporate development
- . Chief financial officer
- . Global purchasing

Together with the co-chairmen and co-chief executive officers, Group B's board members formed the Chairmen's Integration Council.

Group C consisted of board members that represented the following interests in the company:

- . Sales and marketing: Chrysler
- . Human resources: Daimler-Benz
- . Product strategy and design: Chrysler
- . International: Chrysler
- . Procurement and supply: Chrysler
- . Manufacturing: Chrysler

In 2007, Daimler sold its Chrysler division in the USA (for which they paid US\$35 billion in 1998) to Cerberus Capital for US\$7.4 billion. Cerberus Capital Management took an 80.1% stake in the automaker for that amount. The financial performance of Daimler increased dramatically after the sale. Without Chrysler, Daimler reported a net profit of €4 billion for the year 2007 (compared to €3.8 billion in 2006). Sales rose to €99.4 billion from €99.2 billion. The sheer difference in the amounts of money paid for Chrysler by Daimler and later by Cerberus Capital, makes one really wonder how such a promising merger could fail so dramatically. "We obviously overestimated the potential of synergies," Dieter Zetsche, chief executive of DaimlerChrysler, said at a news conference at the company's headquarters in Stuttgart, Germany, after Daimler sold its Chrysler division to Cerberus Capital Management.

Upon closer examination, the two companies merged, but numerous differences between them hindered the success of the merger tremendously. Table 2.1 compares the two companies in terms of the following aspects:

- . the attitude of workers towards a formal hierarchy, formal structures and a bureaucratic culture in the company
- . the values of the company
- . the trust that existed between Daimler and Chrysler workers after the merger
- . the decision-making process (centralised versus decentralised)
- . the control process employed
- . the official language employed
- . products offered
- . currency traded

Table 2.1: Comparison between Daimler and Chrysler

Aspect of comparison	Daimler	Chrysler
Attitude towards hierarchy and structure	Follows a strong and formal hierarchy, clear chain of command, bureaucratic culture with respect for authority. Little payment disparity exists between various levels in the organisation.	Follows an informal, team-oriented and flexible approach. Payment disparities between various levels in the organisation exist.
Company's values	Values reliability and the highest levels of quality.	Focuses on catchy designs and offers cars at competitive prices.
Trust	Daimler workers felt reluctant to work with American workers. Daimler was imposing and tried to dictate the terms on which the new merged company should work.	Chrysler workers felt reluctant to work with German employees. Chrysler's employees mistrusted Daimler and raised some serious communication challenges. Chrysler's middle managers and engineers saw the merger as a sell-out to foreigners, and they feared an invasion of rigid working practices from the German company into their own rather freewheeling company.
Decision making	Daimler used centralised decision-making.	Chrysler workers were used to creative and decentralised decision-making practices.
Control	Daimler employed methodical control practices.	Chrysler encouraged adaptability in control processes.
Official language	The official language at Daimler was German.	The official language at Chrysler was English.
Products offered	High quality, luxurious motor vehicles, offered at high prices.	Attractive and comfortable motor vehicles were offered at very competitive prices.
Currency	Daimler traded in German marks.	Chrysler traded in US dollars.

An analysis of the differences after the merger, as indicated in table 2.1, indicated a merged company with no "deep" integration of activities, processes, cultures and structures. Differences in the first two aspects compared in the table, resulted in conflicting orders given by managers to their subordinates and the formulation of different goals in different departments. American and German managers had different values which drove and directed their work. Different departments were heading in opposing directions. The two companies were never integrated into a cohesive whole and the potential synergies that were identified as reasons for the merger, went unrealised. Furthermore, employees of the two companies did not like each other - they could not cooperate to the extent necessary to make the merger a success.

Mistrust between German and American employees and between management and their subordinates were mainly caused by the realisation that the agreed term "merger-of-equals" did not materialise and that it was, in actual fact, a takeover of Chrysler by Daimler. During the initial stages of organisational integration, huge bulks of Chrysler's key executives either resigned or were replaced by Germans counterparts. Poor communications led to sharp decreases in the productivity of the merged companies.

In theory, the Daimler-Chrysler merger should have yielded two potential sources of competitive advantage. The first potential source was cohesive global brand architecture. The second source lay in the creation of a coherent platform strategy. The cost of developing new motor vehicles is very high. Therefore, manufacturers design "platforms" from which they create families of vehicles. They also try to share parts between platforms to drive economies of scale in manufacturing.

Realising synergy in brand architecture and platform strategy would have required deep integration of Daimler and Chrysler. One of the plans of the merger was for Chrysler to use Daimler parts, components and even vehicle architecture to sharply reduce the cost to produce future vehicles. Unfortunately, problems surfaced when Daimler's Mercedes-Benz luxury division, whose components Chrysler were supposed to use, was reluctant to share with its mass-market partner. In return, Daimler had hoped that Chrysler would dramatically increase its footprint in the promised land of auto sales - North America. Due to increased competition from Asian motor car manufacturers, Chrysler fell short. The management team needed to develop a global brand strategy and associated logic of competitive positioning. None of this happened. Management of the merged company managed the two companies as separate operations.

Only two years after the merger, the new company admitted that it needed to deal with many barriers that prohibit it from realising its initial merger goals. Over and above the differences between the two merged companies (indicated in table 2.1), time differences between the US and Germany also posed a big problem - managers from both companies crisscross the Atlantic in a stream of meetings and workshops, seeking ways to drive down expenditures and share future development costs. People such as Mr Hubbert from Daimler (member of the Chairmen's Integration Council and responsible for Passenger cars: Mercedes-Benz), acknowledged that Daimler, seeking to solve strategic problems of its own, had engineered a friendly takeover of the American car manufacturer. The merged company also faced financial problems. It was admitted that renewed cost-cutting efforts had to be undertaken to improve its operating results. The merged company

also realised the importance of communication with investors when its share price fell more than 40% in 1999, only one year after the merger. Competition in the motor vehicle industry intensified, especially in Chrysler's home market. At the time of the merger, share options became hugely available, which resulted in senior Chrysler managers becoming rich. This triggered concern in Germany. Furthermore, Americans were remunerated two, three or even four times as much as their German equivalents. Management also needed to coordinate hundreds of integration projects, for which they formed an automotive council of five senior managers to which all projects needed to report every four to six weeks. Despite all management efforts, the merger culminated in failure - one that will long be discussed in management and strategy studies.

Adapted from <http://www.commisceo-global.com/blog/cultural-differences-in-international-merger-and-acquisitions>; (ii) <http://www.casestudyinc.com/daimler-chrysler-and-the-failed-merger>; (iii)<http://www.economist.com/node/341352>; and (iv) <http://www.globalsepri.org/uploadphotos/2008912171836151.pdf>.



### Activity

Read the case study on the DaimlerChrysler merger of 1998 and identify the strategy implemented by Daimler.

### Feedback

*Daimler proposed the strategy to merge with Chrysler and dominated the strategy, as indicated in the introductory paragraph of the case. Two years after the merger, people such as Mr Hubbert from Daimler acknowledged that the company, seeking to solve strategic problems of its own, had engineered a friendly takeover of the American car manufacturer.*

#### Questions for discussion on myUnisa Discussion Forums

- Do you agree with the statement that strategy formation follows a top-down approach and that strategy implementation follows a bottom-up approach? Substantiate your answer.
- Do you think that the decision to merge two giants such as Daimler and Chrysler was a good decision made by the top management of these two companies? Substantiate your answer.

## 2.3 BARRIERS TO SUCCESSFUL STRATEGY IMPLEMENTATION

In the introductory paragraph of this lesson, we noted that strategy implementation is the most difficult part of the strategic management process and that it is much easier to formulate a strategic plan than to implement it. You may now ask the question why it is so difficult to implement strategies. Kaplan and Norton (2001) identified the following four main barriers to successful strategy implementation:

The people barrier. Organisational management does not link incentives to strategy implementation, which is indicated as a people barrier.

The vision barrier. Organisational management does not ensure that its workforce has a thorough understanding of the strategy that the organisation intends to implement in order to realise its vision, which is indicated as the vision barrier.

The management barrier. Executive teams do not spend sufficient time managing organisational strategy, which is indicated as the management barrier.

The resource barrier. Organisations do not link sufficient resources to strategy execution, which is referred to as the resource barrier.

Barriers to successful strategy implementation:

- people barrier
- vision barrier
- management barrier
- resource barrier



### Activity

Read the case study on the DaimlerChrysler merger of 1998. Can you identify Kaplan and Norton's four barriers to successful strategy implementation in the DaimlerChrysler case? Substantiate your answer.

### Feedback

*Kaplan and Norton's four main barriers to strategy implementation is clearly evident from this failed merger between Daimler and Chrysler:*

- The people barrier. *No incentives were directly linked to the merger. In fact, at the time of the merger, share options became hugely available which resulted in senior Chrysler managers becoming rich. This triggered concern in Germany. Furthermore, Americans were remunerated two, three or even five times as much as their German equivalents.*

- The vision barrier. *Daimler and Chrysler were heading in different directions; employees had no idea nor understanding of the strategy that the new organisation was implementing in order to realise its vision. The two companies were never integrated as a cohesive whole and the potential synergies that were identified as reasons for the merger went unrealised.*
- The management barrier. *Managers gave different orders to employees, and formulated different goals for different departments. American and German managers had different values which drove and directed their work.*
- The resource barrier. *There was no evidence of resources allocated to implement the merger strategy effectively.*

Questions for discussion on the myUnisa Discussion Forums

Evaluate your current position in the organisation that you are working for. Can you identify Kaplan and Norton's barriers to successful strategy implementation in the organisation?

Can you think of ways that the organisation can overcome these barriers?

The next question that you can now ask, is "how" an organisation can overcome the barriers to successful strategy implementation. This is the focus of the next section.

## 2.4 PRINCIPLES OF STRATEGY IMPLEMENTATION

In order to overcome the barriers to successful strategy implementation explained in the previous section, various principles should be followed. Kaplan and Norton (2001) highlight five principles, which they call the "principles of a strategy-focused organisation":

- Principle 1: Translate the strategy into operational terms. The first principle refers to the translation of the corporate strategy into the logical architecture of a strategy map and balanced scorecard (BSC) to specify the details of the critical elements of the corporate strategy. A strategy map is drawn up by specifying strategic objectives for each element (financial, customer, internal business processes, learning and growth) of the BSC.
- Principle 2: Align the organisation to its corporate strategy. Organisations consist of various sectors, business units and functional departments, each with its own operations and often, each with its own strategies. Functional departments, such as finance, marketing, procurement and so on, have their own bodies of knowledge, language and culture. Functional silos may arise and become a major barrier in successful strategy implementation, since organisations may have trouble in communicating and coordinating activities across these specialised functions. For an organisation to create synergy (to be more than the sum of its various parts), individual strategies must be aligned, integrated and linked. Therefore, the second principle involves the creation of synergy and to ensure that these linkages actually occur, in other words, the alignment of all hierarchical levels (business units, functional units and individual employees) to the strategy.
- Principle 3: Make strategy everybody's job. Senior management and other strategists cannot implement strategies on their own - they need the actions and ideas from everyone in the organisation. The third principle requires that all employees understand

the strategy and conduct their day-to-day activities in such a way that they contribute to the success of the strategy.

- Principle 4: Strategy as a continual process. The fourth principle introduces strategic management as a double-loop process, which integrates the management of tactics with the management of strategy.
- Principle 5: Mobilise leadership for change. Principles 1 to 4, focus on the BSC tool, framework and the processes that support it. Becoming a truly strategy-focused organisation requires more than tools and processes. Firstly, it requires ownership and involvement of the executive team. Secondly, it requires change from virtually every part of the organisation.



#### Activity

Read the case study on the DaimlerChrysler merger of 1998. Study chapter 3 of the prescribed book, specifically the section that explains the balanced scorecard. Design a strategic map for DaimlerChrysler AG. For each element of the balanced scorecard, you should specify at least two strategic objectives.

#### Feedback

*FINANCIAL: (i) Reduce operating costs, (ii) Increase revenue and profits especially in North America*

*CUSTOMER: (i) Increase global brand architecture, (ii) Increase awareness as global industry leader*

*INTERNAL BUSINESS PROCESSES: (i) Create families of vehicles, (ii) Share parts between platforms to drive economies of scale in manufacturing*

*LEARNING AND GROWTH: (i) Increase expertise, (ii) Optimise technology*

Change is a fundamental strategy implementation issue. In the next section, our focus turns to a discussion of strategic change and the management thereof.

## 2.5 CHANGE - A FUNDAMENTAL STRATEGY IMPLEMENTATION ELEMENT

There is general agreement that the rate and pace of change facing organisations are greater now than they have ever been. As a verb, the term "change" can be defined as the action to make the form, nature, content or future course of something different from what it is or from what it would be if left alone. Being "strategic" is not business as usual but requires large and sustained organisational change. Therefore, we can define strategic as "deep" organisational change that seeks to improve an organisation's competitive

position through improving certain of its features. Strategic change involves a change in the strategic direction of the organisation and the implementation of new strategies, involving major changes to the normal or previous routines in the organisation.

Strategic change involves a change in the strategic direction of the organisation and the implementation of new strategies, involving major changes to the normal or previous routines in the organisation.



### Activity

Look on the internet at the website of a large company and find its "corporate history" pages. Notice the many changes that the company has gone through since its founding.

### Feedback

*One example of a company that survived 130 years of many changes is the Johnson&Johnson company. You can follow its rich history of commitment to customers and employees on its website <https://ourstory.jnj.com/our-commitment-to-women>.*

#### Questions for discussion on the myUnisa Discussion Forums

- . From your own experience of strategic change initiatives, what are the key factors that determine their success or failure?
- . What role do strategic managers play in implementing strategic change?
- . In your experience, what is the biggest or most frequent barrier to successful strategic change?

Various types of strategic change can be found in organisations. In the next section, we focus on these.

## 2.6 TYPES OF STRATEGIC CHANGE

Strategic change can take many forms, for example a change in the organisation's

- . vision, mission, strategy, goals and objectives
- . products and/or services that it offers
- . market to which it offers its products and/or services
- . processes used to offer products and/or services to the market
- . technology used to offer products and/or services to the market

- . values, corporate culture and/or shared beliefs
- . outcomes, the way in which people work, or its performance
- . location (including internationalisation)
- . structure

Strategic change can be classified based on two variables, namely (i) the extent of the change required, and (ii) the speed of the change that is to be achieved. Based on these two variables, the following four types of strategic changes are distinguished:

- . Evolution (transformation; incremental). Evolutionary change refers to transformational change that is implemented gradually (or incrementally) through inter-related initiatives.
- . Adaptation (realignment; incremental). Adaptation change refers to change undertaken to realign the way in which the organisation operates.
- . Revolution (transformation; "big bang"). This refers to transformational change that occurs through simultaneous initiatives on many aspects.
- . Reconstruction (realignment; "big bang"). This refers to change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously.

#### Types of strategic change:

- . evolution
- . revolution
- . adaptation
- . reconstruction



#### Activity

Read "The Comair Story" of Comair Limited on its website <http://www.comair.co.za/>. Looking at the way that Comair has developed since it was founded in 1946, identify major strategic changes of Comair.

#### Feedback

*Comair's first major strategic change was the launch of South Africa's first low-fare airline, kulula.com in 2001, which revolutionised air travel in the country by making flying easier and more affordable to customers. Its second major strategic change was investing in world-leading technology that could deliver innovative travel to consumers and travel agencies in South Africa (Sabre Airline Solutions). In addition, Comair launched travel and holiday packages - a major strategic change.*

In this section, our focus was on the various types of strategic change. In the next section, our focus turns to the models of planned change.

## 2.7 MODELS OF PLANNED CHANGE

The majority of models of change management are founded on the notion that change can be viewed as a planned activity that requires management. In this context, planned change can be defined as an approach to manage change that assumes that change is an activity that can be managed, organised and led by the senior management of an organisation. The notion that change can be viewed as a planned activity, is also predicated upon the assumption that an organisation can move from one stable state to another. Models of planned change can be classified as either "best practice" or "analytical" models. Best practice models of planned change suggest that there is a recipe that can be learned for managing change successfully, while analytical models provide a framework to help explain the process of managing a change programme. It has to be recognised that change is a messy, very difficult and unpredictable process. In what follows, we will first focus on the best-practice models of planned change, after which the analytical models will be addressed.

### 2.7.1 planned change

### Best-practice models of

John Kotter is widely regarded as one of the leading experts in change management, and his eight-step change process is perhaps the best-known best-practice model of planned change. The eight steps in his model are summarised below:

John Kotter's eight step change process:

- Step 1: Establishing a sense of urgency
- Step 2: Creating a guiding coalition
- Step 3: Developing a change vision
- Step 4: Communicating the vision for buy-in
- Step 5: Empowering broad-based action
- Step 6: Generating short-term wins
- Step 7: Sustaining acceleration
- Step 8: Incorporating changes into the culture

### 2.7.2 Analytical models of planned change

Analytical models suggest that change management programmes should proceed through various phases - they do not prescribe specific actions that managers should take. One of the most widely cited analytical models of planned change is that of Kurt Lewin, who argued that change comprises three stages. These stages are summarised on the following page:

Kurt Lewin's change model:

Stage 1: Unfreezing

Stage 2: Changing

Stage 3: Freezing

Based on Lewin's model, Balogun and Hope-Hailey developed a change kaleidoscope, which is founded on the principle that change needs to be context-specific and that the approach to change that the organisation chooses should be based on a thorough analysis of the following: (i) the context within which change is taking place and (ii) a series of decisions around the way in which the change is to be managed. The model divides the context within which change is taking place into the following eight core segments (Balogun & Hope Hailey 2008):

Segments of Balogun and Hope-Hailey's change kaleidoscope:

- . power
- . time
- . scope
- . preservation
- . diversity
- . capability
- . capacity
- . readiness

Based on the analysis of the context of the organisational change, Balogun and Hope- Hailey argued that those leading the change need to make the following key decisions around the way in which the change process will be managed:

Balogun and Hope-Hailey's ways of managing the change process:

- . change path
- . change start point
- . change style
- . change target
- . change levers
- . change roles

The change kaleidoscope model recognises that it is virtually impossible to map all contextual variables with any one best-practice approach. It acknowledges the need to account for a wide range of organisational situations.

## Activity

The change kaleidoscope model can be applied to any kind of change - not only in the context of organisational and strategic changes. Think of change you are either planning or have recently been through in your personal life, such as a moving house or changing your job.

- (1) What were the contextual variables and how did you go about managing the change process?
- (2) What does the application of the change kaleidoscope model tell you about how effectively you managed the change?

## Feedback

- (1) *Should you take changing your job as an example, contextual variables are crucial to consider. For example, the powerful stakeholders in relation to the change could be your family members, current employers and potential employers. You also need to consider the time that you have available to make the decision to change your job. The effect of the decision should be determined - financially, socially and so on. Critical things that you want/need to maintain should you change your job should be determined, for example should your family not want to move. Your capacity to make the change and your readiness should also be considered. Then, you also need to decide how you will manage the change in terms of where to start (change start point), the inputs that you will use (change style), the change target, the change levers and the change roles.*
- (2) *The application of the change kaleidoscope model will tell you that you achieved the set outcomes/objectives of changing your job, taking into consideration all affected parties.*

It is important to note that the pace of change in contemporary organisations is such that change is a constant state that requires managing, which leaves little or sometimes even no time for recovery (or freezing/sustaining) in between. Also, change often emerges in an unplanned and non-linear manner as a result of changes in the external environment. Change may also develop bottom-up, as people, sometimes unconsciously, change the way that they work over time, to become more effective and efficient. Change can therefore also be seen as an open-ended process of adaptation and organisational learning, which will be addressed in more detail in lesson 3.



## Activity

Read "The Comair Story" of Comair Limited on its website <http://www.comair.co.za/>. Looking at the strategic changes that Comair underwent since 1946, would you regard these changes as planned or unplanned changes? Substantiate your answer.

## Feedback

*Comair's first major strategic change was the launch of South Africa's first low-fare airline, kulula.com in 2001, which revolutionised air travel in the country by making flying easier and more affordable to customers. On its website (<http://www.comair.co.za/about-us/the-comair-story>) Comair describes this as an "adventurous brand" which was a planned strategic change that the company made under its licence agreement with British Airways Plc. Its second major strategic change, investing in Sabre Airline Solutions, was also a planned strategic change. After a strategic review of the business, the leadership team took the decision to implement an integrated system to replace the previous jumble of systems, specifically the kulula.com operations. This would allow for streamlined operations and best cost control, directly affecting the business's financial position. The decision to launch travel and holiday packages was also a planned strategic change.*

### Questions for discussion on the myUnisa Discussion Forums

Which of the following would you consider as an appropriate description of strategic change in the organisation that you are working for?

A Change is constant and leaves no time for recovery in between.

B Change occurs from time to time and leaves time for full recovery and sustaining in between.

A Change often emerges in an unplanned manner as a result of changes in the external environment.

B Change often emerges in a planned manner as a result of changes in the internal environment.

In your group, try to identify characteristics of organisations that mostly chose A as appropriate answers for their strategic change processes, and compare it with the characteristics of organisations that mostly chose B as appropriate answers for their strategic change processes.

The last section in this lesson will focus on barriers to successful strategic change. We will also address ways to overcome them.

## 2.8 BARRIERS TO SUCCESSFUL STRATEGIC CHANGE AND WAYS TO OVERCOME THEM

Despite all the research in the field of change management, evidence continues to suggest that most change efforts fail to meet their objectives (Bailey, Mankin, Kelliher & Garavan 2018). The prescribed book explains some of the reasons for the failure of change efforts and ways to overcome them, as summarised in figure 2.1 below.

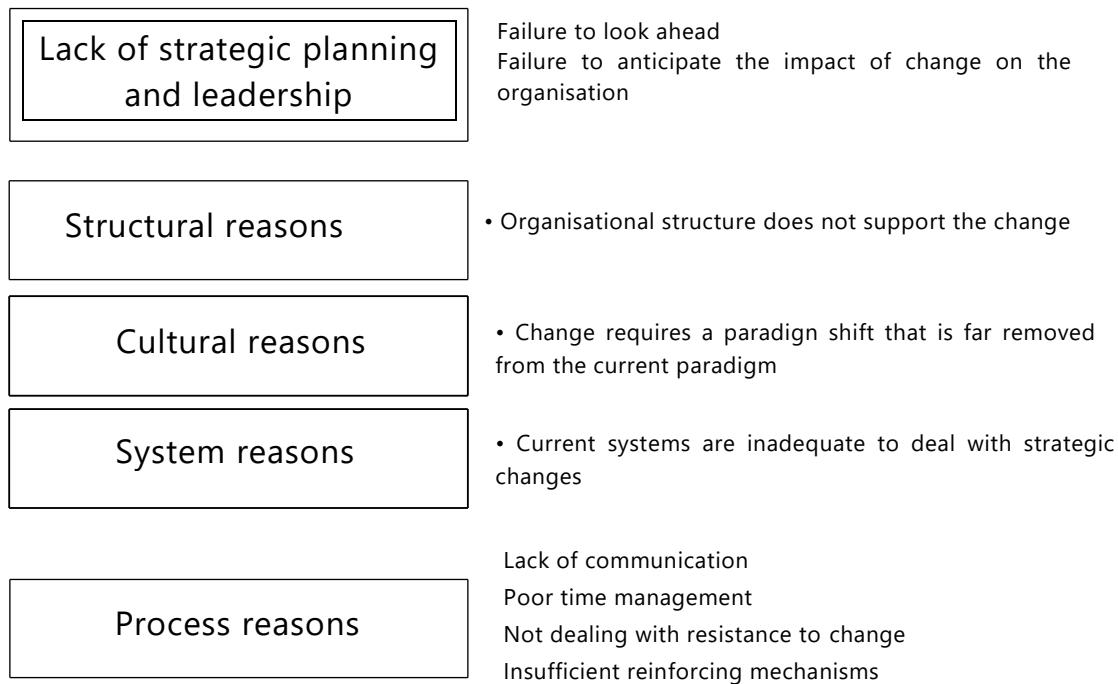


Figure 2.1: Barriers to successful change management



### Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Strategy Implementation as Change Management, before you continue with lesson 3.*

## 2.9 CONCLUSION

In this lesson, we addressed strategy implementation as change management. It should be evident from our discussions, that strategy implementation is a challenging task and that it should be approached with caution and care. Secondly, strategic change is inevitable and it should be managed in such a way that all the benefits thereof are reaped and that barriers are overcome. The next lesson addresses the learning organisation.

# Lesson 3

## THE LEARNING ORGANISATION

Lesson 3 is based on chapter 9 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of the learning organisation.

In lesson 2, we introduced you to strategy implementation as change management. We explored various planned strategic change models and made the important statement that strategic change does not always happen in a planned and managed way. One could argue that most change happens inorganically and unplanned as individuals and organisations learn and adapt to their environment. In this lesson, we explore the topic of organisational learning and the importance thereof in strategy implementation. Also, we explain the importance of organisational learning in innovation and change.

### Learning Outcomes



After you have completed this lesson, you should be able to

- define a learning organisation
- critically evaluate whether an organisation is a learning organisation
- identify the implications of whether an organisation is a learning organisation
- not for strategy implementation
- explain the barriers to organisational learning
- explain the individual learning process
- explain the transfer of knowledge to others
- make recommendations on how an organisation can become a learning organisation

### 3.1 DEFINING A LEARNING ORGANISATION

Take a moment and think about the following question - can organisations learn? Individuals learn, not organisations. Individuals in organisations need to learn before organisational learning can take place. Organisational learning is imperative for the longterm survival and success of the organisation. A learning organisation is defined as an organisation skilled in creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. The process of organisational learning, as depicted in figure 3.1 below, is an ongoing and continuous process.

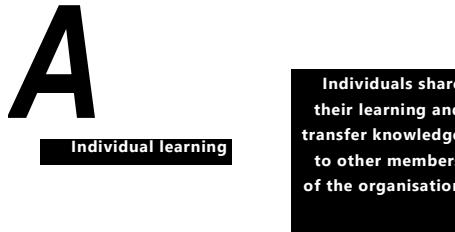


Figure 3.1: The organisational learning process gM| Key

#### Concepts

A learning organisation is an organisation skilled in creating, acquiring and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights.

If you think about your present situation as a student, employee or even an employer, you will agree that individual learning is not always continuous, not always guaranteed and not always a natural process for all people. In the same way, not all organisations are learning organisations. In the next section, we address the various barriers to organisational learning.

## 3.2 BARRIERS TO ORGANISATIONAL LEARNING

Very few organisations are truly good at organisational learning. The following are barriers to organisational learning:

- Dominant general management logic. This stems from the way that managers conceptualise business and then make critical decisions about the strategy and allocation of resources based on this. The more dominant the logic, the more it acts as a barrier to learning and change. Unlearning needs to take place to pave the way for new learning and new models to be implemented and to allow for new dominant logics to be established.
- Management ignorance. It can also happen that managers assume that they know all there is to know about their business and the industry in which they operate and that there is no need to learn more, which present a barrier to learning.
- Limits to absorptive capacity. Absorptive capacity refers to the ability of an organisation to recognise the value of new, external information, to assimilate it and

to use it to address business problems. Absorptive capacity is a strategic capability, and as with all resources and capabilities, it differs from organisation to organisation, so that some have a higher absorptive capacity than others, and would accordingly be able to learn much faster and to adapt more quickly to their environments, or to innovate.

To critically evaluate whether an organisation is a learning organisation or not, one needs to address these three aspects (its dominant general management logic, management ignorance and the organisation's limits to absorptive capacity).

The following case study provides an example of two companies, one that proved to be good at organisational learning and one not that good.

## **Kodak is at death's door; Fujifilm, its old rival, is thriving. Why?**

The Eastman Kodak Company (referred to simply as Kodak) is an American technology company founded in 1888 when it was known for its pioneering technology and innovative marketing. "You press the button, we do the rest," was its slogan in 1988. By 1976 Kodak accounted for 90% of film and 85% of camera sales in America. Until the 1990s it was regularly rated as one of the world's five most valuable brands. The company's ubiquity was such that its "Kodak moment" tagline entered the common lexicon to describe a personal event that demanded to be recorded for posterity. The company built one of the world's first digital cameras in 1975.

Then came digital photography to replace film, and smartphones to replace cameras. Kodak's revenues peaked at nearly US\$16 billion in 1996, and its profits at US\$2.5 billion in 1999. Then Kodak's financial struggle began as a result of the decline in sales of photographic film and its inability to adapt to a world in which digital photography had become pervasive and available in just about every cellular telephone.

Fujifilm Holdings Corporation, better known as Fujifilm, is a Japanese company and one of Kodak's competitors. Fujifilm is very similar to Kodak in many aspects, but has been faring much better in the age of pervasive digital photography. Both companies have seen their traditional business being rendered obsolete and both companies have been aware of the advent of digital photography. Whereas Kodak has been unable to adapt to this new environment, Fujifilm has successfully weathered the storm and is still today a profitable and sustainable company. Observers point to a number of key differences that led to Fujifilm adapting more successfully to its changing environment than Kodak.

The first difference can be found in corporate culture. Kodak had a culture of complacency, ironically cultivated by its massive success and near monopoly in instant film photography in the USA. Despite its strengths - hefty investment in research, a rigorous approach to manufacturing and good relations with its local community - Kodak has become a complacent monopolist. Fujifilm was also aware of the threat of digital photography surging towards it like a tsunami by the 1980s, but in response, it developed a three-pronged strategy. Firstly, Fujifilm squeezed as much money out of the film business for as long as possible. Secondly, Fuji prepared for the switch to digital photography. Lastly, Fuji diversified into new lines of business.

The second difference between Kodak and Fuji, can be found in the inconsistency in the Kodak leadership, which meant that Kodak's strategies changed with every new CEO. As a result, the company was never able to diversify successfully. For example, George Fisher, CEO from 1993 until 1999, focused on Kodak's expertise in digital imaging rather than in chemicals, and mass-produced digital cameras until camera phones destroyed that business. The latest CEO, Antonio Perez, who took charge in 2005, insisted that digital printing would save Kodak. At Fuji, technological change sparked an internal power struggle. At first, participants in the consumer film business, who refused to see the looming crises, prevailed. But the eventual winner was Shigetaka Komori, who chided them as "lazy" and "irresponsible" for not preparing better for the digital onslaught. Named boss incrementally between 2000 and 2003, he set about overhauling the company. He spent around US\$9 billion on 40 companies since 2000. He slashed costs and jobs. In one 19-month period, he booked more than ¥250 billion in restructuring costs for depreciation and to shed superfluous distributors, development labs, managers and researchers. "It was a painful experience," says Mr Komori. "But to see the situation as it was, nobody could survive. So we had to reconstruct the business model".

The third difference between the Kodak and Fujifilm companies can be found in its ability to compete in a changing market environment. Kodak executives were not used to competing in a high-technology world in which speed-to-market is critical to success. Hence, they were more committed to making perfect products than to getting products into the market as quickly as possible and fixing the shortcomings in later models. Even when Kodak decided to diversify, it took years to make its first acquisition. It created a widely admired venture-capital arm, but never made big enough bets to create breakthroughs. By contrast, rather than simply trying to convert its film camera business to a digital camera business, Fujifilm tapped its chemical expertise for other uses. Film is a bit like skin - both contain collagen. Just as photos fade because of oxidation, cosmetic firms would like you to think that skin is preserved with antioxidants. In Fuji's library of 200 000 chemical compounds, 4 000 are related to antioxidants. Therefore, the company launched a line of cosmetics which is sold in Asia and Europe. Fuji also successfully branched out into other pharmaceuticals, liquid-crystal display (LCD) panels for television sets and other electronic devices. Today, Fujifilm makes only 1% of its revenue from photographic film.

The fourth difference between the companies can be found in its ability to identify target markets for the future. While many high-technology companies were achieving great success in emerging markets, Kodak's failure to read the emerging markets correctly cost the company dearly. Emerging markets generally switched early on from analogue to digital, many emerging markets leapfrogging from having no cameras straight to using digital on the back of the rapid adoption of cellular telephone technology.

Whereas Fujifilm has mastered new tactics and survived, Kodak, like so many great companies before it, seems to have run its course and is on the brink of simply fading away.

Source: <http://www.economist.com/node/21542796>

## Activity

Read the Kodak is at death's door; Fujifilm, its old rival, is thriving. Why? case study at <http://www.economist.com/node/21542796>. What were the barriers to organisational learning that prevented Kodak from successfully adapting to a digital world? Provide specific examples from the case study.

## Feedback

*The main barriers were the following:*

*Constrained thinking. The dominant logic of the Kodak management team was that they were a camera and digital imaging company. This clearly constrained their thinking, and their search for new opportunities was limited to opportunities related to the camera business. For example, when they entered the emerging Chinese market, it was with the intent of selling photographic film rather than digital imaging.*

*Ignorance and lack of foresight on the part of management. Management's ignorance was evident from the fact that Kodak executives were not sure how to compete in the fast-moving technology market. Rather than getting products to the market as quickly as possible and fixing them in due course, they wanted to launch perfect products, which meant that they always lagged behind their more technology-oriented competitors, such as Sony and Canon.*

*A lack of absorptive capacity. Kodak was also limited by its lack of absorptive capacity. Factors such as those mentioned above and its complacent mind set limited Kodak in identifying relevant information from the environment. Despite their specific efforts to identify diversification opportunities, they were not able to diversify significantly. Ironically, regardless of their early entry into the digital camera market, they were never able to combine this with new information to identify new opportunities.*

### Barriers to organisational learning:

- dominant general management logic
- management ignorance
- limits to absorptive capacity

Just as individuals need to learn continuously, organisations need to learn and adapt continuously. The Kodak and Fujifilm case study provided us with an illustration of the implications of a learning organisation such as Fujifilm, namely a sustainable organisation that survives and achieves great success in an emerging market, as opposed to an organisation that lacks learning such as Kodak, which seems to have run its course and is on the brink of simply fading away.

Questions for discussion on myUnisa Discussion Forums

- Do you agree with the statement that not all organisations are learning organisations? Substantiate your answer.
- Who do you think plays a crucial role in creating a learning organisation - managers or subordinates? Substantiate your answer.

In the next section, we focus on individual learning which is an important part of organisational learning.

### 3.3 INDIVIDUAL LEARNING

Individual learning, as an important part of organisational learning, can be defined as a change in behaviour or performance as a result of experience. The individual learning process is regarded as a cycle, consisting of four activities as depicted in figure 3.2 below.

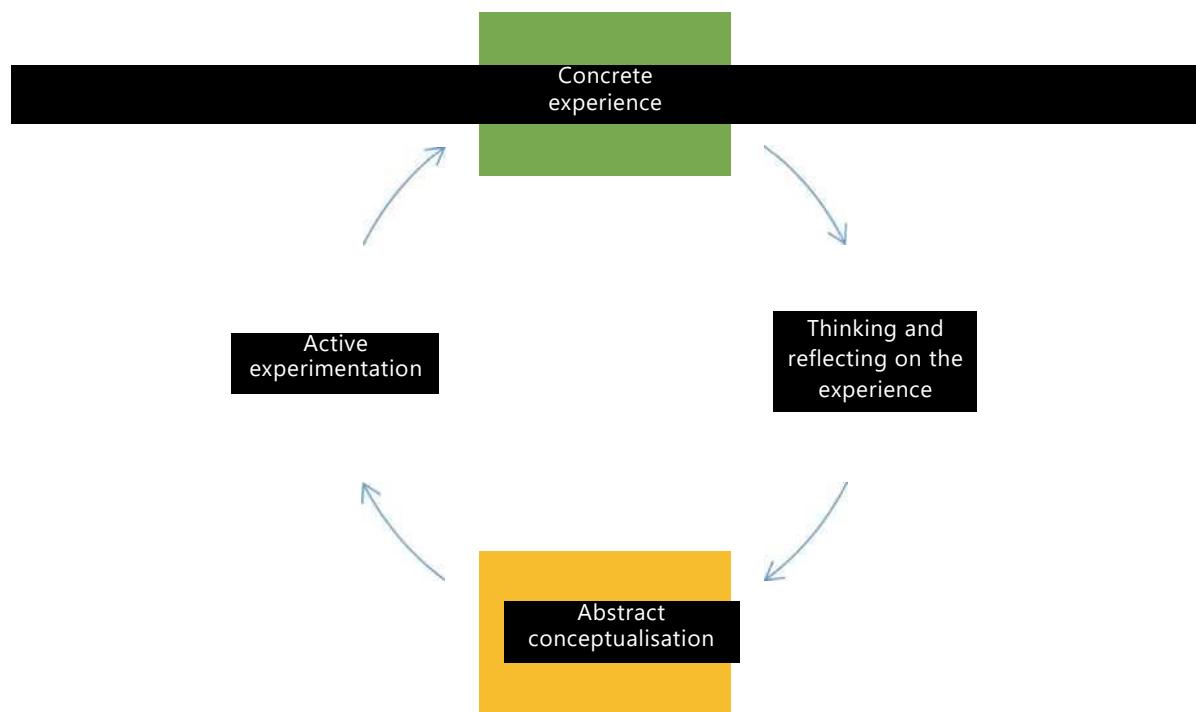


Figure 3.2: Individual learning process



Activity

Revisit the Kodak is at death's door; Fujifilm, its old rival, is thriving. Why? case study. Compare the organisational learning that took place at both Kodak and Fujifilm.



*If we consider Fujifilm and Kodak, both companies had the foreknowledge that digital photography was coming, and both altered their behaviour in response. The key difference was the way in which the two companies interpreted (made sense of) the threat and accordingly altered their behaviour. While Kodak simply attempted to adapt to the new technology, Fujifilm fundamentally (and successfully) changed its business model - something that Kodak was never able to do. Fujifilm experimented successfully and tapped its chemical expertise for other uses, successfully branching out into pharmaceuticals, liquid-crystal display panels for television sets and other electronic devices.*

#### Questions for discussion on myUnisa Discussion Forums

In his book 21 lessons for the 21st century, Professor Yuval Noah Harari states that none of the skills that we learn today will be applicable 20 years from now.

- . Do you agree with this statement?
- . What implications does this statement have for individual learning and organisational learning?

Individual learning becomes even more worthwhile when it is transferred to others. The next section focuses on transferring knowledge to others.

### 3.4 TRANSFERRING KNOWLEDGE TO OTHERS

Knowledge is broadly categorised as being explicit or tacit. Explicit knowledge is knowledge that can be written down or told to someone, whereas tacit knowledge consists of personal beliefs, values and perspectives that people take for granted and that may be much more difficult to communicate. We can differentiate between four basic types of knowledge transfer, namely socialisation (tacit ^ tacit), combination (explicit ^ explicit), internalisation (explicit ^ tacit) and articulation (tacit ^ explicit).

#### Types of knowledge transfer:

- . socialisation
- . combination
- . internalisation
- . articulation

In section 2, we indicated that learning organisations are characterised by success and that they will survive over the long term. They question that we now need to answer is how can an organisation become a learning organisation. We address this in the next section.

### 3.5 BECOMING A LEARNING ORGANISATION

Becoming a learning organisation requires a deep-seated change in the way that the organisation and its leaders view the world. Various mechanisms, to be used in combination, are proposed to assist an organisation to become a learning one. These mechanisms are as follows:

Leadership commitment to learning. Leaders should demonstrate their own commitment by being models of learning, championing learning and using learning strategically for business results.

Building shared visions. Leaders need to develop genuine visions that can inspire employees.

Encouraging diversity. Top management should encourage diversity. Encouraging double-loop learning. Top management should encourage doubleloop learning.

Developing systems thinking abilities. The members of the organisation need to understand how they are connected to the world, how they fit into their environment, how they are influenced by it and how they can influence it in turn.

Encouraging individual and team learning. Be committed to life-long learning. Legitimising dissent. Everybody should think and contribute ideas.

Encouraging experimentation. See failure as learning opportunities. Establishing communities of practice. This refers to collaboration with suppliers, customers and even competitors.

Knowledge management: Management should ensure that organisational knowledge is shared in order to support organisational learning.

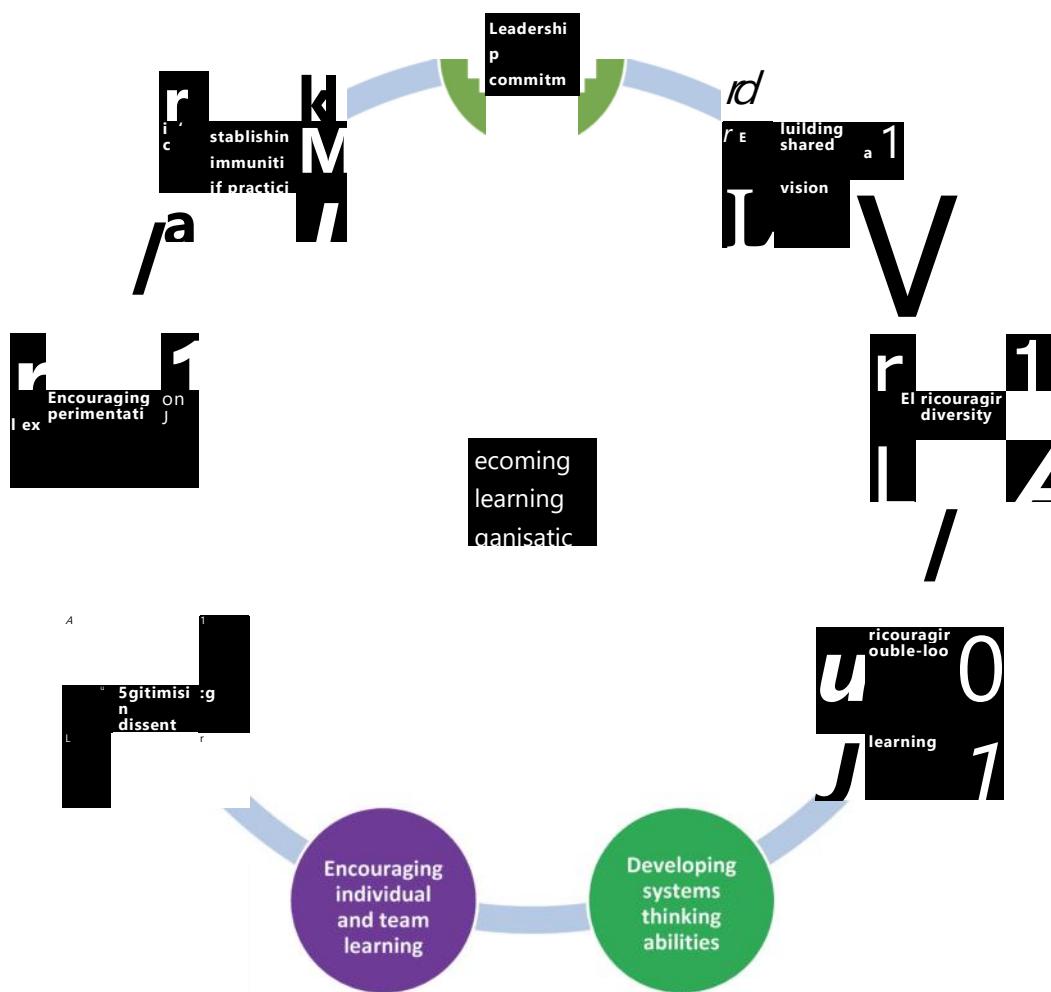


Figure 3.3: Becoming a learning organisation

## Activity

Revisit the Kodak is at death's door; Fujifilm, its old rival, is thriving. Why? case study. From an organisation learning perspective, what could Kodak have done differently that could have resulted in it adapting more successfully to its changing environment? Provide at least five specific actions.

## Feedback

*A single correct answer to this question is not possible, as it depends on your own insight and creativity. However, some possible practical steps Kodak could have taken to increase its organisational ability to learn are identified based on the concepts discussed in this section. Feel free to add your own examples.*

*The fact that every CEO had a different plan for Kodak, suggests that there was no shared vision. By contrast, Fujifilm executives collectively identified a plan of action very early on and were committed to their revised vision. Therefore, the first action should be to build a strong shared vision for the company, after which clear objectives and strategies should be formulated.*

*Although we do not know the exact composition of the Kodak management team, the case suggests that "group think" was a problem. Had Kodak been able to engender more diversity in its management team, especially by including executives from other industries, they may have approached their strategies differently. Kodak seemed to be stuck in single-loop learning, simply adjusting its strategies every time they failed until it ran out of options. Instead, executives should have fundamentally re-evaluated their business model and the way in which they did things to reinvent the organisation - in other words they should have encouraged double-loop learning. Challenging the existing mental models (e.g. of being a digital imaging company) would have been an important starting point for this process.*

*Collaboration with other industry players, such as Sony, could have encouraged new thinking and opened up new ways of doing things.*

*Kodak appeared to be very reluctant to experiment but, by delaying acquisitions and product launches, the management team denied itself the opportunity to learn, even if it meant learning by failing.*

## Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on The learning organisation, before you continue with lesson 4.*

## **3.6 CONCLUSION**

In this lesson, organisational learning was discussed as an important capability of organisations to survive over the long term and to ensure their success. It is important to note that organisation learning is a vital element of strategy implementation - learning organisations are successful and are able to survive over the long term whereas organisations that are unable to learn and adapt have slim chances of survival and success. The next lesson, addresses another important element of strategy implementation, namely resource allocation.

# Lesson 4

## RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION

Lesson 4 is based on chapter 10 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of resource allocation for strategy implementation.

Take a moment and think about the resources at the disposal of your household - they are scarce and expensive, are they not? Therefore, the use of resources, be it money, water or food, needs to be done with discretion and allocated in such a manner that the household functions well and that every member of the household gets what he or she needs. The same applies to an organisation - resources are scarce and need to be allocated in such a manner that they are aligned with the vision, mission, goals and strategies of the organisation. In this lesson, we address the complex matter of resource allocation for strategy implementation.



### Learning Outcomes

After you have completed this lesson, you should be able to

- explain what resource allocation for strategy implementation entails
- explain what the strategy execution framework entails
- critically evaluate the application of the six domains of the strategy execution framework by an organisation
- explain the steps to be followed in the management of strategic initiatives and apply these steps in a given situation
- explain the creation of an environment for effective resource allocation

### 4.1 RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION

Before we answer the question "what does resource allocation for strategy implementation entail?", let us first take a few steps backward and have a look at the organisation as a system that needs inputs (resources), and how these resources are transformed to produce outputs. The resources are human resources, capital, natural resources, entrepreneurship and information, while the outputs are the products and/or services, job creation, the wealth of the community, and so on. We can also list the strategic objectives of the organisation as an important output that the organisation wants to achieve by transforming the outputs to inputs. One important feature of the organisation as a system is that resources

are scarce and very expensive. Think of high interest rates in terms of accessing capital, the scarcity of electricity, the scarcity of skilled labour and the cost of data to mention only a few examples. On the other hand, the need for products and services delivered by the organisation is unlimited and the organisation also wants to achieve its goals and strategic objectives as much as it possibly can. This emphasises the importance of allocating resources for strategy implementation - which is not only the responsibility of top managers. Each individual in an organisation should be aware of the long-term plan for the organisation and his or her contribution to that plan.

Resource allocation for strategy implementation consists of the following three key elements:

- successful implementation of strategic initiatives
- successful alignment of organisational units with the strategic direction of the organisation
- successful alignment of individual behaviour with strategic direction

### Key Concepts



#### Elements of resource allocation:

- successful implementation of strategic initiatives
- successful alignment of organisational units with strategic direction
- successful alignment of individual behaviour with strategic direction

Allocating resources for strategy implementation, to ensure the attainment of strategic goals, entails the following:

#### **4.1.1 Align organisational units with strategic direction**

All the dimensions in the hierarchy of organisational strategy (i.e. the organisational, strategic business units and functional units) should be aligned and should support one another. Ultimately, the contributions of each functional unit and each strategic business unit should contribute to the strategic direction of the organisation and should lead to the attainment of the organisational goals, mission and vision.

#### **4.1.2 Align individual behaviour with strategic direction**

The behaviour and outputs of each individual employee should also be aligned with the strategic direction of the organisation. In other words, the contributions of each worker, each functional unit and each strategic business unit should contribute to the strategic direction of the organisation and should lead to the attainment of the organisational goals, mission and vision. Five tools that can be used to achieve this are recruiting the right people, implementing training and development programmes, implementing policies and procedures to guide the behaviours of individuals, cascading objectives lower down in the organisation, and using reward systems that are tailored to reward behaviours and achievements that are in line with the strategic direction of the organisation.

#### **4.1.3 Implement strategic initiatives**

Implement key projects or programmes focused on achieving a specific objective or improving performance to achieve a performance target.

#### **4.1.4 Implement enablers of resource allocation**

This involves the implementation of three enablers, namely to communicate the strategy, to learn and adapt, and to allocate adequate resources.

#### **4.1.5 Align strategy with the internal environment**

This involves the alignment of all organisational units and employees with organisational strategies and its strategic direction.



Figure 4.1: Resource allocation for strategy implementation



#### **Activity**

Shoprite is a household name in South Africa. Shoprite Holdings Ltd is the largest supermarket retailer on the African continent with the promise to "serve local communities with the lowest prices". Across Africa, the group has 16 brands in 15 countries, with 2 425 corporate outlets and 418 franchise outlets (<https://www.shopriteholdings.co.za/>). Illustrate how the cascading and alignment process may work for the Shoprite Group.

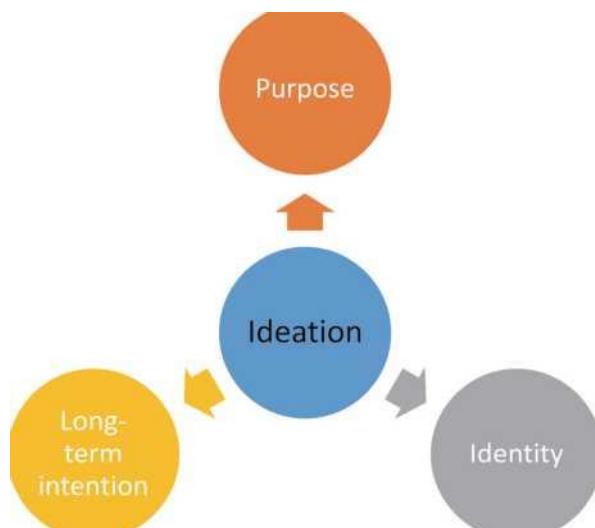
## Feedback

*For the Shoprite Group, providing its customers with the lowest possible prices is a key element of its success. At corporate level, the focus may be to grow by increasing corporate and franchise outlets. Since the group is listed on the JSE, the return on shareholders' equity may be an example of a metric related to this goal. As a strategy, the Group may be looking to expand its investment into e-commerce. At the business level, the focus may be on low-cost leadership. The objective may be to increase sales volume. An example of a metric may be the gross profit margin. (The gross profit margin is calculated by dividing the gross profit of an organisation by its sales. A declining gross profit will mean that mark-ups have been reduced in order to increase sales revenue). The Group may follow a strategy of a decline in its gross profit margin, which will lead to lower profits - lower profits will be offset by increasing sales volume. The strategy for achieving higher sales volumes may be through innovative advertising and the use of technology. At the functional level, the marketing department needs to play an active role in innovative advertising, especially using social media and other innovative ideas. On the operational and individual level, Shoprite could cultivate a culture of innovation and remunerate employees for new ideas and positive contributions to the strategic direction of the company.*

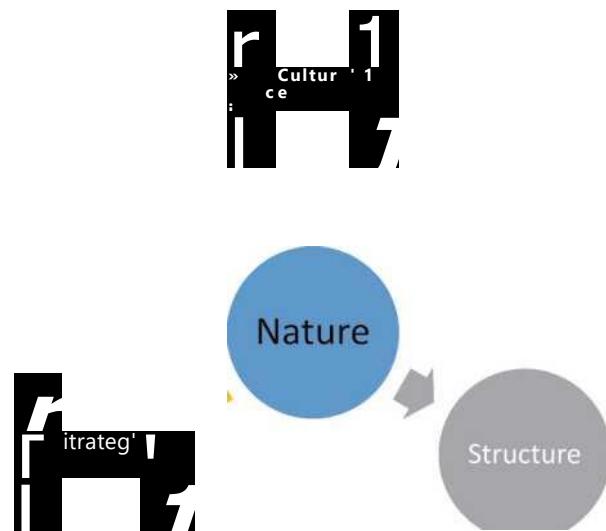
## 4.2 THE STRATEGY EXECUTION FRAMEWORK

The Strategic Execution Framework® (SEF) is a resource allocation framework that helps to align an organisation's projects and programmes with its strategies. The purpose of the SEF is to help organisations to better align activities and strategic direction. According to this framework, there are six key aspects or domains, each with a number of components, in an organisation that must harmonise in resource allocation. Each of the domains are unpacked below. You will notice that the components of the various domains overlap with one another.

1. Ideation. An organisation's identity and how it sees itself and how it wants to appear to the world.



2. Nature. Creating the conditions for strategy execution, *nature* embodies the culture and structure, in other words, the environment and the context, within which the organisation operates.

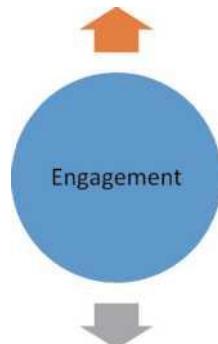


3. Vision. The vision provides the ultimate destination and route and includes the goals, metrics and strategy that form the foundation of business.



Engagement. This domain connects strategy to project portfolio investments. It is a clear demonstration that the organisation is funding the right projects that will support the strategy.

1 Strategy j



Portfolio • c

5. Synthesis. Synthesis is where engagement meets execution, ensuring that the organisation is successfully executing projects and programmes in alignment with the portfolio.



Synthesis

k



6. Transition. Turning outputs into operations, *transition* is the ultimate measure of success where you move the results of project-based work into the mainstream of the organisation's operations.

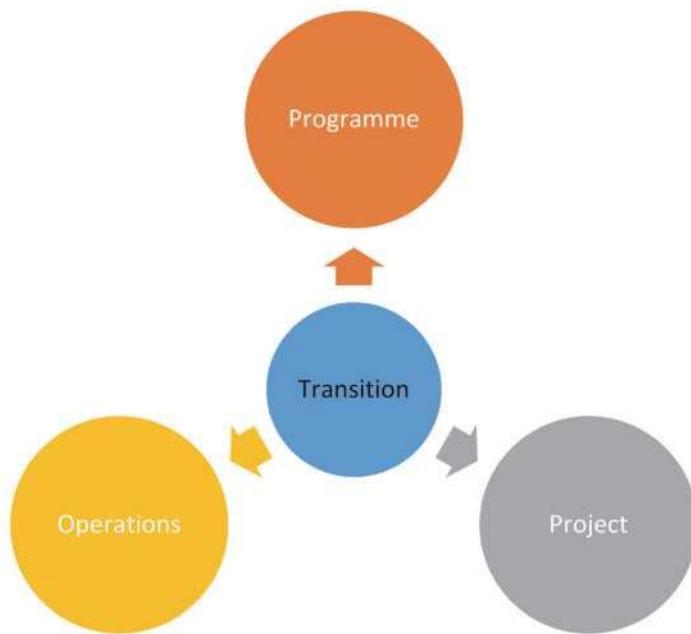


Figure 4.2 In the prescribed book incorporates all six domains and the 12 components thereof into the strategy execution framework.



#### Activity

Apply the six domains of the strategy execution framework, as explained in this section, to the organisation that you are working for or any other medium- to large-sized organisation. In your answer, you need to apply the components of each domain to the organisation of your choice. In other words, for each component, you need to provide an explanation thereof applied to the organisation of your choice.

#### Feedback

*You can use the following guidelines in your answer:*

- Purpose. *The reason why the organisation exists*
- Identity. *The character, image, brand and values of the organisation*
- Long-range intention. *What the organisation is dedicated to in the long term*
- Culture. *The artefacts, core values and behaviour in the organisation*
- Structure. *How an organisation designs its relationships between areas or functions*
- Strategy. *The path that an organisation designs to achieve its purpose and goals*
- Goals. *The determination of specific desired results*
- Metrics. *The vehicle to evaluate progress to the achievement of strategic goals*

- Portfolio. *Strategy-based, prioritised set of projects and programmes, reconciled to the resources required to accomplish them*
- Programme. *Multiple interdependent projects managed as a single unit*
- Project. *Unique, temporary efforts defined by deliverables, schedules and resources*
- Operations. *The ongoing processes of the organisation that deliver value to the customer*

## 4.3 MANAGING STRATEGIC INITIATIVES

In this module, we make a clear distinction between the concepts *leadership* and *management*, which we will address in detail in chapter 12 of the prescribed book and in lesson 6. For now, it will suffice if we state that managers deal with complexity in organisations and perform the planning, organising, leading and control functions to attain organisational goals in an environmental characterised by change. Leaders, on the other hand, need to deal with change, stemming from business environments characterised by major, ongoing changing factors and variables.

In the context of resource allocation, both leaders and managers are required. The strategy execution framework can be used again to make the distinction between the roles of leaders and managers in resource allocation. Leaders play a more strategic role in resource allocation - they have a strategic view and focus on the first three domains of the strategy execution framework in terms of resource allocation, namely the nature, vision and engagement of the organisation. Managers, on the other hand, have a more operational view and focus on the engagement, synthesis and transition domains of the strategy execution framework. In this section, we focus on the role of managers and more specifically operational management and the management of strategic initiatives and the process of making strategy part of everyone's job.

To make strategy part of everyone's job requires a process that consists of a number of steps as indicated in figure 4.2.

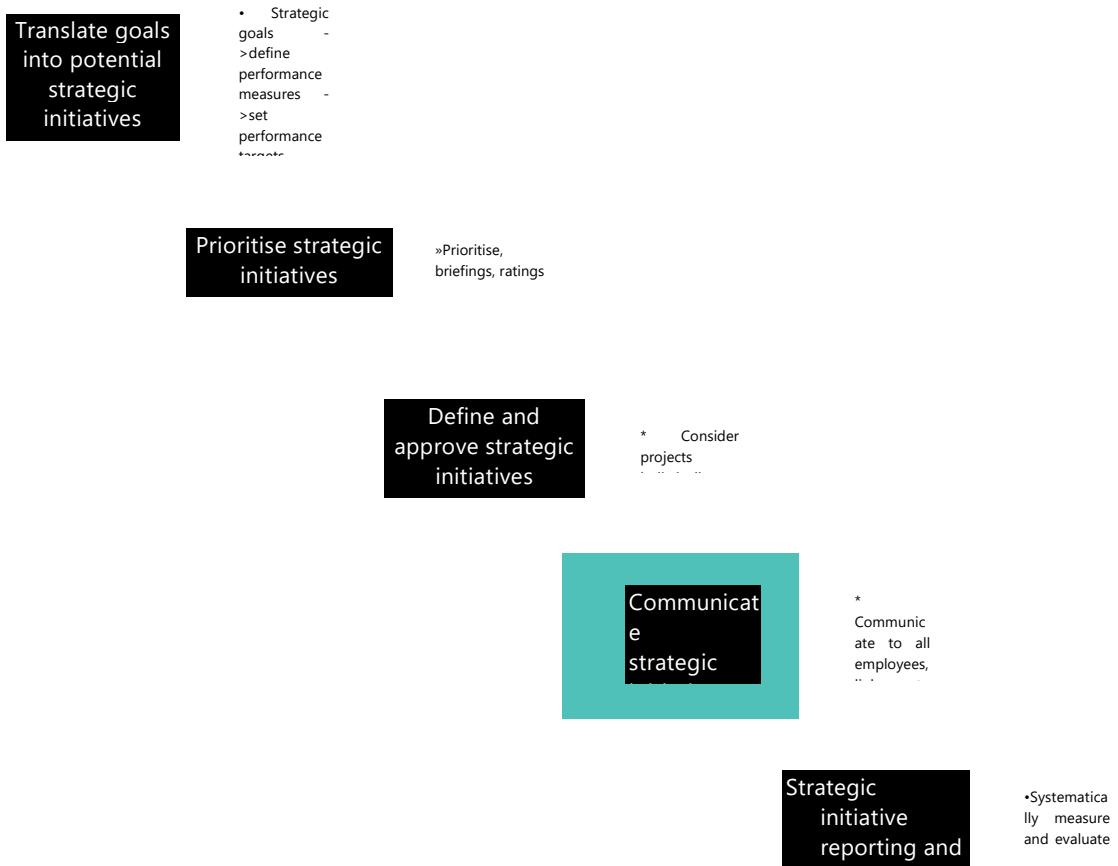


Figure 4.3: Steps in managing strategic initiatives



### Activity

Suppose you are a marketing manager of a large retailer with a footprint in South Africa and other African countries. The company aims to revamp its stores and service, improve products and the assortment thereof, leverage on its loyalty programme, grow its existing format footprint and expand into the rest of Africa. Explain how you, as the marketing manager, will develop a road map that aligns the day-to-day activities of the individuals in the marketing department with the strategic direction of the organisation.

### Feedback

*To ensure that the day-to-day activities of each individual in the marketing department (and every other department in the organisation) are aligned with the strategic direction of the organisation, you need to follow certain guidelines:*

- Translate goals into potential strategic initiatives. *Firstly, you need to decide what the few essential goals are that the marketing department needs to meet to achieve the organisational strategies. Secondly, you need to decide how to define success in the refinement of your goals - these are the measures of your success. Then, you need to decide how far and how fast you need to go in attaining your goals - these are improvement targets that need to adhere to dates as well as specific measureable outputs. Lastly, you need to decide what the few critical things are that you need to do to realise your targets.*
- Prioritise strategic initiatives. *Strategic initiatives then need to be placed in order of priority and aligned with the strategic direction of the organisation.*
- Define and approve strategic initiatives. *Once placed in order of priority, strategic initiatives should be defined clearly and approved.*
- Align individual behaviour. *Lastly, individual behaviour should be aligned with the approved strategic initiatives.*
- *Report on strategic initiatives and take corrective actions where required.*

## 4.4 CREATING AN ENVIRONMENT FOR EFFECTIVE RESOURCE ALLOCATION

While strategy implementation will always be a complex process fraught with difficulties, there are some steps that an organisation can take to improve strategy implementation. Some initiatives may involve management development, a participative process for strategy development and developing a clear process for resource allocation.

### Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Resource allocation for strategy implementation, before you continue with lesson 5.*

## 4.5 CONCLUSION

The allocation of resources in a responsible manner is vital for the success of any organisation. Resource allocation is a complex and unpredictable process, especially in a country with limited resources, high rates of poverty and unemployment, and low levels of skilled labour. In this lesson, we considered the requirements for successful resource allocation in organisations.

If we look at the big picture of strategic management and the contemporary strategic management framework that we provided you with in lesson 1, we have now concluded our discussion of strategy formation, change management, the learning organisation and resource allocation.

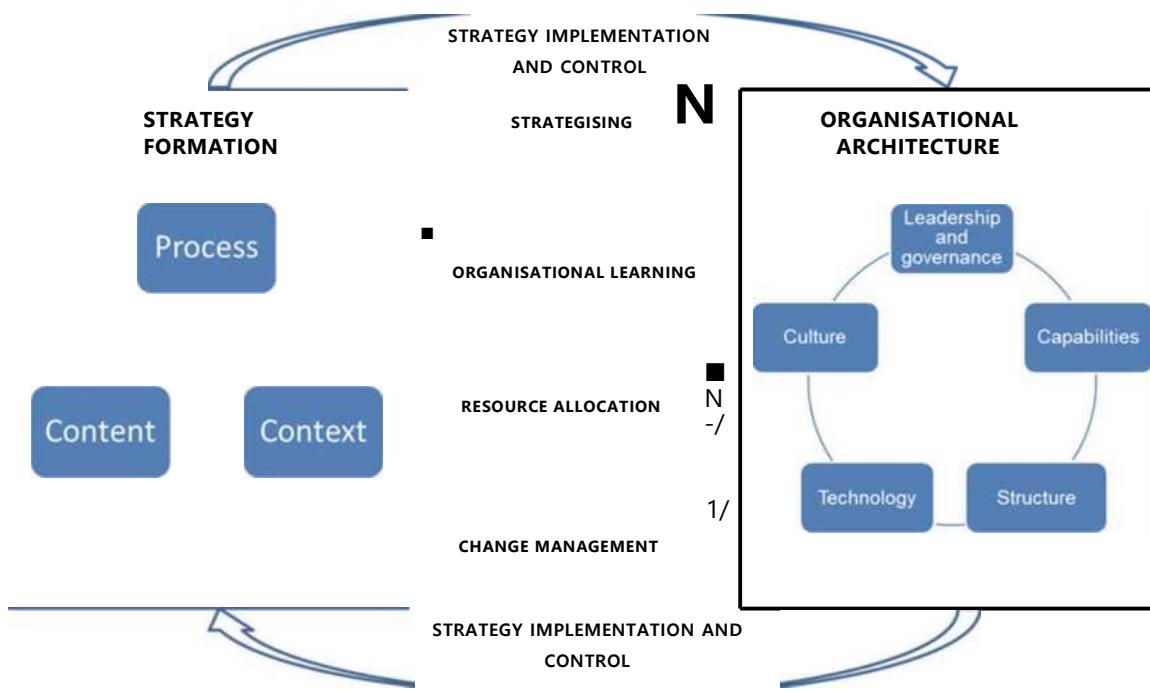


Figure 4.4: Strategy implementation and control

The next lesson focuses on the first element of organisational architecture, namely organisational culture and the importance of the alignment between culture and strategy.

# Lesson 5

## ORGANISATIONAL CULTURE AND STRATEGY

Lesson 5 is based on chapter 11 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational culture and strategy.

In lesson 4, we explained resource allocation in the context of strategy implementation. We indicated that the allocation of organisational resources is a complex and unpredictable process that occurs in a complex and dynamic environment. In this lesson, our focus turns to one of the elements of organisational architecture, namely organisational culture and the important role that it plays in strategy implementation.



### Learning Outcomes

After you have completed this lesson, you should be able to

- define organisational culture
- use the cultural web to assess an organisation's culture
- identify the cornerstones of a solid organisational culture in an organisation
- identify the warning signs of a toxic organisational culture in an organisation
- use various indicators to determine the health of an organisation's culture
- discuss key considerations in organisational culture and strategy

### 5.1 ORGANISATIONAL CULTURE

Organisational culture is defined as the accumulated shared learning of a group as it solves its problems of external adaption and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel and behave in relation to those problems. An organisation's culture is not something that will develop overnight - culture evolves over time and it is the end result of accumulated and shared organisational learning (which we discussed in lesson 3).

### A Key Concepts



Organisational culture is the accumulated shared learning of a group as it solves its problems of external adaption and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel and behave in relation to those problems.

## 5.2 THE LAYERS OF ORGANISATIONAL CULTURE

Edward Hall developed the iceberg analogy of organisational culture in 1976. He reasoned that if culture is an iceberg, there are some aspects which are visible and can be seen (above the water), and a larger aspect which is hidden beneath the surface (below the water) (Hall 1976). The tip of the iceberg typically consists of tangible manifestations that you can see and feel. The layers below the water, however, become more intangible and less visible. These aspects include espoused values and norms and taken-for-granted assumptions. The various layers are briefly explained below:

- Visible artefacts. Artefacts are everywhere and are visible throughout the organisation. Artefacts have three important dimensions, namely instrumentality, aesthetics and symbolism.
- Espoused values and norms. This refers to a collection of values and norms shared by people and groups who work together. This also includes beliefs and behaviours in the organisation.
- Taken-for-granted assumptions. Organisational artefacts, values and norms give rise to assumptions that determine how employees operate within an organisation. When a solution to a problem works repeatedly, it gets taken for granted.

Layers of organisational culture:

- visible artefacts
- espoused values and norms
- taken-for-granted assumptions



### Activity

Study the four layers of organisational culture that we have discussed in this section. Identify elements of these layers in the following information pertaining to Ernest & Young (EY).

EY is a multinational professional services organisation with headquarters in London, England. EY is one of the largest professional services and accounting organisations in the world. It aspires to have a leading people culture everywhere in the world. It further aims to create a culture that attracts and retains outstanding people.

Globalisation and underlying demographic trends mean that competition to employ outstanding people is evolving rapidly. Successful companies are adapting to this by building internationally experienced leadership and equipping their people with the skills to lead in the diverse 21st-century workforce.

EY is already proud of its people culture, and is committed to doing even more. Its people tell it that the culture of global teaming focuses on [building a better working world](#); it aspires to have a leading people culture everywhere in the world. Creating a culture that attracts and retains outstanding people and helps them thrive leads to better service for its clients.

EY is investing in three key elements of its culture that enhance what is important to its clients and its people:

- Inclusiveness. Recruiting outstanding people is just the start. Inclusiveness means making sure all its people's voices are heard and valued. This not only helps attract and retain the best people, but it also helps get better answers for its clients and its organisation.
- Development. Its approach to development involves offering the learning, experiences and coaching all its people need to enrich their careers and deliver the best results for clients, as well as offering additional programmes for current and future leaders of its organisation.
- Engagement. EY wants all its people to feel enthused by their work and their colleagues and to be comfortable in an organisation that gives them the flexibility to achieve their professional and personal aspirations. It engages its people in countless ways, from selecting the right people to lead major change, to taking an interest in its people as individuals, to being sure to say thank you for a job well done.

*Who EY is:*

People who demonstrate integrity, respect and teaming.

People with energy, enthusiasm and the courage to lead.

People who build relationships based on doing the right thing.

Its values define who it is. Its values are the fundamental beliefs of its global organisation. Its values guide its actions and behaviour. They influence the way that its people work with each other - and the way that it serves its clients and engages with its communities.

Every day, each one of its people makes choices and decisions that directly affect the way they experience each other and the way their clients and wider communities experience them. Their values give them confidence that they are using the same principles to help them make these decisions throughout their global organisation.

Its global awards programme, Better begins with you, enables its people to recognise and celebrate individuals and teams within the organisation who consistently live their values and bring their purpose of building a better working world to life through their everyday behaviour, which in turn makes an impact on its clients, people and communities.

This programme is an important way in which it is building a shared culture, founded on its strong commitment to its values.

**Source:** Adapted from <https://www.ey.com/us/en/about-us/our-people-and-culture/2020-vision our- people-21st-century-workforce>

## Feedback

*For each of the four layers, the following examples are applicable to EY:*

### **Values.**

*Who EY is:*

- *People who demonstrate integrity, respect and teaming.*
- *People with energy, enthusiasm and the courage to lead.*
- *People who build relationships based on doing the right thing.*

*Beliefs. The company believes that success is based on people, they treat one another with respect and dignity and expect everyone to promote a sense of personal responsibility.*

*Behaviours. The company recruits competent and motivated people and respects their values, provides equal opportunities for their development and advancement, protects their privacy and does not tolerate any form of harassment or discrimination.*

Taken-for-granted assumptions. *EY is a global leader in its industry.*

In the next section, we will explore the culture web as a tool to assess the culture of an organisation. However, before we turn our focus to the assessment of an organisation's culture, have a look at the following activity for discussion on myUnisa.

#### Questions for discussion on myUnisa Discussion Forums

- Within one organisation, do you think that you can identify one prevailing organisational culture? Substantiate your answer.
- Do you think that organisational culture is static or does it evolve over time? Substantiate your answer.
- In a diverse workforce, who do you think will play a decisive role in determining the organisational culture?

### 5.3 CULTURAL ASSESSMENT

A well-accepted approach to analyse or access an organisation's culture is the cultural web. The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.

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

The cultural web consists of the following elements:

- Paradigm. Forms the core of the cultural web as it represents all the assumptions taken for granted in the organisation.
- Routines. The ways things are done on a day-to-day basis within an organisation.
- Stories. Centre on important events and personalities.
- Symbols. Refer to objects, metaphors, events, acts or people that convey a meaning over and above their functional purpose.
- Power. The ability of individuals or groups to persuade, induce or coerce others into following certain courses of action.
- Structure. The formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

- Control systems. The formal and informal ways of monitoring and supporting people within an organisation.

The question that we can now ask ourselves is the following - "how do we make sure that an organisation's culture is aligned with its vision, strategic direction, goals and strategy?" Remember that during the strategy formation process, the organisation's vision, direction, goals and strategy were determined. During strategy implementation, we need to ensure that there is proper alignment between all these processes - a principle that has been highlighted throughout this module. The next section addresses this issue, namely how to instil an organisational culture that supports good strategy implementation. In other words, an organisational structure aligned with the vision, goals and strategy of the organisation.

## **5.4 INSTILLING AN ORGANISATIONAL CULTURE THAT SUPPORTS GOOD STRATEGY IMPLEMENTATION**

A culture that supports good strategy implementation is a culture that

- recognises and embraces shared values, attitudes, standards and beliefs that characterise the goals of the organisation
- recognises that it is people who make a business successful and not only its business operations
- weaves its values into the DNA of its teams and informs the recruitment of new employees

Business managers should pay attention to the cornerstones of a solid business culture.

These are the following:

- transparency
- time to connect
- empowerment and a sense of freedom
- physical space
- talking to customers and employees
- organisational design

Warning signs of a toxic organisational culture are the following:

- Performance measures are becoming the primary business purpose.
- Unethical business practices occur.
- Leaders fail to uphold organisational values.
  
- Performance and talent systems that reinforce desired behaviours are misaligned.



### Activity

Consider the organisation that you are working for. Would you regard this organisation as

- an organisation with a culture that supports good strategy implementation
- or an organisation with a toxic organisational culture?

Substantiate your answer.

### Feedback

*For an organisation to be regarded as an organisation with a culture that supports good strategy implementation, it should recognise and embrace shared values, attitudes, standards and beliefs that characterise the goals of the organisation. There should also be evidence that the organisation recognises that it is people who make it a successful business and not only its business operations. Its values should be weaved into the DNA of its teams and inform the recruitment of all new employees. The organisation should be transparent when conducting its business, it should recognise work-life integration and the significance to allow employees a balanced lifestyle, and employees should be empowered and given a sense of freedom, attention should be given to their physical space and the design of offices. Lastly, time should be spent talking to customers and employees.*

*Signs of a toxic organisational culture are performance measures that are becoming the primary business purpose, unethical business practices that occur, leaders failing to uphold organisational values, and performance and talent systems that reinforce desired behaviours are misaligned. There may be other signs as well.*

Various indicators can be used to address the health of an organisation's culture. These are addressed in the next section.

## 5.5 CULTURE INDICATORS

The following indicators should be tracked over time and alarm mechanisms should be put in place to identify unacceptable variances to determine the health or a change in the health of an organisation's culture:

- performance statistics
- human-resource-related statistics
- feedback from other internal and external parties
- customer surveys
- a whistle-blower programme

In the last section in this lesson, we focus on three key considerations in terms of organisational culture and strategy.

## 5.6 KEY CONSIDERATIONS IN ORGANISATIONAL CULTURE AND STRATEGY

The following are the three key considerations in terms of organisational culture and strategy:

- Matching the organisational culture with the requirements of the strategy execution effort. This action can focus the attention of employees on what is most important to successfully implement the strategy.
- Using strong group norms to create culture-induced peer pressure which can shape employee behaviour to do things in a manner that aids the cause of good strategy implementation.
- Accepting that an organisational culture that is consistent with the requirements for good strategy execution can energise employees, deepen their commitment and enhance worker productivity



**Continuous Assessment**

*Go to the online Assessment tool on myUnisa, and complete the questions based on Organisational culture and strategy, before you continue with lesson 6.*

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## 5.7 CONCLUSION

Every individual has his or her own personality, shaping his or her behaviour, way of living, sensing and sense making of the world. In the same way, every organisation has a "personality" which explains the taken-for-granted assumptions (or paradigm) that shape the acting, sensing and sense making done by organisational members within the internal environmental context. Each organisation builds its own culture by adopting unique values, beliefs, principles and behavioural norms. This lesson highlighted the importance of the alignment between organisational culture and strategy and provided guidelines for instilling a culture that supports good strategy implementation. In lesson 6, our focus shifts to responsible strategic leadership.

# Lesson 6

## RESPONSIBLE STRATEGIC LEADERSHIP

Lesson 6 is based on chapter 12 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms responsible strategic leadership.

In lesson 5, organisational culture as one of the components of organisational architecture was discussed. In this lesson, we continue our discussion of the components of organisational architecture and the important role that they play in strategy implementation and their contribution to a cohesive strategy, and we focus on responsible strategic leadership.

### Learning Outcomes



After you have completed this lesson, you should be able to

- define leadership and differentiate between leadership and management in an organisation
- define strategic leadership and explain the role of strategic leaders in strategy implementation
- define responsible strategic leadership
- critically evaluate an organisation's fulfilment of its leadership responsibilities with respect to key stakeholders
- explain the roles that leaders need to play when practising responsible strategic leadership and assess a leader's ability to play these roles in an organisation
- define corporate sustainability
- define sustainable development and explain the three core elements thereof
- explain the six levels of commitment that an organisation can take, or move through, as it responds to the challenges of responsibility and sustainability
- assess the level of commitment that an organisation is taking, or is moving through, in its response to the challenges of responsibility and sustainability

### 6.1 LEADERSHIP VERSUS MANAGEMENT

We find leaders in all spheres of life - the average five year old will have some concept of what it is. As children in school we have all had the experience of lining up for class, in the playground or on a school trip, and so recognise "the leader" as "the one in front". Our concept of leadership develops along with our own development and experience of the world: we begin by following the guidance of our parents, taking the lead from them in many important aspects of our lives. As we move out into the world, we become subject to the attempts of others - politicians, social and religious leaders, and peers - to turn us into followers, or perhaps we become leaders ourselves. The media bombards

us with images of leadership, from the public speech-making of our politicians, to the high-profile activities of the CEOs of our favourite brand name companies. We are witness, too, to quieter leadership - leaders in schools working to deliver high-quality education to our children, or community activists fighting for better healthcare, less corruption or the rights of the disadvantaged.

Leadership is a topic that has fascinated many researchers for a long time. Consequently, various definitions of leadership are found in literature. For our purposes, we will define leadership as a process by which an individual influences his or her follower or followers to achieve a common goal. In this definition, we find a wide range of implications of what makes a person a leader, the nature of leadership, and also the difference between leadership and management:

- Firstly, to be a leader, there needs to be followers. Without followers, the term "leader" is just an empty title. Being a leader does not depend on a formal appointment in a formal hierarchy or structure. This characteristic of a leader brings us to the first difference between a leader and a manager. A manager is someone appointed in a formal position in the organisational structure or hierarchy - a leader does not have to be appointed in a formal position of authority to be regarded as a leader. Also, being a leader does not mean that one needs to have subordinates like a manager. A leader needs followers that follow him or her because of free will. Subordinates do not have a choice to follow their managers.
- The second implication of this definition of leadership, is that a leader is out front, setting the pace, determining the standard and the direction of movement.
- Thirdly, the leader strives to build authentic relationships between people.
- Fourthly, the definition also implies that a leader is not necessarily an individual - it can be a group, a corporate body, an industry or even a country.
- Lastly, the definition implies that the leader and the followers have a common goal.

### Key Concepts



Leadership is a process by which an individual influences his or her follower or followers to achieve a common goal.

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Management and leadership share many similar characteristics and outcomes. Yet, the two terms also differ in many ways.

### Managers

- cope with complexity in the organisations that employ them
- plan and draw up budgets
- organise and staff the organisation
- control and solve problems
- maintain business processes and procedures
- accept the status quo in the organisation

- minimise risk
- focus on organisational goals and objectives

Leaders, on the other hand,

- cope with change
- set a directive
- align people with the organisation's vision and strategic direction
- motivate and inspire people (their followers)
- develop new direction in the organisation
- challenge the status quo and take calculated risks
- focus on a clear vision for the organisation

In essence, leadership is strategic, focused on the vision of the organisation and involves a strong element of building trust and emotional engagement with followers. Management, on the other hand, is operational, focused on goal achievement, and more directive of those that are managed. Organisations need both leaders and managers to be successful.

In the next section, we will have a look at the role of strategic leadership in strategy implementation.



### Activity

Leaders come in all types, shapes and sizes. Looking through history there appears to be common themes. These gifted people have to be able to think clearly and wisely, make things happen, communicate well and engage other people to follow their lead. Leaders have the gift to inspire people to perform beyond what they previously considered to be their best and achieve outstanding results. In your opinion, who exemplified this type of leadership in the past? Provide reasons for your answer.

### Feedback

*The individuals that you identify as an exemplification of this type of leadership can come from various countries and from various industries, politics, and academia or even from religious sources. For example, President Nelson Mandela, Archbishop Desmond Tutu, Henry Ford, Anton Rupert, President Cyril Ramaphosa, President Barack Obama, Whitey Basson, Thuli Madonsela, to mention only a few.*

## 6.2 THE ROLE OF STRATEGIC LEADERSHIP IN STRATEGY IMPLEMENTATION

Before we investigate the role of strategic leadership in strategy implementation, it is important to understand what strategic leadership entails. Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision of the organisation.

Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision of the organisation.

Most successful strategic leaders perform two key roles in organisations namely:

- Charismatic leadership role. This involves setting up and gaining support for a vision and direction for the organisation.
- Architectural role. This concerns building an organisation and an appropriate organisational structure system, controlling and rewarding system.

For a leader to be considered as operating on a strategic level, the following six requirements need to be met:

- The leader needs to have the ability to build knowledge of the environment in which the organisation operates.
- The leader needs to portray personal leadership.
- The leader needs to have an understanding of the organisation and its processes.
- The leader needs to have the ability to create shared understanding and build learning and high-performance teams in the organisation.
- The leader needs to feel comfortable with change and enjoy the paradoxes that change entails.
- The leader needs to have a rooting in functional skills.

Various researchers have different viewpoints in terms of the essence of strategic leadership. Boal and Hooiberg (2001) see the essence of strategic leadership as being the creation and maintenance of absorptive capacity, adaptive capacity and managerial wisdom:

- Absorptive capacity. In the context of strategic leadership, absorptive ability refers to the ability of a leader to learn - to absorb and understand new developments, and to be able to see how they can be used in the organisation.
- Adaptive capacity. This refers to the leader's ability to change in response to some change in the environment.
- Managerial wisdom. Managerial wisdom combines properties of understanding what is changing in the environment and the significance that it holds for the organisation.

The term "responsible leadership" is becoming more and more common across the global corporate community. In the following section, we address responsible strategic leadership. However, before you study the next section, do the following activity.



## Activity

Increasingly, society expects businesses to be able to play a part in solving big global issues. In South Africa, water scarcity is an important issue, whereas climate change, inequality and poverty are issues that countries around the globe are confronted with.

### Questions:

- (1) What do you think is the main purpose of a business?
- (2) Is it the responsibility of private sector companies to reduce climate change, alleviate poverty and offer solutions to inequalities?
- (3) How would you make the case to shareholders that your business should be taking responsibility in these areas?

## Feedback

- (1) *Traditionally, it was said that businesses exist to make a profit, and produce products and services that meet the needs of customers. We have come a long way since this narrow view of the purpose of a business. Businesses rely on the environment in which they operate, to supply the resources/inputs needed to transform these into need-satisfying products and/or services. The important aspect is that resources are scarce and limited, whereas people have unlimited needs and wants for the products and services which businesses provide. Businesses are responsible for transforming resources into products and/or services, and they need to do this in a responsible manner. The fact is - businesses take what they need from the environment, but they also need to "give back" to the environment - which leads to the current view of the purpose of businesses, namely that they have to satisfy the needs of all their stakeholders (not only shareholders).*
- (2) *The private sector can (and should) play a role in addressing these issues. We will discuss the reasoning behind this statement in more detail later on in this lesson.*
- (3) *Businesses can no longer afford to only focus on profitability and the return on investment for shareholders/owners. Businesses, together with government, the community and also the individual, face real challenges in terms of climate change, poverty and inequality, and so on. Therefore they also need to be part of the solution to these problems.*

## 6.3 RESPONSIBLE STRATEGIC LEADERSHIP

In our discussion of strategic leadership thus far, our focus was on the relationships between strategic leaders and their followers in the organisation, where followers are mostly the subordinates in the organisation. Responsible strategic leadership, however, goes beyond this notion, and takes place in interaction with a multitude of followers as stakeholders inside and outside the organisation. Responsible strategic leaders deliver value for all stakeholders by delivering on the "triple bottom-line" - an accounting

framework with three parts - social, environmental and financial dimensions. Such a view on the responsibility of strategic leaders, which is often referred to as "stakeholder theory", starts with the assumption that values are necessary and explicitly a part of doing business. In this module, we define responsible strategic leadership as the art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

Responsible strategic leadership is the art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

Responsible strategic leaders play a vital role in establishing the organisational values, and in ensuring that the organisation meets its responsibilities with respect to its key stakeholders, namely employees, clients and customers, business partners, the social environment, the natural environment, shareholders and government. Each of these key stakeholders will be briefly explained below:

- Employees. Responsible strategic leaders mobilise people and lead teams across business, countries and cultures to achieve performance objectives that are derived from the strategic objectives of the organisation. In doing so, they coach and mentor employees to achieve objectives in an ethical manner. They ensure the implementation of employment regulations and standards; that working conditions are humane, safe, healthy and non-discriminatory; and that the needs of employees for recreation, work-life balance and meaningful work are addressed.
- Clients and customers. Responsible strategic leaders ensure that the products and services meet the needs of their customers that they are safe and that real and potential risks are openly and transparently communicated.
- Business partners. In their day-to-day activities, strategic leaders are in contact with various business partners. A business partner is any individual or organisation who has some degree of involvement with the organisation's (or leader's) business dealings, such as the organisation's suppliers. Responsible strategic leaders ensure that their business partners adhere to ethical, environmental and labour standards. Moreover, responsible strategic leaders ensure that their business partners are treated fairly and ethically.
- Social environment. Responsible leaders foster contributions to society. This can be in the form of passive actions (e.g. charity and corporate donations), and active engagement for the wellbeing of communities. Responsible leaders should also endeavour to train and develop their staff in their understanding of the responsibilities of their organisations in society.
- Natural environment. Responsible strategic leaders are sensitive to the world in which they operate and assess the impact their organisation's decision and actions will have in the natural environment. They ensure that production processes are environmentally friendly, they use "green" technology wherever it is possible, they recycle material and save energy.
- Shareholders. Since shareholders own shares in a company, responsible strategic leaders protect the investment capital of their shareholders and ensure an adequate return on their investment. They respect the rights of shareholders, provide them

with timely information on the performance of the company. Furthermore, they show due diligence with respect to their own and others' insider knowledge. They prevent any moral wrong-doing and act responsibly with regard to their own compensation packages.

- Government. The responsible strategic leader will obey laws as determined by government, pay taxes, provide inputs to government in terms of technical economic financial or political importance for framing appropriate policies, take up governmental projects and contracts, offer its leaders to assist government and work on different governmental committees. Responsible strategic leaders can also participate in politics.

At this point, we can ask ourselves the question "How do we practice responsible strategic leadership?" The next section addresses this question.

## 6.4 PRACTISING RESPONSIBLE STRATEGIC LEADERSHIP

When practising responsible strategic leadership, leaders need to play the following roles:

- The responsible leader as steward. Contemporary organisations need to perform and survive in a more complex and fast-changing environment than ever, and need the stewardship of responsible leaders to look after them. These leaders need to have a global perspective on managerial challenges, a social and moral radar to assess the social, ecological and cultural environment to steer the organisation through challenging waters. They also need to cope with conflicting stakeholder expectations and ethical dilemmas.
- The responsible leader as citizen. Organisations are expected to use the minimum inputs to create maximum outputs, to be effective and efficient and perform financially well. At the same time, organisations are expected to contribute to a thriving community and a good society. Therefore, organisations need leaders as active citizens that recognise that both these goals are connected to each other.
- The responsible leader as visionary. Leaders play an indispensable role in formulating the vision, or desired future, of their organisations. There is nothing as powerful as a shared vision that appeals to followers and all stakeholders in the success of an organisation. A responsible leader will ensure a responsible vision and build on an ethically sound notion of balanced values that will lead to a sustainable business, ensuring financial success and the wellbeing of nature and society.
- The responsible leader as servant. A servant leader is one that shares their power with their followers, puts the needs of others first and helps followers to develop and perform as highly as possible. Servant leadership has profound implications for the responsible leader. A responsible leader should serve others, which requires attentiveness, humility and modesty on the one hand, and on the other, it requires a willingness and desire to support others and to care for their interests and their needs.
- The responsible leader as coach. In times of ongoing change, the responsible leader needs to facilitate the development of their followers, enable them to learn and support them in achieving their objectives. The responsible leader needs to integrate and motivate followers from various backgrounds to work together and to share and realise a common vision.

- The responsible leader as architect. The responsible leader needs to plan, design and construct organisational structures that support the ethical and effective achievement and monitoring of the triple-bottom-line and the realisation of the organisation's shared vision.
- The responsible leader as storyteller and meaning enabler. An effective tool to support the creation of meaning and sense making in organisations, is storytelling. Leaders can use storytelling widely to spread the organisation's vision of a socially, culturally and environmentally friendly business that aims to make a difference in the world.
- The responsible leader as change agent. Leaders have the enormous responsibility to act as change agents, by initiating and supporting change in their organisations towards a value-conscious and sustainable business in a stakeholder society.

Being a responsible strategic leader, also means ensuring the sustainability and sustainable development. These two concepts will be addressed in the next section.

## **6.5 SUSTAINABILITY AND SUSTAINABLE DEVELOPMENT**

Sustainability is a broad discipline that gives us insights into most aspects of the human world from business, to technology to the environment and the social sciences. Environmental sustainability can be described as the avoidance of the depletion of natural resources in order to maintain an ecological balance. In a business context, corporate or organisational sustainability is the ability of an organisation to continue to do business over the long term - and possibly indefinitely. But, most importantly, sustainable business is tied up with the impact that the business has on the environmental resources of the world that it consumes in the process. Sustainability suggests that business leaders need to critically consider how their organisations can reduce and minimise their impact on the natural resources they utilise. By doing this well, business leaders can help to ensure that their businesses will be around in the future, and that future generations will continue to have the ability to support themselves and to flourish, thanks to the impact of current business strategies and practices.

Corporate sustainability is the ability of an organisation to continue to do business over the long term - and possibly indefinitely.

When businesses reduce and minimise their impact on the natural resources that they utilise, are sustainable and future generations have the ability to support themselves and to flourish, it will all contribute to sustainable development - economic development that is conducted without depletion of natural resources.

Sustainable development is economic development that is conducted without depletion of natural resources.

Sustainable development has three core elements, namely society, the environment and the economy (also known as people, planet and profit or the three P's) which are all

interconnected . Organisations respond to the challenges of responsibility and sustainability either by taking a position on, or by moving through, six levels or phases of commitment (Dunphy, Griffiths & Benn 2003):

- Phase 1: Rejection. A focus on exploiting all resources (human and ecological) for the sake of maximising profit. Strategic leaders here would not accept responsibility or listen to sustainability arguments, and would actively work against possible regulation or activism.
- Phase 2: Non-responsiveness. Characterised by a lack of awareness or ignorance of sustainable or social issues, rather than active opposition to these issues.
- Phase 3: Compliance. Complying with laws and regulations to avoid risk, or complying with self-regulatory measures to avoid legislation which may limit the activities of the organisation.
- Phase 4: Efficiency. Sustainability is seen as a cost reduction and efficiency strategy. Principles of sustainability are incorporated into everyday business practice.
- Phase 5: Strategic pro-activity. Sustainability is viewed as potentially giving competitive advantage as well as ensuring cost efficiencies. Leaders here see sustainability as a strategic route to taking a position of leadership in an industry, and thus maximising returns.
- Phase 6: The sustaining organisation. One that is committed to the principles of social and ecological sustainability, that is maintaining returns, but is focused on meeting the needs of the present without compromising the opportunities of future generations.

The level that an organisation achieves in its commitment to sustainability reflects the manner in which it treats the human and ecological resources it utilises in the process of doing business. An organisation does not necessarily progress through this continuum in a linear way, but may jump from one phase to another, and regress depending on internal and external pressures. Obviously, the ideal for any organisation is to stay at phase 6, and to remain committed to the principles of social and ecological sustainability, to maintain financial performance while staying focused on meeting the needs of the present without compromising the opportunities of future generations.



### Activity

This activity requires you to do research on Woolworths Holdings, a large retail chain that originated in South Africa and now operates in Africa, the Middle East and Australia. Visit the Woolworths website to answer the questions that follow.

#### Questions:

- (1) Would you consider Woolworths to be a good example of a company which is committed to sustainability? Substantiate your answer.
- (2) Looking at the levels of commitment to responsibility and sustainability that an organisation can follow, where would you place Woolworths on this ladder?

## Feedback

- (1) Woolworths is an excellent example of a company which is committed to sustainability. Through the "Good Business Journey", Woolworths is committed to caring for the environment, people and communities. The "Good Business Journey" has the following five goals for 2020:
- contribute R3.5 billion to communities
  - save 500 billion litres of water
  - halve the company's energy impact
  - responsibly source all key commodities
  - have at least one sustainable attribute for all directly sourced products
- (2) Woolworths can be placed at phase 6 on the ladder, namely the sustaining corporation - one that is committed to the principles of social and ecological sustainability, that maintains returns but is focused on meeting the needs of the present without compromising the opportunities of future generations.

Being a responsible strategic leader means accepting that you have obligations to the health of the business, to your workers, customers, the community and nature. Furthermore, a responsible strategic leader also recognises the challenges in terms of sustainability and sustainable development.

## Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Responsible strategic leadership, before you continue with lesson 7.*

## 6.6 CONCLUSION

In this lesson, we addressed one of the crucial elements of organisational architecture, namely responsible strategic leadership. On a daily basis, the media bombards us with examples of misconduct of leaders - leaders in business, politics, churches, schools - in all spheres of life. Fortunately, we also hear success stories that are shared, the new school principal who arrives with a parachute on the first school day of the new year, praying for the Grade 12s of the year, the politician who uses her own money to buy school books for underprivileged primary school children or the business executive who flies economy class even though she is entitled to fly business class on business trips. In this lesson, we focused on the responsibilities of strategic leaders - not only in terms of the bottom line of their businesses, but also in terms of their responsibility towards all other stakeholders as well. The next lesson focuses on the last element of organisational architecture, namely structure and strategy.

# Lesson 7

## ORGANISATIONAL STRUCTURE AND STRATEGY

Lesson 7 is based on chapter 13 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational structure and strategy.

In lesson 6, responsible leadership was highlighted as one of the important elements of organisational architecture. In this lesson, we focus on another element of organisational architecture, namely organisational structure.

### Learning Outcomes



After you have completed this lesson, you should be able to

- define organisational structure
- explain the role of top management in organisational design
- explain the various organisational structure alternatives with vantages and disadvantages of each alternative
- explain the various applications of organisational structure
- identify the symptoms of structural deficiency in an organisation

### 7.1 ORGANISATIONAL STRUCTURE AND THE ROLE OF TOP MANAGEMENT IN ORGANISATIONAL DESIGN

Organisations exist to achieve their strategic goals. These goals can be broken down into goals for various business units. Then it can be further broken down into goals for the functional departments/areas/units of the organisation. Within each department, distinctions can be found between the jobs that people perform. Departments are linked to form the organisational structure of an organisation. The organisation's structure gives it the form to fulfil its function in the environment. The term *organisational structure* refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

#### mrnm Key Concepts



The term organisational structure refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

The role of top management in organisation design can be summarised as follows:

- Firstly, top management is responsible for analysing the external and internal environment.
- Secondly, top management determines the strategic direction of the organisation.
- Thirdly, based on the analysis of the internal and external environment and the desired strategic direction of the organisation, top management is responsible for creating the organisational structure
- Lastly, top management also needs to determine the effectiveness and efficiency of the organisational efforts in terms of the realisation of its goals.

One should treat with caution the tendency to represent the design of an organisation as a highly rational process which proceeds smoothly through a series of steps such as those indicated above. In practice, the design of an organisational structure is a messy, political process in which established routines and stakes are challenged and often defended. Uneasy compromises are often found. Also, there may be considerable discrepancies between how the design of an organisation is presented by its top management, for example as a neat organisational chart, and how organisations operate on a day-to-day basis.

Questions for discussion on the myUnisa Discussion Forums

"The organisational chart is the (usually top-down) visual representation of the organisational structure, showing what positions exist, how they are grouped and who reports to whom".

- Do you agree with the statement that "an organisational chart indicates the structure of control but its enactment and realisation depends on the employees who provide the behaviour"? Substantiate your answer.
- Do you think that organisational structures are politically imposed? Substantiate your answer.

## 7.2 ORGANISATIONAL STRUCTURE ALTERNATIVES

Organisational structures evolve and change over time - they are not static. A number of basic structural types can be adapted by an organisation in order to satisfy its particular needs. The following basic structural forms are commonly found in organisations:

- entrepreneurial structure
- functional structure
- divisional structure
- holding company structure
- matrix structure
- global structure
- network structure
- new venture units
- virtual network structure
- horizontal structure
- hybrid structures

## Questions for discussion on the myUnisa Discussion Forums

Read the "Practising strategy" box in section 13.2 of the prescribed book to answer the following questions:

- Microsoft has restructured a number of times since it was founded in 1975. Despite its restructuring, it was still losing ground to Apple and Google. Was Microsoft's organisational structure the only determinant of its success/battle with competitors? Substantiate your answer.
- Why was Apple so successful in implementing a centralised organisational structure while Google operated successfully with a "loose" structure?



### Activity

Look on the internet at the website of a large company and find its "corporate history" pages. Identify the structural changes that the company has gone through since its founding.

### Feedback

*The opening case study of chapter 13 in the prescribed book provides an example of the many structural changes that South African Airways has undergone since 1934. You can also access Edcon's home page at <http://www.edcon.co.za/about-history.php> to see the various changes in the company since 1929. Another example is Steinhoff International that you can access at <http://www.steinhoffinternational.com/overview-video.php>.*

## 7.3 APPLICATIONS OF ORGANISATIONAL STRUCTURE

Each of the various organisational structure alternatives highlighted in the previous section, is applied in different situations and is intended to address different organisational demands. Each type of structure can be viewed as a tool that can make an organisation more or less effective, depending on the exigencies of the situation and the capacity of the structure to respond effectively to the demands. Two aspects are important in this regard, namely structural alignment and symptoms of structural deficiency.

Structural alignment. One of the most important roles of top management in the design of an organisational structure is finding the right balance between vertical control and horizontal coordination, depending on the changing needs of the organisation. Vertical control is associated with goals of efficiency and stability. Horizontal coordination is associated with learning, innovation and flexibility.

Symptoms of structural deficiency. Periodically, top management needs to evaluate organisational structure in order to determine whether it is still appropriate to a changing environment and its strategic direction. The following can be used as symptoms of structural deficiency: decision making is delayed or lacking in quality, the organisation does not respond quickly and innovatively to a changing environment and strategic goals are not being met, employee performance declines and goals are not being met, and there are conflicting departmental goals.

Questions for discussion on the myUnisa Discussion Forums

In contemporary organisations, which of the following would you consider more important in the context of organisational structure:

- vertical control, associated with goals of efficiency and stability
- or horizontal coordination, associated with learning, innovation and flexibility?

Substantiate your answer.

Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Organisational structure and strategy, before you continue with lesson 8.*

## 7.4 CONCLUSION

In this lesson, we focused on the importance of the alignment between organisational structure and strategy. Developing an organisational structure is a complex matter. In fact, there are very few organisations that would claim that they have an ideal structure. Structure is always a work in progress, and is, therefore, always evolving. The last lesson in this module, lesson 8, focuses on strategic control and risk management.

# Lesson 8

## STRATEGIC CONTROL AND RISK MANAGEMENT

Lesson 8 is based on chapter 14 of the prescribed book. You should study this chapter in its entirety to provide you with the detailed theory in terms of organisational structure and strategy.

In the previous lessons, we covered strategy formation and implementation. In this lesson, we focus on the last phase of the strategic management process, namely strategic control. As an integral part of strategic control, we also address risk management and corporate governance.



### Learning Outcomes

After you have completed this lesson, you should be able to

- define strategic control
- explain the steps in the strategic control process
- critically evaluate the application of the strategic control process by an organisation
- explain the four types of strategic control
- identify and critically evaluate the four types of strategic control in an organisation
- explain the use of the balanced scorecard as a strategic control tool
- critically evaluate an organisation's use of the balanced scorecard as a strategic control tool
- differentiate between risk and strategic risk
- discuss the integrated strategic risk management framework
- define corporate governance
- critically evaluate the corporate governance framework of an organisation in terms of the value dimensions of the King IV Report on Corporate Governance

### 8.1 DEFINING STRATEGIC CONTROL

Strategic control is a process used by organisations to control the formation and implementation of their strategies. It is a specialised form of management control and it differs from other forms of management control. Strategic control focuses on the achievement of future goals. It involves tracking a strategy as it is being implemented. It is also concerned with detecting problems or changes in the strategy and making the necessary adjustments in the strategy.



## Key Concepts

Strategic control is a process used by organisations to control the formation and implementation of its strategies.

---

The strategic control process differs from any other control processes in the organisation. In the next section, we investigate the process involved in strategic control.

## 8.2 THE STRATEGIC CONTROL PROCESS

The strategic control process is depicted in figure 8.1:

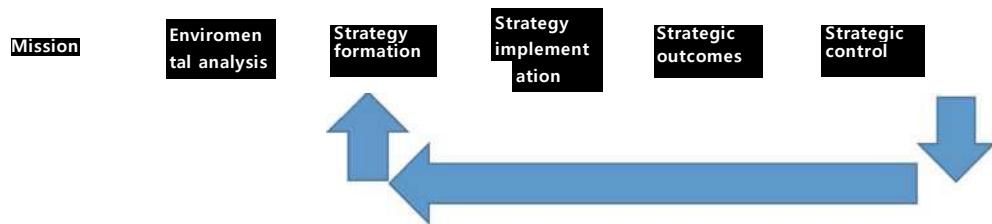


Figure 8.1 The strategic control process

Strategic control enables corporate management to monitor strategic outcomes (or its corporate, overall performance) against planned or intended strategic goals to ensure that corporate activities remain on track and correspond to the set course without major discrepancies, while adapting to the changing environmental conditions. Should there be deviations between planned and actual strategic outcomes, corrective action should be taken, which means that strategies could be redefined and strategic goals and objectives could be changed. If there are no deviation between the planned and actual strategic outcomes, there is no need to change strategic goals and objectives and the organisation can continue with its present strategy or strategies.

Various types of strategic control can be implemented. These are discussed in the next section.

## 8.3 TYPES OF STRATEGIC CONTROL

The four types of strategic control that organisations can use are premise control, strategic surveillance, special alert control and implementation control. Premise control, strategic surveillance and special alert control are mainly used to review the content of a strategy. Each of these are briefly explained below:

- Premise control. Every strategy is based on certain planning premises and predictions about environmental changes and conditions. Premise control is designed to check methodically and constantly whether these premises on which a strategy is grounded, are still valid. Should a planning premise be no longer valid, the strategy may have to change or needs to be adjusted to reflect a changing reality.

- Strategic surveillance. This type of strategic control is designed to observe a wide range of events within and outside an organisation that are likely to affect the track of the organisation's current strategy. Various sources may be consulted, for example trade magazines, journals, conferences, conversations with experts, observations and the internet which may provide important information that may influence the chosen strategy of the organisation.
- Special alert control. The management environment is often characterised by unforeseen events. Thus, the rigorous and rapid reassessment of the organisation's strategy because of the occurrence of an immediate, unforeseen event may be necessary.
- Implementation control. This type of strategic control is exercised as various activities, initiatives and programmes occur over a period when a chosen strategy is implemented. In other words, the chosen strategy is first monitored and, secondly, various milestones are reviewed.

Types of strategic control:

- premise control
- strategic surveillance
- special alert control
- implementation control

The balanced scorecard (BSC) is a tool that we have discussed numerous times in Strategic Management. In chapter 3 of the prescribed book entitled "A process perspective of strategic management" (Venter & Botha 2019), it was explained as a tool to set strategic goals, metrics, targets and initiatives. In chapter 8 (entitled "Strategy implementation as change management") the BSC was explained as a tool that enables organisations to clarify their vision and strategy, thus making it possible to translate it into action. In the next section, we argue that the BSC should also be used as a strategic control tool.

## **8.4 THE BALANCED SCORECARD AS STRATEGIC CONTROL TOOL**

The BSC enables management to monitor and evaluate organisational performance from the following four different perspectives in order to see whether strategic goals are being achieved in a balanced way:

- financial perspective: linked to the expectations and needs of the shareholders as well as the financial performance or stewardship of the organisation
- internal business perspective: linked to satisfying customer needs and a consideration of how customers see the organisation
- learning and growth perspective: linked to the employees (human capital) and the capacity to achieve its goals
- customer perspective: linked to quality and efficiency in all that the organisation does

The ultimate goal of any organisation is long-term survival and growth, which is expressed as *sustainability* (we covered this in lesson 6). As such, decisions by the organisation's management impact sustainability directly. Examples of decisions impacting sustainability

range from the kind of strategy that the organisation should employ like mergers and/or acquisitions; to diversification and/or alliances; to the market(s) where the organisation should operate; to options to protect the organisation from currency fluctuations and/or market volatility; to setting performance targets to mention a few. Moreover, decisions and ultimately the sustainability of the organisation are influenced by the strategic leadership of the organisation. Strategic leadership can be a person or small group of persons whose personality, position or reputation give them dominance, especially over the strategy development process. All of the above decisions point in some way or another to strategic risk management and the sustainability of the organisation. This alludes to the integrated and complex nature of strategic risk management, which is the focus of the next section.

## **8.5 RISK AND STRATEGIC RISK**

The term *risk* has different meanings for different people in different contexts. In the context of strategic management, we can define a strategic risk as an uncertain event or set of events which, should it occur, will have an effect on the achievement of strategic objectives.

A strategic risk is an uncertain event or set of events which, should it occur, will have an effect on the achievement of strategic objectives.

There are numerous examples of strategic risks that can have an influence on the strategic objectives and performance of organisations. For example, competitors may make "moves" - they may introduce new products, enter new markets, use new technologies or use new marketing strategies. New regulations may have an impact on the organisation, forcing it to revisit or change its strategies. Various political events may also force an organisation to adapt or change its strategies. Social changes, changes in the tastes or buying patterns of customers and new technologies are all examples of risk factors having an impact on corporate performance and strategy.

The question that we need to ask ourselves at this point is "how do we manage these risks?" In the next section, we answer this question.

## **8.6 THE STRATEGIC RISK MANAGEMENT PROCESS**

The following figure depicts an integrated strategic risk management framework. According to this figure, the strategic risk management process involves the identification, analysis, evaluation of risk and the response to risk. However, the strategic risk management process is encapsulated by responsible leadership and governance, technology, capabilities, systems and structures.

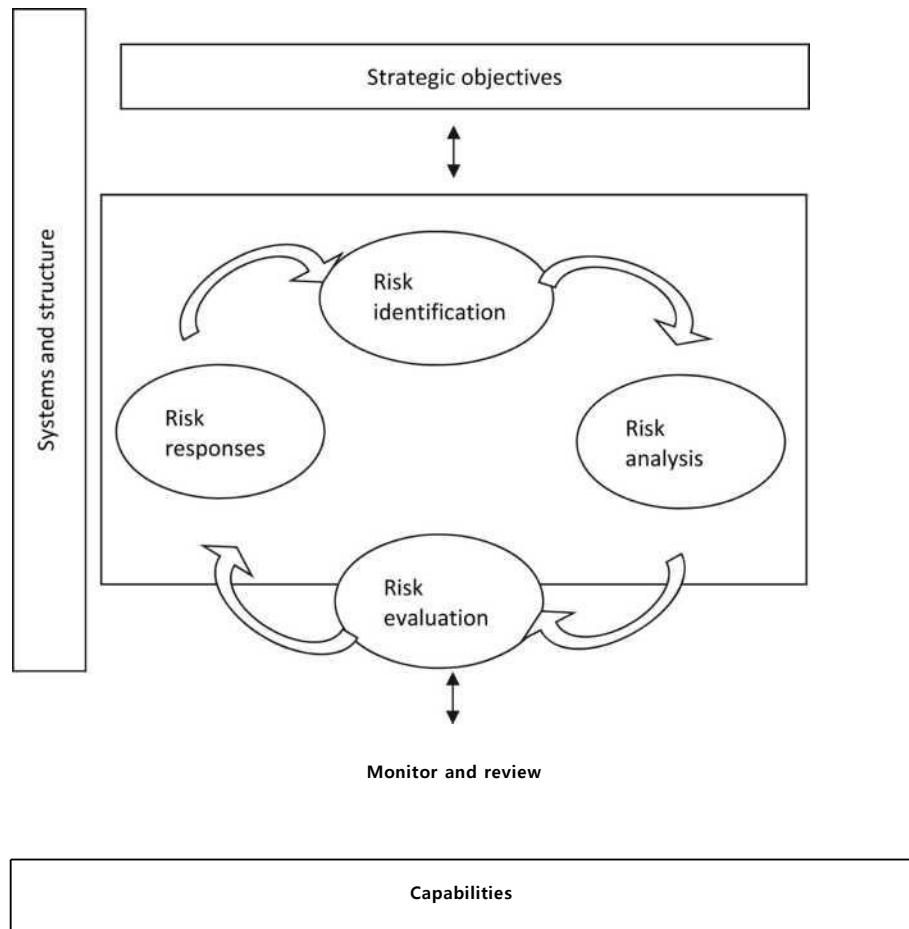


Figure 8.2: An integrated strategic risk management framework

- ***The internal environment***

An effective strategic risk management approach requires an appropriate organisational structure comprising responsible leadership and governance, systems, structure, technology, capabilities and culture. We have dealt with all these issues (except for corporate governance) in previous lessons as elements or components of organisational architecture. The last section of this lesson will focus on corporate governance.

- ***Risk management process***

The risk management process comprises the following steps:

***Step 1: Risk identification***

Corporate risks are identified in terms of the potential losses or gains (opportunities or threats). A focus on significant risk factors combined with insight about the corporate activities should provide an understanding of how different events may affect the ability to achieve longer-term objectives in view of identified opportunities and threats. It is possible that the different organisational actors may view these events and their impact differently. Hence, it is imperative to develop a shared understanding of major corporate risk exposures and the interrelatedness in a way that is adapted to the specific environmental

conditions. Adopting a common risk management framework can underpin a consistent examination of corporate exposures and allow for cross-functional comparisons when assessing the aggregate corporate exposures. Business disruptions can typically arise along the corporate value chain and particularly in the interfaces between different functional units within a larger operational system. These internal processing conditions can affect the generation of cash flows both in terms of operating expenses and sales revenue and may provide a good basis for understanding vulnerable business activities and identifying opportunities for improvement. The identification of corporate risks may be supported by a common classification scheme that makes it easier to compare and communicate information about insights in terms of major exposures.

### ***Step 2: Risk analyses***

The adoption of structured measurement methodologies can support managers in their formal decisions about the severity of identified risks by establishing common risk parameters, enabling aggregation of exposure and setting targeted risk limits. This is a challenging task given that data may not be available or risk measures may rely on restrictive assumptions. In these exercises judgement should not be foregone in favour of numbers. The insights of experienced experts, in particular, should be sought in assumptions that go into models that are developed and outputs that are interpreted. Scenario analysis and computer simulations can be useful as these techniques raise awareness of different risk factors and their interactions based on objective measures of uncertainty in the analysis.

### ***Step 3: Risk evaluation and responses***

After the risks have been identified and analysed they should be evaluated in terms of the likelihood that the event will occur and the potential economic impact needs to be established. This approach must be supported by objective assessment criteria. The likely outcome must be compared with corporate objectives. In so doing the organisation can determine which of the potential outcomes are mission critical and whether the excess exposure should be modified. This should assist the organisation to focus on the priority risks that need to be managed. Consequently, corporate management can decide to avoid, retain, reduce, transfer or exploit risks at the corporate level, rather than to make these decisions on a narrow or standalone basis.

- Risk avoidance refers to the decision not to become involved in, or action to withdraw from, a risk situation.
- Risk transfer refers to sharing with another party the burden of loss or benefit of gain for a particular risk. Risk transfer can be carried out through insurance or other agreements.
- Risk acceptance refers to the decision to accept the risk.
- Risk exploitation refers to a situation where a particular event or risk has a positive consequence on the organisation and relevant stakeholders and should then be exploited.
- Risk mitigation refers to the limitation of any negative consequence of a particular event.

In conclusion, one must bear in mind that the integrated strategic risk management framework is designed as a control framework, which should comply with regulatory requirements. Although compliance is important, the integrated risk management framework advocates that risk be dealt with in the context of the organisation's strategy to accomplish the organisation's strategic objectives, priority is given to controls. As indicated in the integrated strategic risk management framework, corporate governance is an essential component thereof. The last section in this lesson addresses corporate governance.

## 8.7 CORPORATE GOVERNANCE

Major risk events have made news headlines in recent years, with a consequent increased focus on corporate and strategic risk. One can only think of the Steinhoff International scandal towards the end of 2017, when the company's share price plummeted by 61% in the first three hours of trading on the Johannesburg Stock Exchange (JSE), making it biggest collapse in the history of the JSE. More than 13 billion US dollars were wiped out, and its share prices also plummeted in Frankfurt where it is also listed. This followed the revelation that Steinhoff was being investigated by German regulators about 'irregularities and non-disclosures relating to its acquisitions' (<https://www.marxist.com/turmoil-in-steinhof-and-naspers-exposes-crisis-of-the-big-capitalists.htm>). The underlying causes of these events are frequently related to internal controls, including integrity and personal accountability of corporate executives.

In a response to these risk events, worldwide new regulatory frameworks have appeared to scrutinise business practices intended to strengthen internal controls (e.g. the King reports in South Africa, and Sarbanes Oxley in the USA). Hence a renewed focus was placed on risk management with routine systems errors, operational malfunctions, uncontrollable employees and personal accountability at the centre of attention. These compliance measures are not intended to serve as a mere checklist, containing ticks to show that executives are responsible and ethical, but to empower organisations to introduce formal practices of effective and efficient internal controls and personal accountability that allow for greater scrutiny of internal processes and reporting systems. As such, organisations can pro-actively respond in innovative ways to changes in the dynamic environment in which they operate, to ensure their sustained long-term survival and growth.

Corporate governance can be defined as a framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with all its stakeholders. The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges and roles; and (3) procedures for proper supervision, control and information-flows to serve as a system of checks-and-balances (<http://www.businessdictionary.com/definition/corporate-governance.html>).

Corporate governance is a framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders.

Good corporate governance increases the integrity and effectiveness of the private sector. Good corporate governance assists to avoid business scandals which damage trust in business. It places value on good corporate governance by institutional investors. Good corporate governance also fosters a growing involvement of the private sector in service delivery and it enhances the development of systems to prevent and deter corruption in developing countries. It assists in the deregulation and integration of capital markets and recognises the importance of harnessing domestic savings for domestic growth.

The King IV Report on Corporate Governance for South Africa was published on 1 November 2016 and became effective in April 2017. It applies to entities incorporated in and resident in South Africa. The Report spells out the framework for governance compliance. The philosophy of the Report revolves around three issues, namely ethical leadership, sustainability and corporate citizenship, which is referred to as the "value dimensions of the Report".

- Corporate citizenship. Corporate citizenship involves a concern for people, planet and profit issues. Defined formally, corporate citizenship entails a concern for the social, environmental and economic performance of the organisation and a concern for the role, scope and purpose of the organisation.
- Ethical leadership. Ethical leadership refers to directing and controlling an organisation in such a way that it promotes good corporate governance.
- Sustainability. Sustainability is the long-term maintenance of systems according to environmental, economic and social considerations.

Value dimensions of the King IV report on Corporate Governance:

- corporate citizenship
- ethical leadership
- sustainability



### Activity

To complete this activity, you need to consult the King IV Report on Corporate Governance. What does the King IV Report state in terms of strategic review and control in organisations?

## Feedback

*The Report is very clear in terms of strategy review and control and states that the board of directors of an organisation should perform strategy reviews at least annually, that it should be as objective as possible and that it must be based on facts rather than on opinions. The board of directors may also consider using external consultants with the review process and to gather relevant data. The following questions need to be answered: (i) is the organisation adequately organised to execute strategy?; (ii) is the organisation's strategic direction still viable and does it consistently correspond with the strategic vision and the expectations of all stakeholders?; (iii) is the implementation of strategy still proceeding in a satisfactory manner?; and (iv) are there any strategic options that must be explored at this moment?*

### Questions for discussion on the myUnisa Discussion Forums

The King Report on Corporate Governance is a ground-breaking booklet of guidelines for the governance structures and operation of companies in South Africa. It is issued by the King Committee on Corporate Governance. Four reports have been issued, starting in 1994 (King I), in 2002 (King II), in 2009 (King III) and a fourth revision (King IV) in 2016. The Institute of Directors in Southern Africa (IoDSA) owns the copyright of the King Report on Corporate Governance and the King Code of Corporate Governance. Compliance with the King Reports is a requirement for companies listed on the [Johannesburg Stock Exchange](#). The King Report on Corporate Governance has been cited as "the most effective summary of the best international practices in corporate governance".

Discuss the essence of these reports.

### Continuous Assessment

*Go to the online Assessment tool on myUnisa, and complete the questions based on Strategic control and risk management.*

## 8.8 CONCLUSION

Strategies are long term and resource intensive, and can affect the fortunes of the whole organisation. For these reasons, strategic control is important to ensure that the chosen strategies are still valid, and that the implementation of the chosen strategies is on track. Strategic control cannot be backward looking, given the long-term focus of strategies. Therefore, the focus must be on being proactive and identifying strategic issues (those issues inside or outside the organisation that may affect the achievement of strategic objectives negatively). In addition, strategic planning and implementation processes have to be integrated with organisational performance management systems to ensure that the work of every individual in the organisation is aligned with the strategy of the organisation. This is where tools like the balanced scorecard is particularly important. All organisations are exposed to risk and need to manage risk and strategic risks effectively.

Corporate governance is an essential component of strategic risk management. This lesson concludes the module Strategy Implementation and Control. In this lesson we emphasised the importance of strategic control, the management of strategic risk and corporate governance.

We sincerely hope that this module has provided you with the opportunity to identify, analyse, interpret and critically evaluate the choices that business managers make in implementing and controlling business-level strategies. Although the focus of this module is on business-level strategies, the principles that we have covered will also apply to the implementation and control of strategies on lower levels of management. For example, the implementation of functional strtaegies will also require change management, organisational learning, resource allocation, responsible leadership and so on. We hope that you have found the course content interesting and that you will be able to apply the theory provided in practical situations and that it will enhance your further studies and career.

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A southern African context

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## **CONTENTS**

PREFACE .....	ix
ABOUT THE AUTHORS .....	xi
ACKNOWLEDGEMENTS .....	xiii
CHAPTER 1: THE RELATIONSHIP BETWEEN GENERAL MANAGEMENT PRINCIPLES AND STRATEGIC MANAGEMENT .....	1
1.1 Managers and management .....	6
1.2 The management process .....	7
1.3 Levels of management.....	11
1.4 Areas of management.....	13
1.5 The hierarchy of organisational plans .....	14
1.6 The composition of the management environment.....	16
1.7 Stakeholders and stakeholder relationship management .....	22
1.8 Competitive advantage, sustainable competitive advantage and transient competitive advantage .....	23
The big picture .....	27
Summary of learning outcomes.....	27
Discussion questions.....	29
Learning activities.....	30
Endnotes .....	30
CHAPTER 2: INTRODUCING THE PRACTICE OF STRATEGY .....	31
2.1 The origins of strategic management.....	33
2.2 The universal principles of strategic management .....	34
2.3 Defining strategy .....	40
2.4 Strategic decisions .....	43
2.5 How do we measure the success of strategy?.....	44
2.6 A contemporary strategic management framework .....	45
The big picture .....	49
Summary of learning outcomes.....	49
Discussion questions .....	50
Learning activities.....	51
Endnotes .....	51

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

CHAPTER 3: A PROCESS PERSPECTIVE OF STRATEGIC MANAGEMENT .....	53
3.1 A process perspective of strategic management .....	57
3.2 The new competitive realities - criticising the process perspective of strategic management .....	62
3.3 The management levels involved in strategic management .....	62
3.4 Strategic planning .....	63
3.5 Strategy implementation .....	73
3.6 Strategy review and control .....	75
The big picture .....	76
Summary of learning outcomes .....	76
Discussion questions .....	78
Learning activities .....	78
Endnotes .....	78
CHAPTER 4: STRATEGISING AND STRATEGISTS .....	81
4.1 The process and practice perspectives of strategic management .....	85
4.2 Strategising .....	88
4.3 Deliberate and emergent strategising .....	88
4.4 Strategists .....	90
The big picture .....	96
Summary of learning outcomes .....	97
Discussion questions .....	97
Learning activities .....	98
Endnotes .....	98
CHAPTER 5: THE EXTERNAL CONTEXT OF STRATEGY .....	101
5.1 The external environment in the context of strategic management .....	105
5.2 The importance of strategic context in strategic planning and decision-making .....	107
5.3 Analysing the remote environment .....	108
5.4 Analysing the market environment .....	125
5.5 Strategic responses to changes in the external environment .....	134
The big picture .....	137
Summary of learning outcomes .....	138
Discussion questions .....	139
Learning activities .....	139
Endnotes .....	140

CONTENTS

CHAPTER 6: STRATEGIC RESOURCES AND CAPABILITIES .....	145
6.1    The importance of resources, capabilities and core competencies in strategic management.....	148
6.2    Appraising the value of resources and capabilities .....	155
6.3    The resource-based view of internal analysis.....	158
6.4    The identification of capabilities and core competencies to create value .....	160
6.5    The contribution of resources, capabilities and core competencies towards competitive advantage and sustainable competitive advantage .....	165
6.6    Capturing the value generated by resources, capabilities and core competencies .....	170
The big picture .....	171
Summary of learning outcomes: .....	172
Discussion questions .....	173
Learning activities .....	173
Endnotes.....	174
CHAPTER 7: DEVELOPING AND CHOOSING APPROPRIATE STRATEGIES .....	177
7.1    Strategic goals and strategic choices .....	182
7.2    Corporate level strategic options: creating corporate value and synergy .....	184
7.3    Managing the multi-business organisation .....	194
7.4    Business-level strategic options: creating and sustaining competitive advantage.....	196
7.5    Evaluating strategic choices .....	200
The big picture .....	201
Summary of learning outcomes .....	201
Discussion questions .....	202
Learning activities .....	203
Endnotes.....	203
CHAPTER 8: STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT .....	207
8.1    What is strategy implementation and how does it differ from strategy formation? .....	211
8.2    Barriers to successful strategy implementation.....	213
8.3    Principles of strategy implementation .....	214
8.4    Change - a fundamental strategy implementation element .....	219
8.5    Types of strategic change .....	220
8.6    Models of planned change .....	222

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

8.7 Barriers to successful strategic change andways to overcome them .....	229
The big picture.....	231
Summary of learning outcomes .....	231
Discussion questions .....	233
Learning activities .....	233
Endnotes.....	234
<b>CHAPTER 9: THE LEARNING ORGANISATION .....</b>	<b>235</b>
9.1 What is a learning organisation? .....	237
9.2 Barriers to organisational learning .....	239
9.3 Individual learning .....	241
9.4 Transferring knowledge to others.....	242
9.5 Becoming a learning organisation .....	244
The big picture.....	250
Summary of learning outcomes .....	251
Discussion questions .....	252
Learning activities .....	252
Endnotes.....	252
<b>CHAPTER 10: RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION ...</b>	<b>255</b>
10.1 Resource allocation for strategy implementation .....	257
10.2 A strategic execution framework .....	265
10.3 Managing strategic initiatives.....	270
10.4 Creating an environment for effective resource allocation .....	275
The big picture.....	276
Summary or learning outcomes.....	277
Discussion questions .....	277
Learning activities .....	277
Endnotes.....	278
<b>CHAPTER 11: ORGANISATIONAL CULTURE AND STRATEGY.....</b>	<b>279</b>
11.1 Organisational culture.....	283
11.2 The layers of organisational culture .....	283
11.3 Cultural assessment .....	288
11.4 Instilling an organisational culture that supports good strategy implementation .....	291
11.5 Culture indicators.....	293

## CONTENTS

11.6 Key considerations in organisational culture and strategy .....	294
The big picture.....	295
Summary of learning outcomes .....	296
Discussion questions .....	297
Learning activities .....	298
Endnotes.....	298
 CHAPTER 12: RESPONSIBLE STRATEGIC LEADERSHIP .....	301
12.1 Leadership versus management .....	305
12.2 The role of strategic leadership in strategy implementation .....	307
12.3 Responsible strategic leadership.....	309
12.4 Practising responsible strategic leadership.....	314
12.5 Sustainability and sustainable development .....	316
The big picture.....	319
Summary of learning outcomes .....	319
Discussion questions .....	320
Learning activities .....	321
Endnotes.....	321
 CHAPTER 13: ORGANISATIONAL STRUCTURE AND STRATEGY .....	323
13.1 Organisational structure and the role of top management in organisational design .....	326
13.2 Organisational structure alternatives .....	330
13.3 Applications of organisational structure .....	342
The big picture.....	345
Summary of learning outcomes .....	345
Discussion questions .....	346
Learning activities .....	346
Endnotes.....	347
 CHAPTER 14: STRATEGIC CONTROL AND RISK MANAGEMENT .....	349
14.1 Defining strategic control .....	351
14.2 Strategic control and the strategic management process .....	353
14.3 Types of strategic control .....	354
14.4 The balanced scorecard as a strategic control tool .....	357
14.5 Risk, strategic risk and strategic risk management .....	359
14.6 Corporate governance.....	363

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

The big picture.....	3 6 6
Summary of learning outcomes..... <sup>r +</sup>	3 6 7
Discussion questions.....	3 6 8
Learning activities.....	3 6 8
Endnotes .....	3 6 9
<b>GLOSSARY OF KEY TERMS .....</b>	<b>371</b>
<b>INDEX .....</b>	<b>383</b>

# Preface

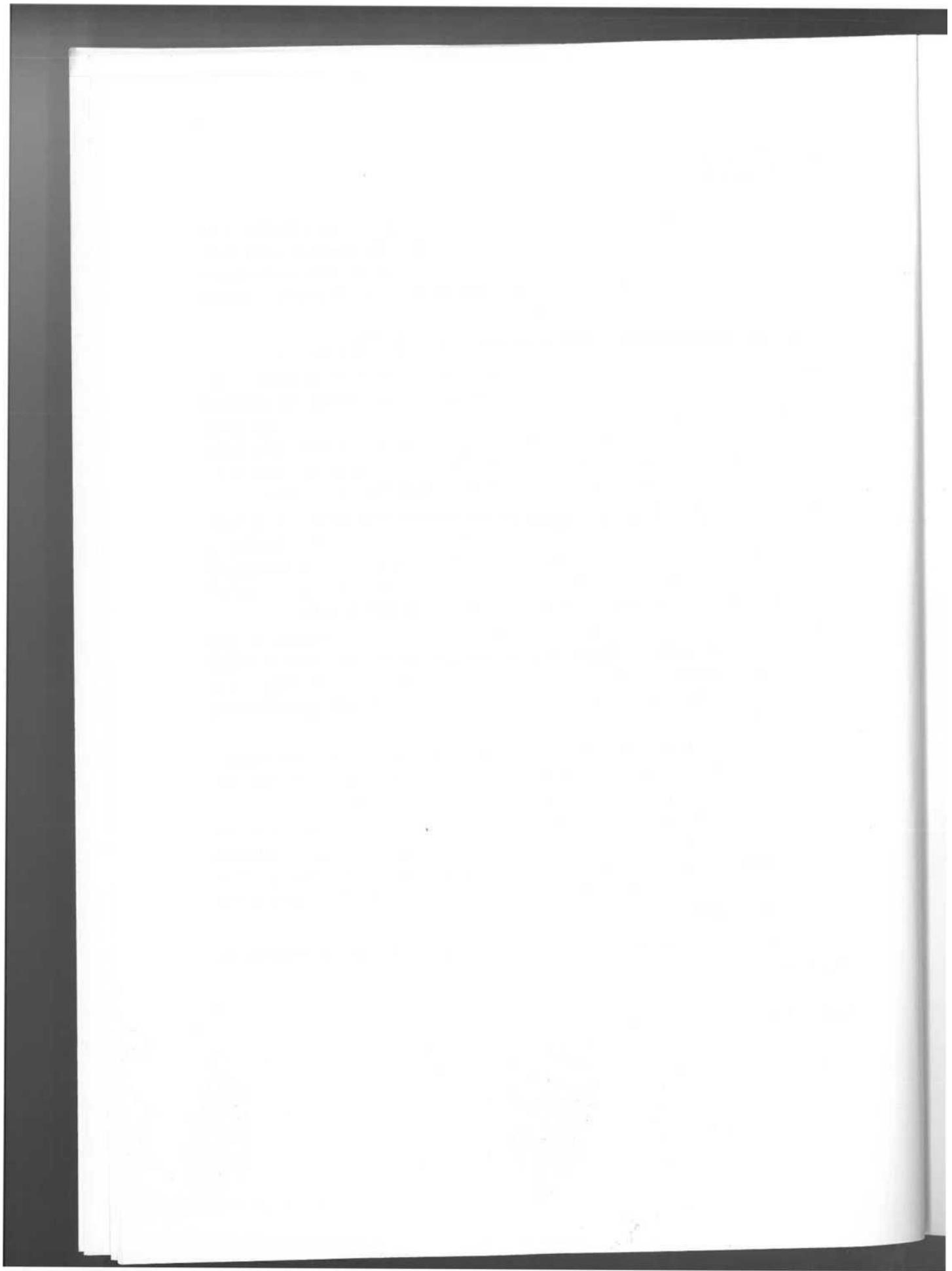
A question that I was asked often when writing and compiling this book (and that, in all honesty, I had asked myself more than once) was: why another strategy book? There were, after all, quite a number of books, international and local, already available on the South African market. It became clear that we had to position this book definitively to make a unique contribution to the extant body of knowledge.

So how, then, is this book different? We believe that there are five key aspects:

- A cursory review of strategic management books shows that the focus is very strongly on the process of strategy formulation, i.e. the thinking and analytical aspects of strategic management, as opposed to the 'doing' part of strategy, which is often dealt with in one or two chapters towards the end. Given that it is the greatest challenge to managers in the 21st century and the greatest reason for strategy failure, we decided to focus on strategy implementation instead.
- Most strategic management books portray strategic management as a neat, analytical and rational process that flows from top to bottom in the organisation. Rather than promoting the unrealistic idea of strategy as a purely rational and deliberate outcome, we acknowledge and explore the idea that strategy is often emergent, messy and experimental, and above all a human activity.
- Top management has long been regarded as the custodians of strategy. The idea that there are other strategists (human and non-human actors) such as middle managers and consultants that influence the strategic direction of the organisation and distribution of resources emerged only relatively recently, and we include this factor.
- We focus on strategy as something that people 'do' rather than something that an organisation 'possesses'. Since people are the building blocks of strategy, we recognise that strategy is both a cognitive and political activity.
- Most South African textbooks rely on secondary sources. While we use recent secondary sources from the extant body of knowledge, we conducted primary research among southern African top and middle managers and drew on these managerial perspectives to enrich our material with firsthand accounts of the strategy experience.

We trust that you will find value in the contemporary and different perspectives we present in this book.

Peet Venter



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Peet Venter is a Professor of Strategy at the University of South Africa's Graduate School of Business Leadership (the SBL). He holds an MBA from the University of Pretoria, and a Doctor of Commerce in Business Management from the University of South Africa. In addition to his more than 20 years' experience in teaching and supervising postgraduate students in management and strategy, Prof Venter has considerable practical experience in the telecommunications industry, and has worked on many strategic projects in various private and public organisations. He has published widely in the areas of strategy and strategic marketing.

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# The relationship between general management principles and strategic management

Tersia Botha

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- LO 1: Explain the concepts 'manager' and 'management'.
- LO 2: Explain the management process, indicating the four characteristics thereof.
- LO 3: Differentiate between the various levels of management.
- LO 4: Explain the various areas of management.
- LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.
- LO 6: Explain the composition of the management environment.
- LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.
- LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.

## KEY WORDS

- **Areas of management**
- **Competitive advantage**
- **Effectiveness**
- **Efficiency**
- **Leading**
- **Lower management**
- **External environment**
- **Management functions**
- **Management process**
- **Management**
- **Manager**
- **Market environment**
- **Micro-environment**
- **Middle management**
- **Objective**
- **Operational plans**
- **Organising**
- **Planning**

- **Remote environment**
- **Resources**
- **Stakeholder**
- **Strategic plan**
- **Sustainable competitive advantage**
- **Tactical plan**
- **Top management**
- **Transient advantage**

## CHAPTER ORIENTATION

Why do business organisations exist? Take a few moments to ponder this question. Business organisations exist for various reasons. Entrepreneurs generate new business ideas, determine the feasibility and viability of these ideas and start new business ventures, in which resources are transformed into need-satisfying products and services, which are then sold to customers. The entrepreneur hopefully realises a profit, of which a part thereof is reinvested in the business organisation in order to grow and develop the business, ensure its long-term survival, create jobs, contribute to the wealth and wellbeing of society and remunerate the owners for the investment made in the organisation. As the business grows, the role of the entrepreneur changes from being the inventor of new ideas, to the manager of the business organisation. The bigger the organisation becomes, the more complicated the management process becomes, which bring us to the next fundamental question - what is the best way to manage an organisation?

When we study the evolution of management theory, this is the one recurring theme that management theorists attempt to answer. Do a quick Google search for the best way to manage an organisation. You will find thousands of views on this topic - ranging from 'tips to manage a small business' to 'how to manage a big corporate effectively and efficiently'. The reason for the numerous views on this topic is to enable us to see the proposed 'best' way to manage a business organisation in the context of the social, political, economic, technological, international, and ecological forces that affect organisations and society at a specific time. As these forces change (and they change constantly and at an accelerating pace), business managers need to change and adapt to changing circumstances in the management environment. Changing circumstances lead to great uncertainties for businesses, particularly in respect of their sustainability and management.

The opening case provides us with an example of a highly successful organisation that did extremely well on ground level - there were 88 Health and Racquet Clubs in South Africa and 22 abroad, realising a turnover in excess of R1 billion in December 1999,

with after-tax profits of R100 million per annum. The company employed thousands of people and had a membership in excess of one million. In spite of its good financial performance, the company failed. Why? Firstly, the reason for the company's failure can be ascribed to a lack of strategic management. The company's board, which is mainly responsible for strategic management and leadership, became dysfunctional, resulting in a company that lacked strategic direction, a coherent strategic plan, and an effective and efficient management team to implement the strategic plans, and well-formulated action plans. Lastly, poor and ineffective communication, with little concern for corporate governance, led to the failure of the company.

The purpose of this book is to provide the reader with the necessary background and information, to be able to practise strategy successfully in the contemporary business environment. Essentially this means to:

*develop a long-term and coherent strategic plan within the opportunities and constraints of the business environment, that leads to the development of strategic actions that need to be implemented and controlled, that will put the organisation in a position of advantage and enable it to survive over the long term and realise its long-term vision, goals and plans.*

Before we can focus on practising strategy, we first need to address the relationship between general management and strategic management. This chapter will commence with an explanation of managers, management and the management process, the various levels and areas of management, followed by an explanation of the hierarchy of organisational plans. Thereafter, we will focus on the composition of the management environment, stakeholder and stakeholder relationship management. Finally, competitive advantage, sustainable competitive advantage and transient competitive advantage will be addressed.

## Case study

### **LeisureNet - Death of a business**

For a few weeks in September and October 2000, Peter Flack was the interim chief executive officer of the ill-fated South African company LeisureNet. He had been called in as a turnaround specialist. He found that the company had deteriorated so far and so fast that all that could be done for it was to close it.

LeisureNet was a large business, but the lessons Flack draws from the LeisureNet failure need to be learned by every manager. Flack's account of one of South Africa's most spectacular corporate failures is briefly provided below.

Every organisation, whether it be a club, church, company or country, requires four basic ingredients for it to be successful. These are leadership, a strategic plan, a management team capable of implementing the strategy, and an action plan which breaks the strategic plan down into measurable bits. A business is measured against these factors.

LeisureNet, a successful and profitable company, invited one of the directors of Coronation FRM to sit on their board. A brief look at the results for the year to December 1999 showed a group with a turnover in excess of R1 billion and which made in excess of R100 million after tax per annum. As a rough rule of thumb, companies that produce after-tax profits equal to 10 per cent of gross revenue are considered healthy businesses.

The company operated 85 Health and Racquet (HEtR) Clubs in South Africa and employed 4,500 people who provided an excellent service to nearly one million club members. In addition, the company expanded offshore and had built 22 HEtR Clubs in Australia, Britain, Germany and Spain, with a number being in the process of construction. On the surface, LeisureNet was a company with strong leadership, a clear strategy and an obviously competent management team.

At the first board meeting that Flack attended, it was clear that the board had become dysfunctional and there was conflict between the executive and non-executive directors. The previous joint chief executive officer of LeisureNet had been transferred to Healthland International Limited (again as joint chief executive officer). Healthland International Limited was a company that operated health and fitness clubs in Australia. The previous leaders had sold almost all their interests in LeisureNet and had been awarded a substantial and meaningful stake, free of charge, in Healthland International Limited. LeisureNet's young managing director of the South African operations had been approached to take the job as CEO of LeisureNet but had not accepted the position, and the terms of his appointment had not been finalised. It was clear that there was a problem with leadership.

Part of the conflict at board level was due to the fact the LeisureNet had been used to fund, staff and train employees of Healthland. The HEtR Club business had been pillaged to establish Healthland's operations and all available cash had been invested in Healthland and little, if any, in the HEtR Club business. Some R370 million of this available cash had come from selling shares. The result was a lack of maintenance and refurbishment at HEtR Clubs.

On closer examination, there was no strategic plan. A strategy, which is not reduced to writing, is a hope, wish or prayer, but not a plan. A strategic plan requires that its participants follow a procedure, which identifies and analyses the various internal and external issues that affect the business.

The lack of a coherent strategic plan in LeisureNet can be seen from the fact that the company had over the previous five years, when it was still in business, also established a food business, a golfing business, an education business, a casino bid, a gymnasium equipment supplier, a restaurant and the six-member Imax theatre chain. Despite the fact that LeisureNet owned only half the equity of the Imax group, the company guaranteed 100 per cent of the leases of the purpose-built facilities housing the theatres and which extended over 13-20 years.

Structure follows strategy and the lack of strategy manifested itself in the composition of the board of directors of LeisureNet. Instead of the various disciplines inherent in a company being represented on the board of directors, for example, finance, information systems, human resources and the line operations, the board consisted of two former joint chief executive officers, the managing director of the local operations and a host of non-executive directors.

Although the management information system was homegrown and, in many instances, required a duplication of effort, the accounting system, sales system, marketing and human resources procedures were well thought out. In moving offshore with Healthland International Limited, the business there had adopted the best of the local operating systems, acquired a standard management information system and had recruited the most senior of the local managers. The glaring omission, however, related to the position of chief financial officer and the treasury and cash management functions for this massively cash-hungry growth business in a state of rapid development. Ultimately, this gap in the management structure caused the downfall of Healthland as there was no action plan of any kind.

The group, with the notable exception of the HStR Club business, did not meet, let alone pass, any of the standards required by the four components for any successful business, namely, leadership, strategic planning, management and action planning. There were two other glaring omissions, namely, a lack of corporate communications and corporate governance.

The group could have been saved had it been possible to raise sufficient money to complete the building of the Healthland clubs under construction, or if the sale of these offshore clubs could have been concluded in a way that would have released LeisureNet from its obligations to the Healthland group. In the end, both attempts failed. Both of these failures can be traced back to fundamental flaws in the issues of leadership, strategy, corporate communications and corporate governance.

Source: Adapted from Flack, P. 2001. 'Death of a Business' *Succeed Magazine*, June/July.

LO 1: Explain the concepts 'manager<sup>1</sup>' and 'management'.

## 1.1 Managers and management

Although the term 'manager' has many meanings, for the purpose of this chapter, we will define a manager as a person who is responsible for running a part of or an entire organisation. The term 'management' refers to the interlocking functions that managers perform. For the purposes of this book, management is defined as:

*the process of working with and through others to achieve organisational objectives in a changing environment*

Managers experience more pressure today than at any other time in history. Changes in the world that are impacting on managers include the growing globalisation of economies, technological innovations, trends towards democratisation, increasing social imbalances and climate change, to mention only a few. In South Africa, the credit rating agency S&tP Global downgraded the country's credit rating in November 2017 to full junk status, while its counterpart Moody's placed the country on review for a downgrade. The downgrading followed a similar announcement by third major rating agency Fitch, affirming South Africa's rating at sub-investment or so-called 'junk status'. The reason for the downgrade by this agency was the weak economic growth in the country that led to the deterioration of public finances beyond previous expectations. It also flagged the role that the political turmoil of the country played in hamstringing policy.<sup>1</sup> Having a credit rating at sub-investment level means that South Africa is not regarded as a country with good investment opportunities and investors will be hesitant to invest money in the country's private and public sectors - resulting in a slower economic growth rate, a lower gross national product, and a threat to business managers.

Business managers need to cope with diverse and far-reaching challenges such as these constantly. They have to keep pace with ever-advancing technology and find ways to incorporate the internet and e-business into their strategies and business models. They must strive to remain competitive in the face of increasingly tough global competition, uncertain environments, cutbacks in personnel and resources, and massive economic, political and social shifts. The diversity of the workforce creates other dynamics: How can managers maintain a strong corporate culture while supporting diversity, balancing work and family concerns, and coping with the conflicting demands of all employees for a fair chance at power and responsibility? The field of management is undergoing a revolution that requires managers to do more with less, to see change rather than stability as the nature of things, and to create a vision and cultural values that enable people to create a truly collaborative and enabling workplace.

Successful organisations don't just happen; they are managed to be that way. To be successful under such circumstances, every organisation needs skilled managers. In our opening case, we saw a once successful organisation that closed due to poor management and more specifically, poor strategic management.

The question that we can ask ourselves now is what should managers do to achieve organisational objectives as effectively and efficiently as possible within a changing environment? The objective of this chapter is to provide the reader with a contemporary view of general management principles and the application thereof in modern organisations, and to demonstrate the relationship between these general management principles and strategic management. This will lay the foundation for the contemporary strategic management principles that will be discussed in the remainder of the book. Everything addressed in subsequent chapters of this book relates to practising strategy in contemporary organisations and the job of the modern strategist.

LO 2: Explain the management process, indicating the four characteristics thereof.

## 1.2 The management process

For the purposes of this book, management is defined as:

*the process of working with and through others to achieve organisational objectives  
in a changing environment.*

Although this may seem to be a very simplistic definition, we can identify four major characteristics, namely:

- (1) management is a process
- (2) management entails working with and through others
- (3) management aims to contribute to the realisation of organisational goals and objectives, and in doing so, management needs to balance effectiveness and efficiency and makes the most of limited and scarce resources
- (4) management needs to cope with a changing environment.

Each of these components will be discussed in more detail below.

### 1.2.1 Management is a process

In general, a process can be described as a structured, interrelated set of activities that, when executed, produce a specific output. The management function in an organisation can also be viewed as a process.

Managers need certain inputs (or resources) to deliver certain outputs (or performance). Managers need people (human resources); capital (financial resources), physical resources, raw materials, components, information, and entrepreneurial and management skills to produce products and/or services, create jobs, make a profit, achieve organisational goals and add value, and contribute to the wealth of society. The transformation of inputs to outputs requires management to perform certain activities or functions. All managers, regardless of the type of organisation, the

level at which they are involved, their designated role(s) or specific skills, engage in some manner in four fundamental, interrelated activities in order to achieve some or other goal(s), also called the management functions. These functions are planning, organising, leading, and controlling.

- Planning is the management function that determines the organisation's vision, mission, strategic direction and goals. It involves identifying ways of realising the goals, adding value to the organisation and its stakeholders and finding the resources needed for the task within a complex environment. Plans are mostly made by top management and its duration varies from one to five or even ten years. These are called 'strategic plans'. Tactical plans are made by functional managers (such as financial, human resources, research and development, marketing and operations managers) to support the organisation's long-term plans. Operational plans are made by lower management (often called 'first-line' or 'supervisory' management) to plan for short periods ahead. Planning has a top-down nature in organisations, originating from top management and cascading down to lower levels of management and even at the level of the individual worker in an organisation.
- Organising is the second step in the management process. Once the goals and plans have been determined, management has to allocate the organisation's resources to relevant departments or individuals. Tasks, roles and responsibilities must be defined and policies and procedures established to achieve the goals. Thus, organising involves developing a framework or organisational structure to indicate how people and other resources should be deployed to achieve the goals. The success of an organisation lies in directing the different resources towards the achievement of a common set of goals. The better the resources are co-ordinated and organised, the more successful the organisation will be. Because organisations have different goals and resources, it stands to reason that each one should have an organisational structure that will accommodate its needs. Management must match the organisation's structure to its strategies. This process is called 'organisational design'.
- Managers are responsible for getting things done through other people - they collaborate with their superiors, peers and subordinates, with both individuals and groups, to attain the goals of the organisation. Leading the organisation entails using influence and power to motivate employees to achieve goals. Leading from the top means communicating strategic goals and motivating departments, sections and individuals to perform as well as they can.
- Controlling means that managers should constantly make sure that the organisation is on the right course to attain its goals. Control also enables management to identify and rectify any deviations from the plans, and to consider factors which might oblige them to revise their goals and plans.

It is important to realise that the functions of management do not occur in a tidy, step-by-step order. At any given time, a manager is likely to be engaged in several management functions simultaneously.

While performing the planning, organising, leading and controlling functions, managers are constantly faced with opportunities and threats that need to be addressed and decisions that need to be made. When planning, a manager needs to make decisions about goals and when, where and how they should be realised. When controlling, the manager may find out that the goals have not been realised. Thus, a problem exists that needs to be solved and the manager needs to decide on the most appropriate course of action. When organising, managers must make decisions that involve the creation of an organisational structure and the deployment of resources that will enable the organisation to attain its goals. When leading, the manager must decide how to influence and direct the behaviour of followers so that they willingly pursue the goals of the organisation. Decision-making is therefore a central aspect of all four managerial functions. In the opening case, managers (and the senior manager especially) at LeisureNet made poor decisions, resulting in the failure of the organisation.

The term ‘resources’ is extremely comprehensive. The following basic resources can be found in all organisations, namely, people (human resources), money (capital or financial resources), raw materials (physical resources), knowledge (information resources), technology, information and components. Management utilises these resources to achieve the goals of the organisation as efficiently and effectively as possible. Resources are scarce and management’s biggest challenge is to utilise its resources as productively as possible. Managers need to make choices in terms of what programmes, projects and activities to pursue with the limited resources at their disposal. Managers also have the task of bringing resources together, deciding which resources are necessary for a specific situation or specific circumstances, and in what quantities, to achieve the organisation’s goals. The success with which an organisation achieves its goals and satisfies the ever-increasing needs of society depends on the competence of its managers in utilising its scarce resources. If managers utilise resources well, the organisation will be successful. If a country’s organisations are competitive and successful, the country as a whole will prosper because successful organisations satisfy needs, not only by producing products and services, but also by providing jobs and contributing to the wealth of society. The inputs or resources of an organisation are transformed to realise certain outputs, of which goal achievement, products, services, profit, job creation, efficiency and effectiveness are the most important outputs.

In the case study, we saw the detrimental effect of the poor management of LeisureNet’s financial resources - LeisureNet was used to fund, staff and train employees of Healthland. The Health and Racket Club business was pillaged to establish Healthland’s operations and all available cash was invested in Healthland, with very little in the Health and Racket Club business. This resulted in a lack of maintenance and refurbishment at Health and Racket Clubs.

### 1.2.2 Management entails working with and through others

Managers get things done by working with and through other people. Management is, above all else, a social process. Many collective purposes bring individuals together

- building houses and cars, publishing books, offering tertiary education, providing personal financial services, and so on. The activities that are needed to build a house or a car, publish a book, offer tertiary education programmes and to provide advice on personal finances, cannot happen on their own. In all cases, managers are needed to get things done by working with and through other people and other organisations.

The ability to work with and through others is therefore an important skill that managers should have in order to be successful. Problems with interpersonal relationships and failure to build and lead a team are often the reasons why managers fail, as we have already seen in the case study of this chapter.

### 1.2.3 Management aims to achieve organisational goals and objectives, balance effectiveness and efficiency, and make the most of limited resources

An objective can be described as a target to be strived for. A university student, for example, can set an objective for him or herself, to graduate with a specific degree by a given date. All actions taken or activities performed by the student, will be with the view to achieve this target. As with individuals, organisations formulate organisational objectives. Organisations will also be more successful when their activities are guided by challenging, yet realistic and achievable objectives. Organisational goals and objectives serve later as measuring sticks for performance. Without goals and objectives, the management process would be aimless and wasteful. In the case study, we determined that the absence of organisational goals and objectives, contributed to the failure of the company.

It is important to distinguish between the concepts of effectiveness and efficiency. Effectiveness is achieved when the organisation formulates and pursues appropriate (or stated) goals. Effectiveness, in essence, means ‘doing the right things’ in order to achieve the objectives of the organisation.

Given the reality of limited resources, effectiveness alone is not enough. An organisation also needs to be efficient. Efficiency enters the picture when the resources required to achieve an objective are weighed against what was accomplished. The organisation will be more efficient if the ratio between benefits (outputs or performance) and costs (inputs or resources) is more favourable. Efficiency essentially means ‘doing things right’. Efficiency is achieved by using the fewest inputs (such as the number of people employed or the amount of capital utilised during the financial year) to generate a maximum amount of output (such as a number of products produced or the profit realised within a financial year).

Managers are responsible for balancing effectiveness and efficiency. Too much emphasis on either effectiveness or efficiency leads to mismanagement. On the one hand, managers must be effective by getting the job done. On the other hand, managers need to be efficient by reducing costs and not wasting resources.

Too much emphasis on effectiveness will mean that the job gets done, but limited resources are wasted. Too much emphasis on efficiency will mean that the job gets done, but available resources are underutilised. Thus, the answer lies in a balanced emphasis on effectiveness and efficiency - the job gets done and limited resources are not wasted.

In a business context, organisations have access to limited and scarce resources and managers need to make the most of these resources. In the bigger picture, we live in a world of scarcity and limited resources. Although experts and non-experts alike may quibble over exactly how long it will take to exhaust our non-renewable resources or come up with exotic new technological alternatives, one fact remains: our planet is becoming increasingly crowded and sustainability and sustainable development should be among the main concerns for managers. Organisational sustainability means to maintain, to keep being, to preserve and to support, with structures to hold on to. For an organisation to be sustainable, it must sustain its resources and the uses thereof. It also means that organisations should balance their social, environmental (ecological) and financial aspects - the so-called 'triple-bottom line' which will be further explained in Section 1.7 of this chapter. In productive organisations, managers are the custodians of limited and scarce resources and it is their job to see that the basic factors of production are used efficiently and effectively.

#### 1.2.4. Management needs to cope with a changing environment

Successful managers are the ones who anticipate and adjust to changing circumstances rather than those who are passively swept along or caught unprepared. In Section 1.5, we will elaborate on the management environment.

We can conclude this section with *Business Week's* amusing but challenging profile of tomorrow's managers: The next generation of corporate leaders will need the charm of a debutante, the flexibility of a gymnast, and the quickness of a panther. A few foreign languages and a keen understanding of technology won't hurt either'.<sup>2</sup>

LO 3: Differentiate between the various levels of management.

### 1.3 Levels of management

The management process and functions of management, explained in the previous section, merely provide us with a starting point for understanding what management and strategic management, specifically, entails. To add to the complexity of the process, management takes place at different levels and in different areas within organisations. While managers at each level and in each area must generally possess planning, organising, leading and controlling skills, certain job-specific activities and skills are more important at one level than at another.

Managers function at various levels in the organisational hierarchy. A small organisation may have only one layer of management, whereas a medium- to large-sized organisation may have several layers. In general, relatively large organisations (especially governmental organisations) have three levels of management: top-level managers, middle managers and lower-level managers.

- Top management, also referred to as senior management, represents the relatively small group of managers who control the organisation as a whole and with whom the final authority and responsibility for executing the management process rest. Top management is responsible for strategic planning that includes determining the vision, mission, strategic direction, overall goals, strategies and plans of the organisation. Top management is concerned mainly with strategic planning that has the following characteristics: first, strategic planning focuses on the entire organisation; second, it aims to reconcile the organisation's strengths and weaknesses in its internal environment, with the threats and opportunities in the external environment; third, strategic planning focuses on creating and maintaining a competitive advantage for the organisation; fourth, it considers synergy and aims to co-ordinate the efforts of departments and individuals to contribute to the attainment of competitive advantage and the long-term goals of the organisation; lastly, strategic plans filter down in the organisation to form the basis of tactical and operational plans.  
Top managers are also responsible for designing the organisation's broad organisational structure, leading the organisation (through the top executive) and controlling it. Top management also influences the corporate culture, organisational change, the allocation of resources on corporate level and determines the culture of the organisation in terms of organisational learning. Strategic managers continuously monitor the external and internal environment of the organisation to identify possible opportunities, threats, strengths and weaknesses. The annual reports of organisations usually depict their top management structure. This level of management generally comprises the board of directors, partners, the managing director, chief executive officers, management committees and other governing bodies. In this book, the focus will be on the top management of organisations and their responsibilities in terms of strategic management. Traditionally, top managers were considered the only people responsible for strategic management. The contemporary view of management suggests that top managers alone are not the only strategists and that any individual or group in an organisation that controls key actions can be regarded as a role-player in strategic management.
- Middle management, also referred to as functional management, is responsible for specific departments or functions of the organisation. Middle management primarily deals with tactical planning and implementing the policies, plans and strategies formulated by top management. It normally includes the functional heads, such as the marketing manager, the financial manager, the purchasing manager and the human resources manager. Middle management is concerned with the near future and is therefore responsible for medium-term and short-term planning, organising functional areas, leading by means of the departmental

heads, and controlling the management activities of the middle managers' own departments. Middle managers also continually monitor environmental influences that may affect their own departments. The trend in recent years of corporate restructuring, delayering, downsizing and decentralisation of decision-making has been responsible for large numbers of middle managers being made redundant. Electronic technology has reduced the need for middle management in some organisations. In the area of information management, in particular, computers have replaced the information-gathering tasks of middle managers. Middle managers are, however, still essential in linking the upper and lower levels of the organisation and in implementing the strategies developed at the executive level.

- Lower-level management (also called supervisory or first-line management) is responsible for even smaller segments of the organisation, namely, the different subsections. The managerial functions of first-line managers are centred around the daily activities of their departments or sections, on short-term planning, and on implementing the plans of middle management. Their primary concern is to apply policies, procedures and rules in order to achieve a high level of productivity, to provide technical assistance, to motivate subordinates and to accomplish day-to-day goals. Typically, they spend a large portion of their time supervising the work of subordinates. Because of this, first-line management is a vital force in the organisation. These managers hold the power to increase or decrease the productivity and output of most organisations. They also maintain the crucial interface between management and the major body of employees in the organisation. This level of management usually comprises titles such as office manager, shift supervisor, advertising manager, debtors' clerk or section manager.

LO 4: Explain the various areas of management.

## 1.4 Areas of management

We can distinguish between various functional areas of management in organisations, namely, finance, operations, human resources, procurement, research and development, public relations and marketing.

- The financial function is responsible for obtaining the necessary finances for an organisation at the lowest cost, investing these finances in assets that would earn greater returns than the cost of capital, as well as managing the profitability, liquidity and solvency of the organisation.
- The operations function includes that group of activities concerned with the actual provision of goods and services to the organisation's clients. Operations management systematically designs, directs and controls the process that transforms inputs into products and services for both internal and external customers.

- The human resources function involves the appointment, development and maintenance of the human resources of the organisation. To enable the organisation to operate at optimum levels, the human resources manager must appoint the right people and provide them with the right training in order to make the best use of them.
- The procurement function is concerned with buying the materials and resources needed to create products and services. The manager responsible for procurement needs to balance a number of constraints. He/she needs to ensure that the right product is available, at the right time, in the right quantity and of the right quality, at the best possible price.
- The research and development function is responsible for developing new products and services and improving old products and services. This function is critical in organisations that operate in fast-changing environments, such as information technology, communications, and so on.
- The public relations function of an organisation is responsible for creating a favourable, objective image of the organisation and for establishing good relationships with those directly or indirectly concerned with the business and its products or services.
- The marketing function is responsible for getting the final customer and client to buy the organisation's products or services. The marketing function is concerned with new product development, promotion and distribution.

While all the functions listed above are specialised areas of management, which require more specific and specialist skills, managers in each area still plan, organise, lead and control. A financial manager, for example, is responsible for determining the financial goals of the organisation, thus performing the planning function of management. The financial manager also needs to organise financial activities by allocating financial tasks to people so that financial goals can be achieved. The financial manager takes the lead in financial activities, motivating and directing members of staff in the financial section to perform their duties in pursuit of the financial targets. Lastly, financial managers need to ensure that financial goals are accomplished through the implementation of financial control mechanisms.

LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.

## 1.5 The hierarchy of organisational plans

From the discussions so far, we have learned that management is a process and that managers engage in some manner in four fundamental, interrelated activities (planning, organising, leading and control) in order to realise the goals of an organisation and to add value to the organisation and society. These activities are executed on various hierarchical levels of an organisation, and the focus of strategic management and of this book, is on the highest of these levels, namely, top or senior management. The

planning stage of the management process is a top-down approach, which entails top managers formulating a strategic plan, which is a document that indicates the direction of the organisation. A strategic plan consists of the following seven elements: vision; mission; analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis); core organisational values; goals; objectives and strategies.

- Strategic plans filter down in the organisation and form the basis of tactical plans crafted on middle management levels.
- Tactical plans focus on the functional areas of the organisation, are more specific than strategic plans and should take synergy into account. So, in other words, it should contribute to the attainment of the overall organisational goals. Tactical plans form the basis of operational plans, developed by middle and lower levels of management.
- Operational plans are narrowly focused, with a relatively short time horizon. Three basic forms of operational plans exist, namely, single-use, standing, and individual plans.
- Single-use plans are used once to meet the needs of a particular or unique situation. Programmes, projects and budgets are examples of single-use plans. In this context, a programme refers to a set of activities designed to accomplish a specific objective over a period of time. A programme consists of various projects, with predetermined completion dates and budgets. A budget can be described as a numerical plan for allocating resources to specific predetermined activities.
- Standing plans provide guidance because they deal with issues or problems that occur frequently. Policies, procedures and rules are examples of standing plans.
- Operational plans form the basis of individual plans, which are defined as the broader organisational plans that are translated into plans for the individual worker. It is also on the individual level that the implementation and execution of strategic plans commence, from where they culminate in the realisation of operational goals, and, ultimately, in the strategic goals of the organisation. The hierarchy of plans is depicted in Figure 1.1.

For managers to formulate realistic operational and individual plans, they need clear guidance and plans from strategic and tactical managers. Only if the different kinds of plans are understood, will lower levels of management and individuals be able to develop operational and individual plans.

The execution of the fundamental managerial activities by all levels and areas of management does not happen in isolation - the organisation (as a system) is part of a bigger system that we refer to as the management environment. The composition of the management environment is described in the next section.



Figure 1.1 *The hierarchy of organisational plans*

LO 6: Explain the composition of the management environment.

## 1.6 The composition of the management environment

It is crucial to realise that organisations and their managements, source inputs from the environment, transform them into outputs, which are then returned to the environment. These are the main elements of any system: input -► transformation -+ output. The success of the organisation as a system is largely determined by the efficiency and effectiveness illustrated by its management in performing planning, organising, leading and controlling functions. Furthermore, a system's success depends on successful interactions with its environment. In this context, the environment includes other sub-environments such as suppliers, labour unions, financial institutions, customers, and so on. The organisation is dependent on its external environment. Managements must therefore understand the structure and dynamics of the unique management environment of their organisations and, even more importantly, the unique strengths, weaknesses, opportunities and threats pertaining to the environment that impact directly or indirectly on the success of the organisation.

As the first step to a better understanding of the management environment, it is important for the manager to take account of its structure and dynamics. Without such an understanding, no realistic strategising can take place. Structurally, the management environment can be divided into the micro-environment, the market environment (industry) and the remote environment.

### 1.6.1 The micro- or internal environment

The micro-environment can also be referred to as the internal environment and includes the organisation's functions, policies, strategies, goals, objectives, and available resources, and also designates the area over which the manager has total or full control. Vodacom, a leading cellular network, has various features that we can identify from its micro-environment. For example, it represents a culture characterised by a winning spirit and passion for the job, progressive human resources policies, commitment to transformation, investment in social development programmes, successful staff retention programmes, competitive remuneration packages, successful skills development programmes, and commitment to ethical conduct and social development. Top or strategic managers play a profound role in the establishment of the micro-environment of the organisation. The factors in Vodacom's micro-environment are all under the direct control of its management, mainly the strategic managers of the company.

### 1.6.2 The external environment

The external environment comprises two major components, namely the market environment and the remote environment. The external environment also designates the area outside of the organisation over which the manager has no control.

#### 1.6.2.1 *The market environment*

The market environment lies between the micro-environment and the remote environment and forms a buffer between the organisations and the remote environment. Some authors refer to it as the operating, competitive, task environment or industry. Other authors, in turn, refer to it as the 'meso-environment' or the intermediate environment. For the purpose of this book, we shall refer to it as the 'market environment'. The market environment comprises the following sub-environments: (1) customers (clients), their needs, purchasing power, behaviour and bargaining power; (2) suppliers of capital, materials and labour and the bargaining power of suppliers; (3) the population from which the organisation recruits its labour force and the unions representing it; and (4) competitors, including new entrants, existing competitors, the availability of substitute products or services and complementary products or services.

### The customer

Customers can be defined as all those people or organisations that buy products or services from other people and other organisations. On the other hand, the market for the organisation's product and/or service consists of people who have needs to be satisfied and the financial means with which to satisfy their needs. The customer and the market for an organisation's product and/or service, is the main reason why an organisation exists. This is true for both private-sector and public-sector entities. For business entities in the private sector, to have no customers is to have no revenue and no profits; their survival depends on the customer. On the other hand, owing to their annual budget allocations from government, the supply of public-service entities do not depend, for their survival, on their products or services they supply to their customers, which is the community. Customers also exhibit buyer behaviour, which is influenced by variables in the macro-environment. For example, demographic trends affect the number of customers, economic trends influence the purchasing power of consumers, and cultural values can influence the buying behaviour of most customers.

### Competitors

Aside from customers, competitors are the single most important day-to-day force associated with an organisation. Competition in the market environment is a situation in which different organisations with more or less the same product or service compete for the business patronage by the same consumers. Every organisation that tries to market a service and/or product in the market environment is constantly up against existing competition. In the case of business organisations, the competition is other businesses currently active in the same market sector who are competing for a share of the market. New entrants refer to potential competitors that have the resources to enter the current market in which established organisations operate.

A thorough competitor analysis, in which strategic managers should play a major role, can help an organisation to understand, interpret and predict its competitor's actions and responses. Understanding the actions of competitors is clearly an important factor contributing to the organisation's ability to compete successfully.

### The labour market and labour unions

Although the labour market in economic theory equates to other markets, such as the financial market or the market for products and services, it has its own unique characteristics. The labour market comprises many different markets, such as those for various skill levels, occupations, age groups, industries, genders and geographical regions. These markets are to some extent interchangeable, yet barriers to mobility do exist. Another important difference between the labour market and other markets is the temporary nature of employment relationships. Once a purchaser buys products for consumption, it becomes the property of the buyer. This is not so with the employment relationship. Either the employer or employee may decide to terminate the relationships. This leads to greater fluidity and unpredictability in the labour

market. Organisation's ability to attract and retain capable employees from the labour market is essential to its success. This ability, on the one hand, is greatly influenced by the strategic managers of an organisation. On the other hand, an organisation's personnel recruitment and selection alternatives are often influenced by the nature of both its external and its internal environments. An organisation's access to needed personnel is affected primarily by three factors, namely, the organisation's reputation as an employer, local economic conditions and subsequent employment rates, as well as the availability of people with the required skills. Organisations thus also compete for skilled and competent labour with other organisations, where labour unions play an integral role. Again, strategic managers play a profound role in determining the organisation's reputation as an employer and in its ability to attract and retain the necessary skilled human resources.

### **Intermediaries**

In addition to consumers, competitors, the labour market and labour unions in the market environment, intermediaries also play an important role and affect the organisation directly and indirectly. Intermediaries act as middlemen between the manufacturer of products and services and the final consumer thereof. Intermediaries include wholesalers, retailers, agents and brokers, all of whom play a role in bringing a product or service from the manufacturer to the final consumer. Financial intermediaries, such as banks, insurers and other financial institutions, play a role in providing an organisation with the necessary capital to start and run a successful business.

### **Suppliers**

Organisations need various inputs and depend on suppliers to provide regular supplies of these inputs. Most of the inputs used by the organisation form part of a value- creation process manifested in the value chain. The value chain can be described as a chain of activities that an organisation, operating in a specific industry, performs in order to deliver a valuable product or service for the market that it serves. Through the use of a value chain, value can be created for the role-players and a sustainable competitive advantage created for the organisation. The concentration of suppliers and the availability of substitutes are, on the one hand, of extreme importance to the effective functioning and survival of the organisation, and, on the other, also significant factors in determining supplier bargaining power. The terms *competitive advantage* and *sustainable competitive advantage* will further be clarified in Section 1.8.

#### **1.6.2.2 The remote environment**

The remote environment refers to the broader environment within which the organisation must function. The remote environment surrounds the market environment. It includes all PESTLE/G (explained in Chapter 5, Section 5.3.1) external influences that do not fall directly within the sphere of influence of the organisation, but which do have a bearing on its activities. When analysing the macro-environment, the emphasis falls on the changes that the uncontrollable variables at the macro-level

cause and the strategic implications these hold for the organisation. For the purpose of systematic analysis, a number of sub-environments can be distinguished within the remote environment, namely, the political; economic; social, technological; legal; environmental; and international environments. Each of these sub-environments of the remote environment will be discussed below in more detail.

### The political/legislative environment

The state is a major role-player in the remote environment of an organisation, because it influences the organisation primarily as a regulating force. The state enforces laws, directly affecting the way that organisations operate. Tax regulations, for instance, have a direct influence on each and every organisation and individual. Value-added taxes (VAT), for instance, was 14 per cent in South Africa. In the budget speech delivered on 21 February 2018, Malusi Gigaba the country's minister of finance at the time, announced an increase in the value-added tax rate of 1 per cent to 15 percent, the first increase of this tax rate in 25 years. The country experienced major changes in its political environment in 2018. The major leadership changes of the ruling political party, the African National Congress, made world news. Former president Jacob Zuma resigned and was replaced with President Cyril Ramaphosa, who announced major cabinet changes and declared a country free of corruption. These adjustments led to major changes in financial markets, with an increase in the value of the country's currency, having a direct impact on organisations, especially those involved in multi-national business. With this in mind, strategic managers should be aware of changes in this environment that may require them to revisit the organisation's vision, mission statement, goals and strategies.

### The economic environment

After technology, the economic environment plays a huge role in the remote environment. Organisations are influenced by factors such as business cycles, interest rates, inflation, unemployment, trends with regard to the gross national product (GNP) and the economic growth rate, monetary and fiscal policy, trends in the balance of payments, the current and provisional status of the economy in terms of recession and depression, the influence of resources, and so on. The economy, in turn, is affected by technology, politics, ecology, social trends and the international environment. These cross-influences constantly bring about fluctuations in the economy, affecting organisations, strategic managers and all other levels of management. Strategic management therefore needs to keep abreast of economic changes and trends which require them to revisit the organisation's vision, mission statement, goals and strategies.

### The social environment

The social environment refers to the cultural and demographic aspects of the environment. Cultural forces, which underpin society and surround an organisation, are often not as visible as other general environmental forces. Culture refers to the unique pattern of shared characteristics, such as values, that distinguish the members

of one group of people from another group. A value can be defined as the basic belief about a certain condition that has considerable importance and meaning to individuals. People's values are relatively stable over time. A value system comprises multiple beliefs that are compatible and supportive of one another. Managers need to appreciate the significance of the values and value systems of all its stakeholders

- globalisation and global competition is a reality and the number of organisations that accept contracts and other assignments in other countries, is rapidly increasing. Realising the importance of cultural diversity can help strategic and other managers understand their international partners and, ultimately, to be more effective and efficient managers. The social environment also includes various demographic factors, such as, the age distribution population growth rate, emphasis on safety, career attitudes, and so on.

### The technological environment

The technological environment is primarily responsible for changes in the remote environment. Technology can be defined as the knowledge, tools, actions and techniques that are used to transform ideas, information, raw materials and components into finished products and services. Furthermore, technology encapsulates the physical elements of human invention and innovation. Many new technologies are radical enough to force organisations, especially in high-tech industries, to reconsider their vision, purpose and methods of operation or face extinction. An analysis of the technological environment is crucial for strategic managers.

The most basic effect of technology and technological innovation is probably higher productivity. The ability of an organisation to produce more and better products poses a threat to competitors, compelling them to reassess their strategic plans, organisational structures, production methods, markets and other functional strategies. Effective management of technology and innovation is an extremely important source of competitive advantage for an organisation.

### The environmental environment

The environmental environment (also referred to as the ecological or physical environment) relates to the limited natural resources from which an organisation obtains its raw materials. However, organisations also dispose of waste or some of their waste in the ecological environment. The ecological environment consists of the natural environment, as well as human-made infrastructure. Geography, the weather and climate, the availability and exploitation of natural resources (raw materials, water, and so on), as well as conservation agreements and conventions all form part of the natural environment. The human-made environment, in turn, refers to the roads, railways, airports, harbours, communication infrastructure and energy supplies that have an influence on all organisations.

Organisations are becoming increasingly aware of the natural environment and the interdependence between organisations and the natural environment. This interdependence presents opportunities and threats to organisations. One of the major

threats is a shortage of natural resources, especially water and energy. The rising cost of energy, the cost of pollution, damage to a country's natural resources and climate changes are all threats from the natural environment. Managers should take timely steps to ensure that no actions on the part of their organisation have detrimental effects on the environment. Sustainability issues, such as green industries, buildings and transport, have become crucial for strategic management.

### The global environment

Globalisation and organisations conducting business across the borders of a country is a reality. The international environment poses threats, as well as opportunities for organisations. Strategic managers need to consider these for successful strategic management in contemporary organisations.

Within the management environment discussed in this section, all managers, but strategic managers, in particular, need to be aware of the various stakeholders in the management environment. This is the focus of the following section.

LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.

## 1.7 Stakeholders and stakeholder relationship management

Various views exist in terms of who or what constitutes a stakeholder of an organisation. The so-called narrow view of stakeholder theory refers to stakeholders as a group of individuals within the boundaries of the organisation. This view only considers stakeholders who are directly linked to the organisation, such as employees, customers and financial institutions. The broader view of stakeholder theory looks beyond the stakeholders within the organisation. It includes groups within the organisation, as well, as those on the outside, such as the community, local and national government.

In this book, we will adopt Clarkson's definition of organisational stakeholders:

*An organisation's stakeholders are the people or groups of people that have, or claim ownership, rights, or interests in an organisation and its activities, past, present and future. Such claimed rights or interests are the result of transactions with, or actions taken by the organisation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group, for example, shareholders, employees, customer and suppliers.<sup>3</sup>*

In general, stakeholders are classified as external or internal. External stakeholders are those individuals or groups, who do not work directly within the organisation, but who are affected by the strategies, plans and actions of the organisation. External stakeholders include the community, government, activist groups and not-for-

profit organisations, competitors, the media, industry associates, organised labour, customers, suppliers, analysts, consultants and researchers.

Internal stakeholders are stakeholders who work directly within an organisation. Internal stakeholders are shareholders/business owners, investors, employees and management.

Traditionally, the primary goal of organisations was to realise a profit and thereby satisfy the needs and expectations of its owners (or shareholders). Contemporary organisations adopt the triple-bottom line - an accounting framework with three parts, comprising the social, environmental (ecological) and financial parts. By adopting this framework, organisations evaluate their performance on a broader perspective to create greater business value. The triple-bottom line not only focuses on the expectation of shareholders (profit), but simultaneously on the expectations of all stakeholders. Therefore, to be regarded as successful, an organisation needs to be (i) profitable; (ii) take responsibility for the physical environment in which it operates; and (iii) meet its social responsibilities.

Management on all hierarchical levels should acknowledge the important role that stakeholders play in organisations. Strategic managers, especially, must take into account the impact that the organisation's vision, goals, strategies, projects and plans have on all stakeholders. Organisations are responsible for considering and protecting the rights and expectations of all their stakeholders.

At the same time, the influence that stakeholders have on the organisation should also be considered. This calls for a stakeholder relationship management process, which will bear tangible and intangible long-term rewards for the organisation. For example, new products, new markets, stronger supply chains, a diverse workforce, and trusting relationships will all yield a competitive advantage for the organisation.

In our discussion so far, we have referred a number of times to the term *competitive advantage*, which is a key term in strategic management.

LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.

## **1.8 Competitive advantage, sustainable competitive advantage and transient competitive advantage**

In Section 1.6, we elaborated on the management environment. The market environment was identified as the environment comprising customers, competitors, the labour market and labour unions, intermediaries and suppliers. In this environment, competition is taking place - organisations are competing for the same customers, suppliers, skilled labour and intermediaries. The most widely used framework for classifying and analysing these forces of competition in a specific industry was developed by Michael Porter of Harvard Business School.<sup>4</sup> His framework views the profitability or

attractiveness of an industry as determined by five sources of competitive pressure in the particular industry. These five sources are (1) competition from providers of substitute, products and/or services; (2) competition from new entrants or potential competitors; (3) competition from established rivals (competitors); (4) the power of suppliers; and (5) the power of buyers.

1. Competition from substitutes is influenced and determined by the buyers' propensity to substitute or buy substitute products and the relative prices and performance of substitutes.
2. Competition from new entrants or potential competitors to the industry is influenced by various factors, such as the capital needed to enter the industry, product differentiation, and legal barriers to enter the industry.
3. Competition from established rivals (competitors) in the industry is influenced by factors such as the diversity of these rivals, product differentiation to be found in the industry, exit barriers and cost conditions.
4. The power of suppliers is also determined by various factors, for example, the price sensitivity of suppliers and their relative bargaining power.
5. Lastly, the power of buyers is influenced by factors such as competition between buyers, product differentiation, the information made available to buyers and the size and concentration of buyers relative to suppliers.

Once an organisation understands how the structure of the industry in which it operates drives competition in this industry, the profitability of the industry can be forecasted for the future. Determining industry structure involves the identification of the main players in the industry - the producers, customers, suppliers, and producers of substitute products. An examination of the key characteristics of each of the main players will determine the competition in the industry and bargaining power that we described in the previous paragraph. This analysis can subsequently be used to forecast industry profitability. Why? Organisations will only invest capital and other resources in an industry that meets its objectives in terms of profitability. Once an organisation understands the structure of its industry and have made forecasts of its profitability, strategies can be developed.

The next crucial question that needs to be answered is how industry profit is shared among the different organisations competing in a particular industry? To answer this question, it requires an identification of the sources of competitive advantage within the particular industry. We can use the term 'key success factors' to describe the factors in an industry that influence an organisation's ability to outperform its rivals or competitors. Once an organisation understands the drivers of industry profitability, it can identify strategies through which it can improve industry attractiveness and position itself relative to its competitive forces. In essence, this means that an organisation can earn superior financial performance either by (1) locating in an attractive industry; or by (2) establishing a competitive advantage over its rivals. Of these two, competitive advantage is the most important since competition intensifies constantly across almost all industries so that very few

industries can guarantee secure investment returns. Hence, we can conclude that the primary goal of a strategy is to establish a position of competitive advantage for the organisation. Stated differently, the primary goals of strategy is to put an organisation in a superior business position - which is a requirement for sustainability and survival over the long term.

At this point, we need to provide a formal definition of the term 'competitive advantage'. The literature provides us with numerous definitions, for example:

*Competitive advantage is what makes you better than anyone else.<sup>5</sup>*

*Competitive advantage are conditions that allow a company or country to produce a good or service at equal value but at a lower price or in a more desirable fashion. These conditions allow the productive entity to generate more sales or superior margins compared to its market rivals.<sup>6</sup>*

*A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities?*

*There is no one answer about what is competitive advantage or one way to measure it, and for the right reason. Nearly everything can be considered as competitive edge, eg higher profit margin, greater return on assets, valuable resource such as brand reputation or unique competence in producing jet engines. Every company must have at least one advantage to successfully compete in the market. If a company can't identify one or just doesn't possess it, competitors soon outperform it and force the business to leave the market.<sup>8</sup>*

For the purposes of this chapter, we will define competitive advantage as follows:

*When two or more organisations compete within the same industry, one possesses a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals.*

Common sources of competitive advantage are the following: barriers to entry, capital, cost advantage, customer satisfaction, digital maturity, distribution, know-how, market power, bargaining power, brand name, corporate governance, critical mass, design, distinctive capability, economic advantage, economies of scale, intellectual property, sustainability, trade secrets, switching costs, market position, marketability, organisational culture, product development, risk management, technology and market position.

Having a competitive advantage is the result of an organisation matching internal strengths to external key success factors. It is crucial to point out that competitive advantage is not something static and stable. In fact, competitive advantage is a disequilibrium phenomenon: it is created by change and, once established, it starts a competitive process that leads to its destruction.

The changes that create competitive advantage, can be either internal or external. Internally, some organisations may, for example, have a greater creative and innovative capability than their rivals that may lead to a competitive advantage. Externally, changes in, for example, customer demands or technology can create a competitive advantage for an organisation that is faster and more effective in exploiting change than its rivals.

Once an organisation establishes competitive advantage, it is eroded by competition. The speed of this erosion will depend on the ability of competitors to challenge, either by imitation or by innovation. For a sustainable competitive advantage, the organisation must create barriers for other organisations to imitate and innovate its advantages. We therefore define a sustainable competitive advantage as:

*an organisation that has the ability to perform (or the potential to perform) better than its rivals over the long term.*

Organisations may have assets, attributes or abilities that are difficult to imitate or exceed which contribute to their competitive advantage. Competitive advantages are often short-lived and instead of building one advantage and defending it, a transient strategy focuses on innovation strategies that continually build new advantages. Therefore, we define transient competitive advantage as follows:

*an organisation that has the ability to build up temporary (or transient) advantages where they seize opportunities, exploit it, and then move quickly when they have exhausted the opportunity.*

Some of the competitive advantage of various South African companies are highlighted below.

## Practising strategy

### Woolworths

Max Sonnenberg founded Woolworths in 1931. His belief that success lies in providing customers with superior quality merchandise at reasonable prices has been instrumental in establishing Woolworths as one of South Africa's leading retail chains - a benchmark for excellence and an icon of quality.<sup>9</sup>

### South African Breweries

The South African Breweries Group, is one of the world's largest beer distributors with a market share of 98 per cent in South Africa. The company is at the forefront in addressing social inequities in its hiring, promoting, and training practices, and combating discrimination. The company's diverse workforce creates a global competitive advantage for the company.<sup>10</sup>

### Edcon

Edgars Consolidated Stores, commonly known as Edcon, is one of the country's most successful retail operations. The company firmly believes in the power of outsourced information technology for competitive advantage. From an information technology point of view, that means that the company thoroughly analyses available technologies and options for how these are delivered to the business. A key contributor to the success of the organisation's IT strategy has been its decision to outsource substantial components of its infrastructure, data processing, systems development, security and storage capabilities. Since there is a shortage of technology skills in the country, the company believes it simply does not make sense for Edcon to develop expertise in-house. Their core focus is retail, so they look for partners that are experts in the field of IT so that the company can focus on an understanding of business principles that apply to their market and leave the technology in the hands of appropriately skilled suppliers. The company's ability to appoint appropriate expertise to take care of specialist functions is critical to achieve and sustain growth.<sup>11</sup>

## The big picture

In this chapter, we highlighted the relationship between various general management principles and strategic management. The background and information provided lay the foundation for the successful practising of strategy, which is the focus of the remainder of the book. Strategists need to have a thorough understanding of the crucial role that strategic management plays in any business organisation. Without strategic management, the organisation is doomed for failure, as we have seen in the LeisureNet case study. Furthermore, strategists need to have a thorough understanding of the management environment in which it operates. Competition in this environment is becoming more fierce, due to various factors such as globalisation and the use of technology to conduct business, to mention only a few. Therefore, the establishment of strategies that will ensure the sustainability and long-term survival of the organisation is crucial. The study of strategic management focuses on how organisations achieve this competitive advantage, in other words how they achieve superior performance and sustainability over the long term. In Chapter 2, we will introduce you to the practice of strategy.

## Summary of learning outcomes

LO 1: Explain the concepts 'manager' and 'management'

A manager as a person that is responsible for running a part of or an entire organisation. Management is defined as the process of working with and through others to achieve organisational objectives in a changing environment. To be successful, organisations need managers performing the management process.

**LO 2: Explain the management process, indicating the four characteristics thereof.**

The four characteristics of management are:

- (i) management is a process, consisting of four management functions namely planning, organising, leading and control;
- (ii) management entails working with and through others;
- (iii) management aims to contribute to the realisation of organisational goals and objectives, and in doing so management needs to balance effectiveness and efficiency and makes the most of limited and scarce resources; and
- (iv) management needs to cope with a changing environment.

**LO 3: Differentiate between the various levels of management.**

We differentiate between the top, middle and lower levels of management. Top managers are responsible for strategic planning, implementation and control for the organisation as a whole. Middle managers are responsible for specific departments or functions of the organisation.

Lower-level managers are responsible for even smaller segments of the organisation namely the various subsections.

**LO 4: Explain the various areas of management.**

Seven areas of management are distinguished, namely finance, operations, procurement, marketing, human resources, public relations and research and development.

**LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.**

The hierarchy of organisational plans consists of strategic, tactical, operational and individual plans. The strategic plan comprises seven elements, namely the vision, mission, SWOT analysis, core values, objectives and strategies of the organisation. Tactical plans focus on the functional areas of the organisation, whereas operational plans focus on subsections of the organisation, which may be single-use plans or standing plans. Individual plans are the translation of broader organisational plans into plans for the individual worker.

**LO 6: Explain the composition of the management environment.**

Structurally, the management environment can be divided into the micro-, market and remote environments. The micro-environment is the organisation itself over which management has control. It includes organisational functions, policies, strategies, goals, objectives, and resources. The market environment is also referred to as the competitive environment and consists of customers, suppliers, labour and labour unions, and competitors.

**LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.**

An organisation's stakeholders are the person or groups of people that have, or claim to have ownership, rights, or interests in an organisation and its activities, past, present and future. Organisations need to manage its relationship with all stakeholders.

**LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.**

When two or more organisations compete within the same industry, one possesses a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals. Sustainable competitive advantage refers to an organisation that has the ability to perform (or the potential to perform) better than its rivals over the long term. Organisations may have assets, attributes or abilities that are difficult to duplicate or exceed to lead to its competitive advantage. Competitive advantages are often short-lived and instead of building one advantage and defending it, a transient strategy focuses on innovation strategies that continually build new advantages. Organisations need to build up temporary or transient advantages where it seizes opportunities, exploit it, and then move quickly when it has exhausted the opportunity.

### **Discussion questions**

1. Provide an explanation of the terms ‘manager’ and ‘management’. Is there a difference between contemporaiy views of these terms, compared to more traditional views?
2. Explain the management process and highlight the most significant components of the process.
3. Discuss the various levels and areas of management and highlight the most important responsibilities of each level and area of management.
4. Explain the composition of the management environment and indicate the importance thereof in terms of strategic management.
5. Explain the hierarchy of organisational plans and highlight the most important plans pertaining to each level of the hierarchy.
6. Explain the term ‘stakeholder’ and defend the importance of stakeholder relationship management in organisations, as well as the important role that strategists play in this.
7. Differentiate between competitive advantage, sustainable competitive advantage and transient competitive advantage. Also, highlight the importance of these concepts in strategic management.

## Learning activities

Choose a company that has been listed on a stock exchange for more than ten years and do the following:

1. Analyse the annual reports of this company and identify vision; (ii) mission; (iii) strategy; (iv) company values; the following: (i) (v) strategic goals.
2. Identify the competitive advantages of the company.
3. Identify the major stakeholders of the company.
4. What, in your opinion, is the main reason why the company has been in business for so long? Substantiate your answer.

## Endnotes

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- <sup>7</sup> <http://www.businessdictionary.com/definition/competitive-advantage.html> (accessed 27 February 2018).
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- <sup>10</sup> See, 'Diversity creates global competitive advantage for South African Breweries', *Human Resource Management International Digest*, Vol. 10 Issue: 5, pp. 14-17 (2000), <https://doi.org/10.1108/09670730210792133>.
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# 2

# Introducing the practice of strategy

Peet Venter

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- L01: Explain the origins of strategic management.
- L02: Identify and explain the universal principles of strategic management.
- L03: Define strategy and explain its importance to the organisation.
- L04: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.
- L05: Explain how the success of strategy can be measured.
- L06: Discuss a contemporary strategic management framework.

## KEY WORDS

<b>Business architecture</b>	<b>Strategic planning</b>
<b>Competitive</b>	<b>Strategic thinking</b>
<b>advantage</b>	<b>Strategising</b>
<b>Dynamic consistency</b>	<b>Strategists</b>
<b>External consistency</b>	<b>Strategy formation</b>
<b>Organisational</b>	<b>Strategy implementation</b>
<b>sustainability</b>	<b>Strategy</b>
<b>Strategic control</b>	

## CHAPTER ORIENTATION

Organisations generally have an imperative to survive and to perform above the average - as we have indicated in Chapter 1. The study of strategic management focuses on how organisations achieve this competitive advantage, in other words, how they achieve superior performance and sustainability over the long term. However, as the case study on Elon Musk suggests, the role of people in influencing strategy in the organisation cannot be underestimated.

In this chapter, we review the origins of strategic management, identify and explain the universal principles of strategic management, define strategy, explain how the success of strategy can be measured, and describe a contemporary strategic management framework.

# Case study

## Elon Musk - Leading with Vision

In 2006, Elon Musk announced in a blog his 'master plan' for sustainable mass transport. This entailed:

- creating a low-volume<sup>1</sup> car, which would necessarily be expensive.
- using that money to develop a medium-volume car at a lower price.
- using that money to create an affordable, high-volume car.
- providing solar power.

As one of the most admired technology entrepreneurs in the world, South African-born Musk is known for his vision to rid the world of fossil fuels, and Tesla's electric vehicles and solar power technologies are ways of doing just that. Musk's plan unfolded over the last decade or so first with the development of the Tesla S, an expensive, high-performing sports car, and then the Tesla X and

Tesla Roadster.

Most recently, Tesla announced the Tesla 3, an affordable electric car, and with advance orders of more than 400,000 cars, it would seem as if the master plan is on track. In the meantime, Tesla also launched various products for residential and business solar energy production, such as the Powerwall battery system, solar panels and a 'solar roof', and their SolarCity business is now the second-largest solar provider in the US. In support of his businesses, Tesla built a Gigafactory (with Panasonic) for producing lithium-ion batteries for use in battery farms and electric cars.

**When pursuing of his vision for a sustainable planet, Musk does not hesitate in sharing his ideas and technologies freely and in thinking out of the box. He made Tesla Motors' patents available to the industry for free, and has explicitly open-sourced the Hyperloop<sup>2</sup> train concept so that others can take the ideas and further develop them. In addition, he is striving to make travel to Mars affordable with Space-X and to establish a space colony on Mars.**

Musk is often described as a transformational leader who has the following qualities:

- The capacity to think beyond what seems possible or viable today.
- The ability to make people believe in his vision, no matter how far-fetched it may seem.
- Leading by example - excellence is non-negotiable.
- A relentless (even obsessive) drive towards results - failure is not an option.

However, leaders like Musk are not always easy to work with. The amazing vision and drive that contribute to Musk's leadership style sometimes mean that 'an engineer might spend nine months working 100 hours a week on something because Musk pushed him to, and then out of nowhere, Musk will change his mind and scrap the project'.

In 2016, Musk updated his master plan to:

1. Create stunning solar roofs with seamlessly integrated battery storage.
2. Expand the electric vehicle product line to address all major [consumer] segments.
3. Develop a self-driving capability that is 10X safer than manual capability via massive fleet learning.
4. Enable your car to make money for you when you aren't using it.

With his track record up to this point, it would unwise to bet against him achieving exactly what he sets out to do.

Sources:

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LO 1: Explain the origins of strategic management.

## 2.1 The origins of strategic management

While strategy is an ancient concept,<sup>3</sup> strategic management, as we know it today, originated in the late 1970s following a move away from corporate planning to a more externally focused process. Strategic management was characterised by a focus on competition as the key driving force in the business environment and profit maximisation as the primary goal of the organisation. The process of strategic management accordingly focused on the selection of markets and on the positioning of the organisation in its chosen markets relative to its competitors as a source of competitive advantage (ie superior performance over the long term). Initially, the focus of strategic management was to determine how the organisation could tap into sources of profit in an industry by virtue of its industry positioning. For example, by creating clear differentiation from its competitors, organisations could be in a position to charge higher prices for the perceived higher quality. This view, with Michael Porter<sup>4</sup> as its main proponent (which we discussed in Chapter 1, Section 1.8), was predominant until the 1990s and is still prominent in strategy texts to this day.

In the 1990s, the resource-based view (RBV) emerged as the dominant perspective on how organisations could achieve a competitive advantage. In accordance with the RBV, an organisation's internal resources and capabilities were the most important sources of profit and competitive advantage. The focus of strategic management accordingly shifted to understanding how organisations differed from their competitors (in terms of what capabilities they possessed) and how these differences could be leveraged for competitive advantage.<sup>5</sup>

Our understanding of how organisations practise strategic management and how they develop competitive advantage and organisational sustainability (the ability of the organisation to survive and outperform rivals in the long run) is shaped by our

environment (which we discussed in Chapter 1, Section 1.6} and is constantly evolving. For example, in the aftermath of a string of corporate scandals internationally, as well as locally (such as Enron, Fidentia and the Steinhoff scandal), the global financial crisis of 2008 and 2009, and the current state of governance in South Africa (such as the widely publicised problems in many state-owned companies like Eskom, South African Airways (SAA) and the South African Broadcasting Corporation (SABC), there is a strong focus on responsible and ethical corporate behaviour (which we referred to in Chapter 1 as the ‘triple-bottom line’).

In this book, we emphasise the importance of the environment, and the resources and capabilities of the organisation. At the same time, we recognise that strategic management is a dynamic discipline and that its key influences and debates change over time. However, while our understanding of the focus of strategic management and competitive advantage has evolved, the strategic management process itself has not always enjoyed the same attention. In this book, we argue that the strategic management process is also a fluid and changing concept. While there are many different views on how strategic management should be done, there are certain common principles that underlie the various views of strategy and strategic management. In the next section, we review these common principles.

LO 2: Identify and explain the universal principles of strategic management.

## **2.2 The universal principles of strategic management**

Most lecturers involved in teaching strategic management have experienced a situation in which students complain that the way strategic management is taught is different from the way it actually happens in their organisations. This could be seen as a sign of the theory/practice divide, and as reflective of the complexity of strategic management. More recently, the study of strategic management started to catch up to the practice of strategic management. Despite this complexity, there are some principles that are common to all views of strategic management, and we discuss these principles below, by using the example of Discovery Bank as it illustrates the application of these principles.

## Practising strategy

### Discovery moves into retail banking<sup>6</sup>

Discovery is a large, listed, financial services institution operating through Discovery Health (DH), Discovery Life (DL), Discovery Invest (DI), short-term insurer Discovery Insure, and the very popular and successful Discovery Vitality (a wellness loyalty programme). In addition, it has operations in the USA, where it licenses Vitality for use by employers and other health insurers, and in the UK, where it operated two joint ventures (JVs) with the Prudential pic - PruHealth and Prulife. Its core purpose is 'to make people healthier, and enhance and protect their lives'. Discovery is generally known for its innovativeness. For example, they are credited with the invention of the medical savings plan used widely by medical schemes today.

In 2015, Discovery received authorisation from the Registrar of Banks to establish banking operations in South Africa, and launched its banking products in 2019. This is according to Discovery CEO Adrian Gore, who said they are deep into the preparation phase of the new bank. Gore said it is a complicated process to assemble the right team, build the systems to support the bank, and develop products which banking clients need. Despite the complications, he remains upbeat about the prospects of Discovery Bank - saying it is an exciting project.

'We need to meet the needs of our customers. I think we can. We have strong ideas and convictions about that. If we can do that, the market will tell us,' said Gore.

Gore said they had tremendous success with their joint venture with FNB on the Discovery Card, which provides them with a launchpad for full banking services.

'We've got the capital, we've hired bankers, we're building substantial systems. We want to make an offering that's relevant and can win market share,' said Gore.

Discovery has an advantage over the big four traditional banks, as it does not have to maintain a country-wide network of branches and ATMs. This means Discovery Bank's costs will be lower than its competitors.

### 2.2.1 Principle 1: Strategy is about positive change

Strategic management is ultimately about positive change for the organisation as a whole. Positive change includes achieving superior performance, creating competitive advantage, creating shareholder wealth above the average, meeting the needs of all stakeholders (you may refer back to Chapter 1, Section 1.5 where we differentiated between shareholders and stakeholders), or, in some instances, just surviving in difficult times. It is also worth noting that it is about change, and managing such change, and not about just doing things as they have always been done (ie 'business as usual'). For example, the decision by Discoveiy to launch Discovery Bank<sup>7</sup> reflects Discovery's view that they will be able to use their expertise in the financial services industry and their loyal customer base to compete successfully in the retail banking industry and to create value for the owners of the group.

### 2.2.2 Principle 2: Strategy takes a long-term view

Strategy is about taking a long-term view and ultimately focusing on wealth creation and sustainability over the long term, rather than on merely creating quick wins or short-term gains.

### 2.2.3 Principle 3: Strategy is complex

Strategy is highly complex and is associated with high levels of uncertainty and risk. There are no easy answers, no recipes for success, and it is highly situated, meaning that it is different for every context. In other words, strategic management is about making big decisions during situations of high uncertainty and having to consider many different variables. Should strategic decisions fail, there may be very severe negative consequences for the organisation, so the risk is enormous. Discovery worked for some years on establishing Discovery Bank, and invested a lot of time and money into getting the necessary approvals and license, appointing the right personnel and establishing infrastructure. Should the bank not perform as envisaged, it could mean that this capital investment was not justified, and Discovery could end up losing a great deal of money.

### 2.2.4 Principle 4: Strategy has an internal and external focus

Strategy is about mobilising resources and capabilities inside the organisation to pursue opportunities outside of the organisation, or to respond to negative risks simultaneously. This typically means that strategic decision-makers have to understand the resources and capabilities of the organisation, and how it needs to change over time to keep up with a changing and unpredictable external environment. In the case of Discovery Bank, the board of Discovery felt that their internal resources and capabilities (such as their loyal customer base, their Vitality loyalty programme, innovation capabilities and their experience in the insurance industry) would enable them to pursue the perceived external opportunity in the retail banking industry.

### 2.2.5 Principle 5: Strategy is both deliberate and emergent

Organisations have very important formal processes to create deliberate strategies. Deliberate strategies are those strategies that the organisation intends to pursue in order to achieve its long-term goals. Hence, we often consider strategy as something abstract, as something that an organisation possesses, for example, ‘the strategy of company X is cost leadership’. However, there is increasing recognition that strategising is also a human activity, something that people do in organisations every day. The acts and decisions of strategists may lead to an ‘emergent’ strategy that is different from what the organisation intended. Robert Grant suggests that strategy exists in three places: the heads of managers, in the talk and documents they produce,

and in their actions. Only the latter two are observable.<sup>8</sup> This perspective implies that, if we are to understand strategy and strategic management, we have to understand who the strategists are, and how and why they make decisions and do what they do rather than focusing only on strategy at an abstract level. In fact, the realised strategy may often end up being quite different from the intended strategy. People do not act like rational robots, but that their strategic acts (and, by implication, strategy) are fuelled by who and what they are, as well as by cognition (rationality) and politics, the quest for power. In the opening case study, it is clear that Elon Musk's way of doing things plays a considerable role in the success of Tesla.

While top managers undoubtedly play a key role in the success of strategic management, the emerging strategy perspective suggests that top managers alone are not the only strategists. Any individual or group in the organisation that controls key or precedent-setting actions<sup>9</sup> can be regarded as a strategist. Accordingly, we can extend our perspective of strategists to include non-executive directors, strategic planners, middle managers and consultants. Through their own interpretations of strategy, or their own actions, these role players can influence the allocation of resources. It is, therefore, important to consider their role. Certain methodologies and systems can also be used to facilitate strategising, for example, strategy workshops and projects.

### 2.2.6 Principle 6: Strategy involves various different thought processes

The process perspectives of strategy often present it as orderly, analytical, rational and neat, and also as deliberate - a path that is chosen and pursued efficiently. In fact, there is much evidence to the contrary. Strategy is often emergent rather than deliberate, messy rather than neat, and experimental and fraught with failure rather than efficient and effective from the start. So, while there are elements of the strategy process that are designed to be rational and cognitive (eg conducting strategy workshops), there are a myriad of social interactions inside and outside of the workplace that influence the activities and decisions of strategists. There are different thought processes at work in strategic management. In fact, strategy is often referred to as both an art and a science, suggesting that it incorporates both a rational, analytical element, as well as an element of creativity. In addition, there are often power issues at work in strategy, where individuals or groups compete for power. As alluded to earlier, strategy work is about verbal and written communication. Strategists need to be able to use persuasive language and arguments, and be able to build a coherent story of strategy from the snippets of conversation taking place all over the organisation.<sup>10</sup> In addition, documents such as strategic plans, operational plans and strategy presentations are important forms of discourse that can influence the strategy and strategic decision-making.

Since the term 'strategic thinking' is used so often, it is useful to consider what it means. Figure 2.1 is a comparison of some characteristics of strategic thinking with non-strategic thinking. Strategic thinking is typically focused on the future and represents a certain willingness to take calculated risks. Strategic thinkers are also generally more creative, flexible and pro-active than non-strategic thinkers.

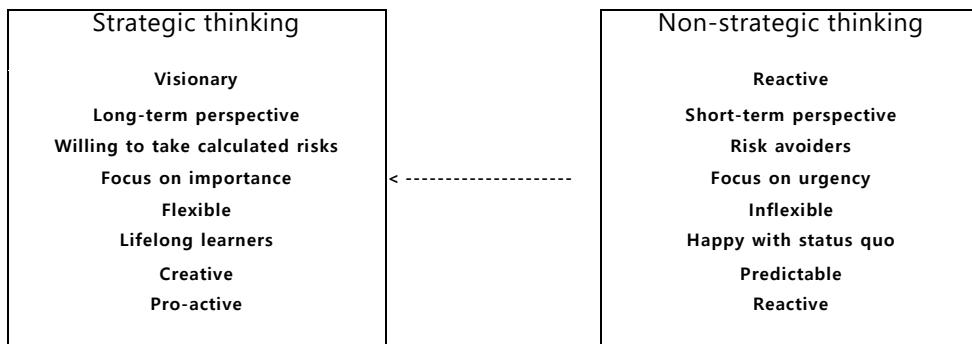


Figure 2.1 *Strategic versus non-strategic thinking*

### 2.2.7 Principle 7: Strategy happens at different hierarchical levels

In large multi-business organisations, strategic management and decision-making takes place at different levels. Table 2.1 compares strategic management and decision-making on corporate, business and functional levels of an organisation in terms of (1) where the decision-making takes place, (2) the scope of the decision, (3) the responsible people, and (4) the goals thereof. At the highest level, decisions about the growth path of the organisation are made by the board of directors or other governing bodies. This level of strategy is known as corporate-level strategy and the focus is on creating stakeholder value. It is at this level that decisions are made about the scope of the organisation, for example, mergers, acquisitions, divestments and globalisation. The decision by Discovery to enter the banking industry is an example of a corporate strategic decision.

Business-level strategy takes place at the level of the single business or business unit (eg a subsidiary) and the goal is for it to achieve competitive advantage within the markets in which it is competing. It supports corporate-level strategy by ensuring that it is successful in its markets, and draws on the corporate centre to provide it with the means to compete successfully. Business unit managers are responsible for attaining the overall goal of the organisation. In the case of Discovery Bank, the company will hope that with access to their existing customer base, corporate capabilities and Discovery's Vitality loyalty programme, it will be able to compete successfully in the banking industry.

Functional strategies, such as human resource or marketing strategies, are developed by functional managers to execute the business unit strategies developed by business unit managers, and to support the implementation of business strategies. For example, in setting up Discovery Bank, the human resource strategy in hiring the right talent to staff the bank is going to be crucial to its success.

Table 2.1 *Strategic management and decision-making at various hierarchical levels*

	Corporate-level strategy	Business-level strategy	Functional-level strategy
Where	Corporate centre	Business unit	Functional management
Scope	The multi-business corporation	Markets in which it is competing	Functional area (eg marketing)
Who is responsible	Board of directors	Business unit manager	Functional manager
Goal	Stakeholder value	Competitive advantage	Executing business unit strategy

Bidvest provides us with an example of the different levels of strategy that can be found in multi-business organisations.

## Practising strategy: Bidvest's corporate strategy<sup>11</sup>

Bidvest is a South African corporation that focuses on using diversification and innovation to grow their portfolio of successful, cash-generating businesses in consumer and industrial products, electrical products, financial services, freight management, office and print solutions, outsourced hard and soft services, travel and aviation services and automotive retailing.

The company uses acquisitions to invest in a blend of defensive, cyclical and growth assets; they prefer businesses that generate cash and are not heavily invested in assets, and are aiming to internationalise in certain niche markets in services and commercial products.

The company is aiming to establish dominant positions in each of the markets they operate in with broad product offerings. Bidvest prides itself on having a highly entrepreneurial and decentralised management and operations, and a strong record of efficient capital allocation to the businesses they own.

In contrast to the Bidvest head office, where corporate strategies are identified and decisions are made in terms of the scope of the organisation, the role of Bidvest businesses is to ensure that they compete successfully in their industries. Bidvest's business goal is to achieve competitive advantage in its various markets. Within each business unit, functional managers need to execute business unit strategies so that they can compete successfully in its market. For example, Bidvest Car Rental must have business level strategies and functional strategies to ensure that they compete successfully against other car rental companies.

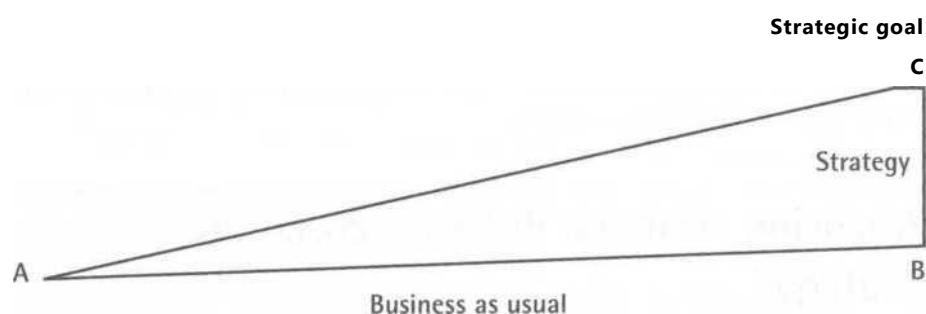
**LO 3: Define strategy and explain its importance to the organisation.**

## 2.3 Defining strategy

In this section, we consider some key aspects and describe what we mean by strategy, as seen from our perspective.

### 2.3.1 What does it mean to be 'strategic'?

Not all actions and decisions in an organisation can be considered 'strategic'.



**Figure 2.2** Strategy versus business as usual<sup>12</sup>

Consider Figure 2.2. If we take point A as where we are today, and we carry on doing what we are doing (ie business as usual) and we are somewhat lucky, we may end up at point B, in a slightly better position than we are today and perhaps, if we are very lucky, in a position where we are better off than our competitors. It is also quite possible that we will end up in exactly the same or even in a worse position than where we are today. However, we can set ourselves a long-term strategic goal (point C) that, if achieved, will take us considerably beyond where we are today and possibly even beyond our competitors - in other words, it will give us a competitive advantage that will lead to long-term survival. The difference between point B and point C is 'strategy'; those actions that will help us achieve our strategic goals. Strategic goals are also known as long-term or strategic objectives. Being 'strategic' thus involves the following:

- It is not 'business as usual' - we cannot simply keep doing what we have been doing for years and years and describe it as 'strategic'.
- It reaches across all business functions, that is, it is an organisation-wide issue, and across all managerial levels.
- It is not a quick fix or a small change. It requires a large, sustained change effort over a long period of time.
- It requires a large commitment of resources - it is not cheap or easy.

- While it may not be the domain of top management only, and it may be influenced by many other people, top management is ultimately responsible for achieving strategic goals (or for failing to achieve them) as we indicated in Chapter 1, Section 1.3.

### 2.3.2 The importance of strategy

Strategy is a coherent story about the future direction of the organisation. It provides members of the organisation with a framework to guide decision-making processes.

The strategic management process should combine the views and thinking of many members of the organisation and communicates the outcome back to the organisation so that everyone follows the same strategy.

Strategy is, in a sense, the verbalisation of the organisation's aspirations and accordingly provides an inspirational element that may be far removed from the realities of the present. In this sense, a good strategy can inspire, unite and motivate members of the organisation.

### 2.3.3 Defining strategy

Strategy has been described variously as the long-term direction of the organisation, a pattern in a stream of decisions,<sup>13</sup> the means by which organisations achieve their objectives and the deliberate choice of a set of activities to achieve competitive advantage.<sup>14</sup> These definitions make provision for both deliberate choices and for unplanned and emerging strategies. However, if we accept the idea that strategy is a conversation, we can imagine that strategy is shaped by ongoing discussions about the future of the organisation, and that strategy may simply be a believable story about the future of the organisation. What all of these definitions have in common is the notion of a direction for the future, whether it is a 'pattern' that can be recognised from the activities and decisions of the organisation, a deliberate choice of a set of activities, or the steps taken to achieve strategic goals.

Building on these definitions, and accepting that strategy is primarily a human activity, we define strategy in this book as the *direction provided by the actions and decisions of strategists in pursuit of organisational goals*.

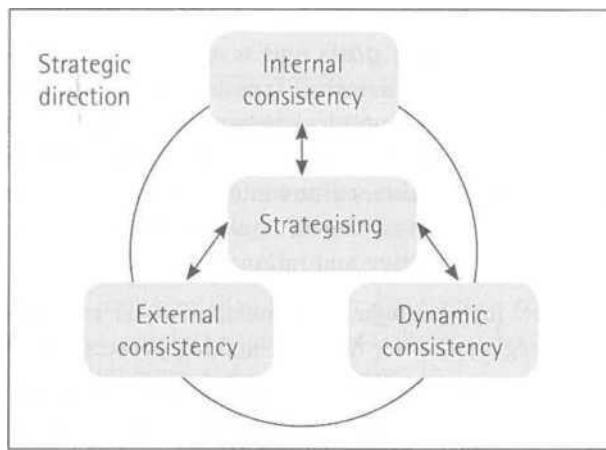
### 2.3.4 Defining strategic management

Traditionally, strategic management has been defined as setting strategic direction, setting goals, crafting a strategy, implementing and executing the strategy, and then over time and through a controlling process, initiating whatever corrective adjustments and corrections are deemed appropriate. However, more recent views have suggested that strategy is not this sequential and discrete, but is somewhat messier, overlapping and iterative. Independent of the process followed to develop **and** manage strategy, the purpose of strategic management is to ensure that the organisation applies the following four key elements:

1. Clear and consistent long-term strategic direction in terms of what the organisation wants to achieve in the future.
2. A profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible.
3. An objective knowledge of the key resources and capabilities the organisation possesses, as well as its value to enable the organisation to build on these and develop a distinct competitive advantage.
4. The proper alignment of organisational structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives.

Strategic management is ultimately about consistently aligning the organisation with its internal and external environments, as shown in Figure 2.3. In this figure, *strategic direction* refers to the long-term goals of the organisation which can be expressed as, for example, vision and mission statements. It relates to the key elements against which all strategic decisions should be measured.

- External consistency refers to the extent to which the organisation's strategy is aligned with the opportunities and threats in the external environment (refer to the components of the external environment explained in Chapter 1, Section 1.6). Significant changes in the external environment will most likely require some changes in strategy.
- Dynamic consistency measures the extent to which the strategy of the organisation is consistent with the key resources and capabilities of the organisation in its micro-environment (refer to the components of the internal environment explained in Chapter 1, Section 1.6). In other words, is the organisation making the best possible use of its resources and capabilities to benefit from opportunities and to avoid having to deal with threats.
- Internal consistency addresses the extent to which the organisational architecture (such as structure, systems, human resources, technology and processes) are aligned with the strategy. It also considers whether planning at lower levels of management in the organisation is broadly aligned with strategy. In this view of strategic management, strategising can be seen as the efforts of strategists to ensure consistency on all three levels of management and within the boundaries of the strategic goals of the organisation. Strategising will require strategic decisions to be made, and this is the focus of the next section.



**Figure 2.3** Successful strategic management: striving for consistency

LO 4: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.

## 2.4 Strategic decisions

Strategic decisions that strategists need to make are influenced by two factors, cognitive and rational aspects, as well as political processes. These are explained below.

- Cognitive and rational aspects. The term ‘cognitive functioning’ refers to an individual’s ability to perform various mental activities associated with learning, problem-solving and decision-making. Strategists, as important problem-solvers and decision-makers in an organisation, should adopt a logical approach and try to be as objective as possible when they are solving problems and making decisions. When making decisions, strategists could consider two primary decision-making models, namely the rational and the bounded-rationality model. In the case of the rational model, the strategist should select the best possible solution to the problem - known as optimising. However, while the rational view is strongly emphasised in the prevailing views of strategy, it has been recognised that managers are generally restricted by their own information- processing capabilities, which brings us to the second decision-making model, namely ‘bounded rationality’. This refers to a situation in which strategists use satisficing and select the first possible solution to a problem that meets the minimal criteria. Strategists should know which model to use and when. They should optimise - apply the rational model - when making high-risk decisions in conditions of uncertainty. When they are making low-risk decisions, they should select the first option that meets the minimal criteria.<sup>14</sup>

- 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. This is known as political behaviour in organisations. Strategists are ultimately, like all human beings, social and political beings, influenced by their backgrounds (eg education, culture and religion) and personalities in their quest for status and power. It is, therefore, almost impossible to expect strategic decisions to be entirely objective and rational.

In environments where fast strategic decision-making is required, the following guidelines can aid strategists in their decision-making processes:<sup>15</sup>

- Developing more than one alternative course of action or solution to a problem. This will help minimise the influence of politicking. Strategy simulations can be used to improve the strategists' abilities to generate and evaluate alternatives more quickly.
- Getting real-time information. Instead of waiting for formal reports, fast decision makers obtain the information they need from operational data and by informal discussions with other managers and members of the organisation.
- Relying on experience and trusted advisers. This entails not depending on junior managers and consultants for analyses, but developing a network of trusted and proven advisors.
- Trying to reach consensus, but not at all costs. There will be occasions when there is simply not enough time to establish consensus, and the majority should, at some point, make a decision.

In strategic decision-making, it is sometimes important to remember that it is ‘better to be vaguely right than exactly wrong’,<sup>16</sup> meaning that the time and cost associated with more accurate information will not always be of equal benefit in the decisionmaking process. In the next section, we will consider the question of how the success of strategy can be measured.

LO 5: Explain how the success of strategy can be measured.

## 2.5 How do we measure the success of strategy?

Competitive advantage and sustainability are often mentioned in the same context. However, the measure of strategic success is not always a simple matter. On the one hand, there are proponents of shareholder capitalism, who suggest that the creation of shareholder wealth through profitability is and should remain the only measure of strategic success. However, shareholder capitalism and the drive for ‘profit at all cost’ were heavily implicated as a leading cause of the 2008-2009 global economic crisis, with detractors suggesting that an excessive focus on profits (and especially shortterm profits) was not sustainable.

On the other hand, the *stakeholder approach* (explained in Chapter 1, Section 1.7) requires a focus on balancing the often-conflicting needs of multiple stakeholders such as employees, shareholders, the environment and local communities. While we increasingly see large corporations embracing the concept and reporting, not only on their financial results, but also on their social and environmental contributions (so-called ‘triple-bottom line’ reporting), the stakeholder approach is criticised for vastly increasing the complexity of strategic decision-making and diluting the strategic goals of the organisation.

Michael Jensen proposes that the two approaches should meet somewhere in the middle, and that ultimately enlightened shareholder value maximisation is exactly the same as enlightened stakeholder theory.<sup>17</sup>

LO 6: Discuss a contemporary strategic management framework.

## 2.6 A contemporary strategic management framework

Although we acknowledge the contribution of traditional strategic management perspectives to our understanding of this important field, we also acknowledge that we need to incorporate newer thinking in our perspective of strategic management. To this end, we have devised the contemporary framework of strategic management (Figure 2.4) which serves as the framework for this book. This model, and the outline of the book are discussed in more detail below.

In Section 2.2, we identified various universal principles of strategic management. One of these principles was that strategy is both deliberate and emergent (as indicated in Section 2.2.5). From a deliberate strategy perspective, strategy drives organisational architecture and it is the job of managers responsible for implementing strategy to ensure that the elements of organisational architecture (such as structure and culture) are aligned with the chosen strategy. From an emergent strategy perspective, we argue that organisational architecture is so influential that it affects strategy formation profoundly. In our view, there is constant tension between strategy formation and organisational architecture, and this is depicted in Figure 2.4. We can think of this as a tug of war between strategy formation and organisational architecture. Sometimes, the strategy formation process is going to dominate and the architecture is going to follow. For example, Discovery’s decision to invest in retail banking, requires them to make the necessary changes to ensure that their organisational architecture is aligned with the new direction of the organisation. At other times, the organisational architecture might lead and the strategy might follow. In the case of the South African Post Office, for example (see the practising strategy box below), we could argue that their existing national branch infrastructure, capabilities, and especially the tenacious efforts of CEO Mark Barnes, have a lot <sup>more</sup><sup>10</sup> with their bid to take on the Sassa business than it being a deliberate predetermined strategy.

## **Practising strategy: Sassa and Post Office secure social grants deal<sup>8</sup>**

The South African Social Security Agency (Sassa) and the South African Post Office (Sapo) have reached a 'landmark' agreement to ensure social grant beneficiaries continue to receive their payments after Sassa's contract with Cash Paymaster Services (CPS) ends on 31 March 2018, Minister in the Presidency Jeff Radebe announced on Sunday morning.

In a setback to the ambitions of Sapo CEO Mark Barnes, who had hoped Sapo's Postbank would be the sole service provider, it is to be just one of four payment channels available to social grant recipients. The hybrid model the parties agreed to will also enable beneficiaries to receive their monthly payments via bank accounts at commercial banks, merchants in large retail shops, and a 'second tier' of merchants that includes village banks, general dealers, small retail outlets, and spaza shops. The hybrid model will be phased in over five years.

Sapo would provide cash disbursements through its branch network, particularly in locations close enough to replace existing cash pay points, he said. At present 2.9 million, a little less than a third (29%) of all grant beneficiaries, receive cash payments.

### **2.6.1 Strategy formation**

In this book, we use the term strategy formation deliberately. Most textbooks refer to the formal process of developing a strategy as strategy formulation. However, as we take both the formal and informal elements of strategy development into account, strategy formation is a more accurate term. Strategy formation consists of three elements, namely, process, context and content.

- Process. In the first place, there are a number of processes that can be both formal and informal, involved in the development of develop strategy. They relate to the question 'how' strategy develops in the organisation, and is the focus of Chapter 3. We also examine strategists and strategising in more detail in this section (and Chapter 4), as the practices and communication of strategists at all levels ('strategising') influence how strategy is formed. Strategising can contribute towards both strategy formation and the shaping of organisational architecture. For example, middle managers, in their interactions with customers, may realise that there is an opportunity to expand the product range of the organisation and canvas top managers to affect it. Or, regional managers may realise that there is a problem with the structure of the organisation and how it supports the strategy, and may influence role-players to make the required changes.

- Context. Strategy is always context-bound. In other words, it takes place in a certain internal and external context, and this provides us with the ‘why’ of strategy. For example, a business in Botswana has to contend with the global context, the continental context, regional issues, country issues, the industry it is competing in, and with what is happening within the organisation. This external context and the risks it presents will be explored in more depth in Chapter 5, while the internal context and the strategic resources and capabilities of the organisation will be the focus of Chapter 6.
- Content. The content of strategy refers to the actual development of strategies (the ‘what’, in other words) to compete in industries and to create shareholder value, and we will examine this aspect in more depth in Chapter 7.

### 2.6.2 Strategy implementation

Strategy implementation consists of three important elements, namely change management, organisational learning, and resource allocation.

- Change management. The alignment of organisational architecture with strategy formation does not happen naturally, and the organisation has to put in place formal processes to manage the large-scale change associated with strategy. This aspect is explored in Chapter 8.
- Organisational learning. This relates to the less formal processes of organisational learning to recognise and respond to the need for change is discussed in Chapter 9.
- Resource allocation. The allocation of resources to portfolio, programmes, projects and organisational structures responsible for giving effect to strategy is the topic of Chapter 10.

### 2.6.3 Strategic control

Continuous environmental scanning (both formal and informal) helps to ensure monitoring and control processes. On the one hand, environmental scanning<sup>18</sup> and control need to ensure that the planned strategy is on track and to alert key decisionmakers if interventions are required. This is represented by the arrow from left to right. On the other hand, leaders, strategists and other role-players in the organisation (eg market intelligence experts) may pick up signals from the environment that could affect the strategy formation process. This is represented by the arrow from right to left. This aspect is examined in more depth in Chapter 14.

### 2.6.4 Organisational architecture

Organisational architecture is a management tool that is used to describe the workings of an organisation, especially with regard to the alignment of strategy and the organisation.<sup>19</sup> It is a model of the organisation that can be shared by everyone involved in managing change and aligning strategy with structure. There are many

different perspectives on organisational architecture and what it comprises, but for purposes of this book, we have focused on the four main elements, namely culture, leadership and governance, structure, and resources and capabilities.

- Culture. Peter Drucker once said that ‘culture eats strategy for breakfast’.<sup>20</sup> This observation suggests that culture is so powerful that no plan will work if it is counter to the culture of the organisation. In Chapter 11, we focus on organisational culture and its vital role in aligning strategy and organisational architecture.
- Leadership and governance. Chapter 12 deals with the closely related issue of leadership and its role in strategy implementation and governance.
- Structure. The structure of the organisation refers to the physical manifestation of the organisation in terms of geographical distribution, positions, reporting and communication lines, and so on. The role of structure in the alignment of structure and strategy is the topic of Chapter 13.

### Resources and capabilities

The success of organisations is dependent on them possessing unique strategic resources and valuable capabilities that form the foundation upon which the organisations are built and can grow. The role of resources and capabilities in the alignment of structure and strategy is the topic of Chapter 5.

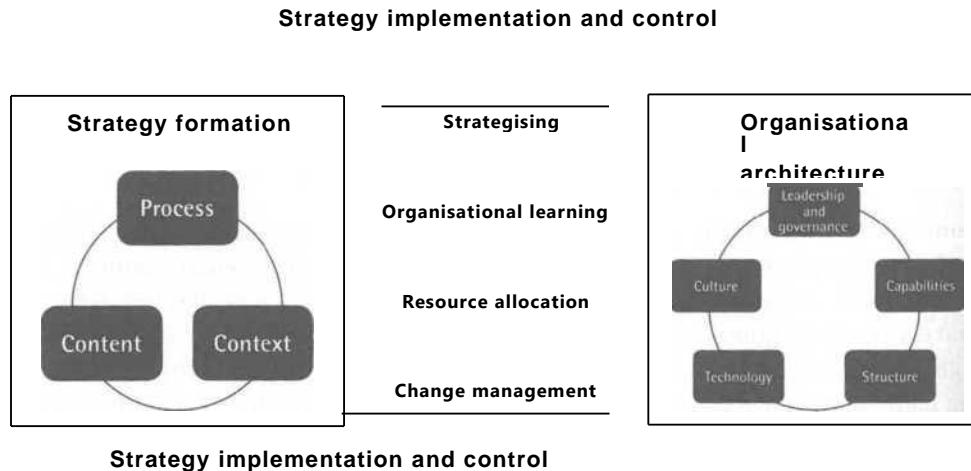


Figure 2.4 *An integrated framework of strategic management*<sup>21</sup>

## The big picture

In this chapter, we proposed that strategy is generally a messier process with more participants than conventional perspectives of strategy, as a formal process, would suggest. In developing our perspective, we suggested that a variety of strategists contribute, through their strategising activities, to ensure that the organisation is continually aligned (through its strategic choices) with its external and internal environment. In examining strategy, we also adopted the perspective that the context of Africa is a critical influence on strategising and strategy, and suggested that organisational sustainability (the ability to sustain resources and the uses thereof) is a key goal of any organisation. Table 2.2 is a summary comparison of the conventional approach to strategic management and our approach in this book.

## Summary of learning outcomes

### **LO 1: Explain the origins of strategic management.**

In Section 2.1, we discussed the evolution of strategy as a military concept to the notion of strategic management as a concept utilised by modern businesses in the pursuit of competitive advantage.

### **LO 2: Identify and explain the universal principles of strategic management**

While there may be many different perspectives of what strategy is, Section 2.2 introduces seven principles of strategic management that most academics and practitioners of strategic management agree on.

### **LO 3: Define strategy and explain its importance to the organisation.**

In Sections 2.3.1 through 2.3.4, we explain what it means to be strategic, and develop definitions for ‘strategy’ and ‘strategic management’. We also explore the importance of strategy and the organisation’s strategic management.

### **LO 4: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.**

Strategic decisions are complex and there are no clear ‘right’ answers. In Section 2.4, we outline the rational and cognitive aspects, as well as the political aspects of strategic decisions, and provide guidelines for ‘good’ strategic decision-making.

### **LO 5: Explain how the success of strategy can be measured.**

The business world is filled with examples of the negative effects of pursuing shortterm profits above all else. In Section 2.5, we explain that strategy should always be <sup>a</sup> out the long term and creating value for stakeholders (ie sustainability), rather than out short-term profits.

**LO 6: Discuss a contemporary strategic management framework.**

In Section 2.6, we introduce the idea of an integrated framework for strategic management, which also serves as an outline for this book. The framework suggests that strategic management is ultimately about finding a balance between the processes of strategy formation and organisational architecture.

Table 2.2 *A comparison of a conventional approach to strategic management and our approach*

	Conventional strategic management	Our approach
Central focus	Understanding how organisations develop and maintain competitive advantage	Understanding what strategists do to achieve and maintain competitive advantage
View of strategy	Abstract - a characteristic of the organisation	The strategic acts, talk and documents that strategists produce
Responsibility	Top management formulates, middle management implements	A wide range of strategists is involved and influence the process
Process	Logical and rational	Messy, experimental and iterative
Process flow	Thinking before doing	No clear separation between thinking and doing
Key influences	Cognition, micro-economic	Cognition and politics, micro-economics and sociology
Goal	Competitive advantage and sustainability	Competitive advantage and sustainability

## Discussion questions

1. Explain the origins of strategic management.
2. Identify and explain the universal principles of strategic management.
3. Explain the difference between ‘strategy’ and ‘strategic management’.
4. Describe what ‘strategic’ means.
5. List the characteristics of strategic decisions.
6. What guidelines would you give to strategic decision-makers to improve strategic decision-making in their organisations?
7. Explain what success means in strategic terms.
8. Differentiate between corporate and business level strategy.

8. Explain what is meant by internal consistency, external consistency and dynamic consistency.
9. Would you describe the decision by Discovery to open Discovery Bank as a strategic decision? Substantiate your answer. (See <https://mybroadband.co.za/news/banking/200968-new-discovery-bank-on-track.html> for more information on the decision.)
10. Explain the contemporary framework of strategic management to your colleagues (or fellow students) with the help of practical examples.

## Learning activities

1. Interview a manager in your organisation, or any organisation of your choice. Determine whether the organisation follows a deliberate approach to strategic management or an emergent approach (or perhaps a little bit of both).
2. Visit the website <http://www.managementexchange.com/blog/gary-hamel-are-you-really-serious-about-innovation> and watch the video 'Are you really serious about innovation?' by Gary Hamel. After watching it, what is your view on the role of innovation in strategic management?

## Endnotes

- <sup>1</sup> 'Low volume' in this case means high prices, and low sales volumes (such as the very expensive Tesla S).
- <sup>2</sup> For more background on the Hyperloop train concept, see <https://www.youtube.com/watch?v=7A7GsAPR3J0>.
- <sup>3</sup> *The Art of War* by Sun Tzu (written about 500bc) is widely regarded as one of the first known works on strategy.
- <sup>4</sup> Porter, M. 1998. *Competitive advantage: creating and sustaining superior performance*. New York, NY: The Free Press.
- <sup>5</sup> Grant, R.M. 2013. *Contemporary strategy analysis*, 8th ed. West Sussex: Blackwell.
- <sup>6</sup> For more background, see MyBroadband (online). 2 March 2017. New Discovery Bank on track. Available at: <https://mybroadband.co.za/news/banking/200968-new-discovery-bank-on-track.html> (accessed 19 July 2017).
- <sup>7</sup> Ibid.
- <sup>8</sup> Grant (2013: 17-18).
- <sup>9</sup> Mintzberg, H., Lampel, J., Quinn, J.B. & Ghoshal, S. 2003. *The strategy process*, global 4th ed. Upper Saddle River, N.J.: Prentice Hall.
- <sup>10</sup> Johnson, G., Whittington, R. & Scholes, K. 2011. *Exploring strategy: text and cases*, 9th ed. Essex: Pearson Education, p. 517.
- <sup>11</sup> Compiled from information available on <https://www.bidvest.co.za/about.php>.
- <sup>12</sup> Brevis, I. & Vrba M.J. 2014. *Contemporary management principles*. Cape Town: Juta, p. 266.
- <sup>13</sup> Mintzberg et al. (2003).
- <sup>14</sup> Porter (1998).  
Adapted from Eisenhardt, K.M. 1990. 'Speed and strategic choice: how managers accelerate decision making'. *California Management Review*, 32(3): 39-54.

<sup>16</sup> A quote by British philosopher Carveth Read, often wrongly attributed to economist John Maynard Keynes.

<sup>17</sup> Grant (2013: 37).

<sup>18</sup> Adapted from: Tamar Kahn. SASSA and Post Office secure social grants deal. Business Day Live (online). Available at: <https://www.businesslive.co.za/bd/national/2017-12-10-sassa-and-post-office-secure-social-grants-deal/> (accessed 13 February 2018).

<sup>19</sup> Lee, G.J, Venter, R. & Bates, B. 2004: 'Enterprise-based HIV/AIDS Strategies: Integration through Organisational Architecture.' *South African Journal of Business Management*, 35(3): 13-22.

<sup>20</sup> This famous quotation is generally attributed to the late business management guru Peter Drucker.

<sup>21</sup> Adapted from a framework developed by Prof Peet Venter for the module 'Managing Strategic Change, a core module of the Masters of Business Leadership (MBL)' at UNISA.

# 3

# A process perspective of strategic management

Annemarie Davis

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

LO1: Explain the process perspective of strategic management.

LO 2: Criticise the process perspective of strategic management.

LO 3: Identify and explain the management levels involved in strategic management.

LO 4: Explain strategy strategic planning and recognise the strategic direction and environmental analysis in organisations.

LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.

LO 6: Explain strategy review and control and identify the main strategic control mechanisms in organisations.

## KEY WORDS

- Process perspective of strategic management
- Management levels
- Strategic management
- Vision (or vision statement)
- Mission (or mission statement)
- Strategy planning
- Strategy implementation
- Strategic control
- Balanced Scorecard
- Strategic goals

## CHAPTER ORIENTATION

In Chapter 2, we explained that the aim of strategic management is to ensure that an organisation achieves competitive advantage, and sustains its competitive advantage over competitors. Strategic management helps organisations to achieve superior performance and sustainability over the long term. Although there are many different approaches to strategic management, the ultimate aim of any strategic management activity is survival and long-term goal achievement in a changing environment. However, strategic

management is not only aimed at improving the long-term survival of profit-oriented organisations, but it also adds value to non-profit organisations, public organisations, governments, sport societies and schools. In fact, the principles of strategic management are such that it can help and guide any organisation, institution and individual towards achieving their goals despite changes in the environment.

The case study describes Capitec's success in the banking industry. The basis of Capitec's success is its commitment to its medium- and long-term strategy. The case study also highlights the fact that a clear understanding of the needs of the market informed Capitec's efforts to offer simplified and affordable banking products. The Capitec strategies are formulated through a deliberate process to evaluate strategic options in terms of the business context in which it finds itself, which is the focus of this chapter.

The process to formulate strategies can take many forms and involves the entire organisation on various levels. Table 2.1 in Chapter 2 depicted the levels of strategic decision-making and indicated the three levels of strategy (corporate level, business level and functional level). For the most part, all organisations will have strategies on each level and the implementation of these strategies cascades throughout. Yet, the approach followed is unique to each organisation and there may be vast differences between, for example, Capitec's approach and that of the Absa Banking Group. In addition, the approach followed by a small business may be entirely different from the approach followed by a large business which has clearly defined business levels and business units. What is, however, found to be common among the different approaches to formulating strategies is the involvement of senior management, a focus on the long term and a commitment to the entire organisation (and not only a business unit, department or section within). It is necessary to note here that the process of formulating strategies entails much more than strategic breakaways and glossy integrated reports. It is also entirely possible that some organisations have all their strategies written down and documented while others have a less formal approach. The process of formulating strategies leads to actions to implement the strategies and deliberate attempts to monitor their progress.

Strategic management and the processes associated with strategising are not new concepts. Strategic management has been part of every organisation, albeit in a deliberate and formal approach, or an emergent adaption to survive in a changing environment. The original approaches to strategic management were grounded in business policies and planning approaches. Strategic management then evolved into a process consisting of definite stages or phases. Later, and most recently, strategic management is considered from a practice

This chapter focuses on the process perspective of strategic management, which can be described as a formal, rational approach to developing deliberate strategies for achieving strategic competitiveness and competitive advantage. It is part of strategy formation, as illustrated in Figure 3.1, focusing on the *content* part of strategy formation. The discussions in this chapter will commence with an explanation of the process perspective of strategic management, followed by an explanation of the new competitive realities and criticisms of the process perspective. The management levels involved in strategic management will then be addressed. Thereafter, each of the phases in the process perspective of strategic management will be explained with practical examples illustrating these phases.

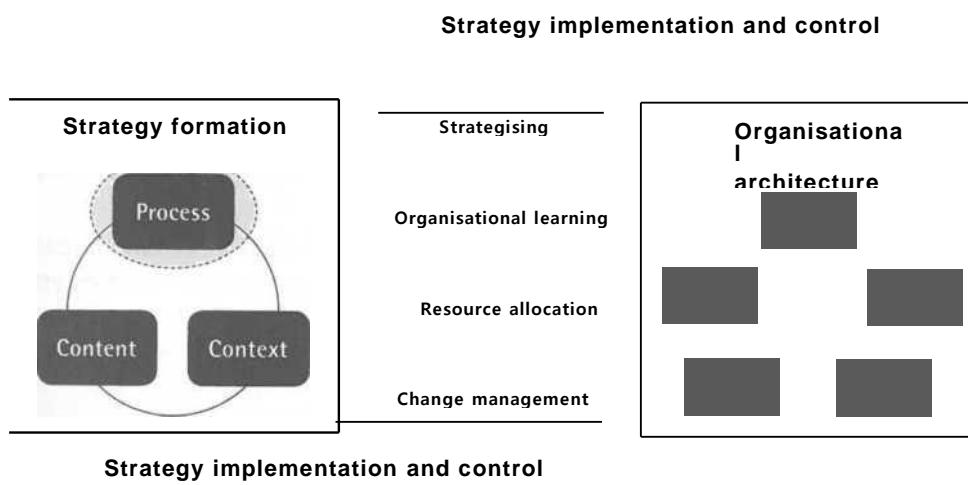


Figure 3.1 *Strategic Management as a process*

## Case study

### Capitec - no longer just a *new kid on the block*

The four major South African banks, Standard Bank, Absa Bank, FirstRand Bank and Nedbank, share about 80 per cent of the market. The remainder of the market belongs to a combination of other role-players in the industry. According to the South African Banking Sector Overview, the SA banking industry consists of 17 registered banks, two mutual banks, 14 local branches of foreign banks, two co-operative banks and 43 foreign banks with approved local representative offices.<sup>1</sup> When one looks at the latest full-year data from the retail banks, the battle to be the biggest is fierce between FirstRand and Standard Bank. What is exciting to see is the growth of Capitec. Out of nowhere in 2001, Capitec emerged with a dream to provide low-cost financial services to low-income groups. From a humble beginning, Capitec moved in and, 15 years later, celebrated an increase in headline earnings of 18 per cent to R3.8 billion for the 2016 financial year. These earnings represented a record growth of 1.3 million with 8.6 million active clients.<sup>2</sup> During March 2017, Capitec revealed that it was adding 120,000 new banking clients each month!<sup>3</sup> In terms of the customer base, Capitec secured more than 15 per cent of the customers in the South African banking sector.

What is the secret to Capitec's success? How did it move from being the new kid on the block to becoming a noticeable presence and a real threat to the big four banks in South Africa?

According to the 2016 South African Customer Satisfaction Index (Saci) report, Capitec outcompeted all the other banks in terms of customer satisfaction - for three years in a row.<sup>4</sup> Capitec changed the game of banking by offering a simplified and affordable product - built on set fees and a single account over the often-complex calculations and bundled product offerings from competing groups.<sup>5</sup>

Capitec is led by its CEO, Gerrie Fourie, who confirms that the bank will continue its focus on the fundamentals of delivering simplified banking that is affordable and easy to access through personal service.

*This resonates with most South Africans and is what sets us apart, especially in the current tough economic climate, giving clients a sense of value and allowing them to feel in control of their money. Through strong marketing communications, a focus on client service and positive word of mouth, the Capitec brand has grown in stature, with South Africans from all walks of life accepting Capitec as their first choice bank.<sup>6</sup>*

Overall, Capitec is committed to sustainable profit. This is achieved through the right strategy, focused leadership, a healthy corporate culture based on strong values and responding to stakeholders' needs. Capitec's strategies are built on providing a unique service, enhancing the product offering, growing the client numbers, increasing transaction income, managing costs of credit to clients, and responsible risk management. These strategies are crafted over the short to medium term (one to five years) without losing focus on the long term (more than five years). The long-term view is to become

a preferred global retail bank enabled through virtual banking. The foundation of Capitec's success includes its competitive culture and its ability to achieve results through operational excellence and teamwork. These are key ingredients in Capitec's growth and its success in executing an innovative strategy.

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LO 1: Explain the process perspective of strategic management.

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### 3.1 A process perspective of strategic management

The traditional view of strategic management is that it is a process with distinct stages or phases. The approach adopted in this book is that strategic management is a complex and dynamic discipline and that a static, linear process does not consider the complexity or the environment in which the organisation operates (refer to the contemporary strategic management framework provided in Chapter 2, Figure 2.4). However, an understanding of the process perspective of strategic management is a valuable starting point and offers a sound theoretical foundation from which to work. The three stages of the process perspective are depicted in Figure 3.2.

This is the first stage of the strategic management process. This stage is a conceptual process that consists of environmental analyses and the development of strategies.

1

#### Strategic implementation

This is the second stage of the strategic management process and is referred to as the action phase. All staff in the organisation are tasked with implementing the strategies.

2

#### Strategic control

This is the third stage of the strategic management process and is also referred to as the review or monitoring phase. The strategy review phase is aimed at monitoring progress and providing feedback.

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Figure 3.2 *The process perspective of strategic management*

The strategy planning stage is often also referred to as strategy crafting. The strategy implementation stage is also referred to as strategy execution and strategic control is also referred to as the strategy review stage or strategy review and control stage.

It is important to realise that strategic management is a continuous activity and information obtained through the strategic review or control stage feeds back into strategic planning and strategy implementation. The following section offers a more detailed explanation of each of these stages.

### 3.1.1 Strategic planning

The strategic planning stage is the starting point of the strategic management process. The process perspective to strategic management is often also referred to as the traditional perspective. Traditionally, it was accepted that the roles between the different levels of management were clearly defined and that the top managers were the key strategists in the organisation, while the middle and lower level of managers were mostly involved in implementing the strategies developed by the top management team. Strategic planning, according to the process perspective, is the stage in which the top management team (the strategists) decide on the strategic direction of the organisation as a whole. Typically, this stage mostly involves senior management who conduct various analyses of the organisation itself, as well as of the environment in which it operates. Part of this phase is the setting of strategic direction, in other words, deciding on the future of the organisation and setting the overarching goals of the organisation. For example, when looking at the case study about Capitec, the founder, Michiel le Roux, had a vision for a low-cost bank for low-income customers. The vision formed the centre of the founding, listing and operations of the bank. The vision set the strategic planning process in motion. During this stage, the top management team devised a vision or dream for such a bank; analysed the environment and competitors, and then devised strategies to achieve its dream. The practising strategy box below provides comments from Michiel le Roux (founder) and Gerrie Fourie (current CEO) and show how the overarching goal is still guiding Capitec's activities - 15 years down the line. The practising strategy box also includes the company slogan which exclaims that Capitec offers simple banking - aligned to the original vision of offering a simple and low-cost banking solution.

## Practising strategy: Capitec

Bruce Whitfield's interview with Capitec founder, Michiel le Roux, 20 July 2016<sup>7</sup>

Twitter comments:

'I originally had a very basic bank in mind.'<sup>8</sup>

'I told our shareholders we'll either be a big success or a small failure. Not in my wildest dreams could I foresee the success we've had.'

'We'll keep it simple. In 10 years it'll still be recognisable as the bank you see today.'<sup>9</sup>

Comments from new Capitec CEO, Gerrie Fourie:

When asked what the future strategy for Capitec will hold, Gerrie Fourie stated that 'more of the same, but, my tenure will have an increased focus on what is in the client's best interest. ... I need to build on this platform and drive the organisation to deliver even more value for each client. This will further differentiate us from other banks, offering greater convenience and attracting more primary bank clients'.<sup>10</sup>

It's banking, just simpler.

From one banking solution and innovative tech to Sunday and paperless banking, everything we do is to make your life easier and empower you to take control of your money.<sup>11</sup>

In addition to a company slogan, a range of management tools can be used to set strategic direction, such as a vision statement, a purpose or mission statement, or a statement of strategic intent. Some organisations also include a value statement. Looking at Capitec again, their slogan can be translated into a mission and values statement that provides more detail about their product and service offerings, their markets, the technologies they use to make banking simpler, and their commitment to their stakeholders.

During the strategic planning stage, various analyses take place and the senior managers gather information about the operations, resources and capabilities of the organisation. The senior management team also scans the environment to identify potential opportunities and threats, as well as evaluating the market or industry in which the organisation operates and collecting information on competitors. This is referred to as an external environmental analysis. The senior management team also scans the internal environment, in other words, the organisation itself, with the purpose of identifying its own strengths and weaknesses. Once all the information from the external and internal environments has been collected and analysed, the senior management team then considers the various strategic options and chooses those strategies where the fit between what the organisation can do with the opportunities is the strongest. In addition, the senior management team formulates the strategic goals for the organisation. For example, FlySafair entered the low-cost airline industry with a vision to open the skies to many who had never flown before.<sup>12</sup> Their strategy is premised on their commitment to make prices sustainable and to keep them low. FlySafair aims to keep costs per seat as low as possible. Part of its actions included changing the seats on its aircraft to make it lighter and thinner, thereby reducing fuel costs.<sup>13</sup> Linked to its mission to provide low-fare, hassle-free and on-time travel experiences, one of FlySafair's strategic goals may, for example, be that FlySafair will achieve a 95 per cent on-time performance while offering seats at 5 per cent less than competitors will. This deliberate decision to focus on low-cost air travel is a result of an external environmental analysis that identified the opportunities in these markets.

An analysis of the organisation's internal environment identified various strengths of the organisation that enable them to make use of the opportunities identified in the external environmental analysis. Once the strategies to take the organisation towards the achievement of its objectives have been selected, the next stage of the strategic management process starts, namely strategy implementation.

### 3.1.2 Strategy implementation

The second stage of the strategic management process is referred to as the strategy implementation stage and is considered the most challenging stage in any strategic management process. As we explained earlier, the process perspective to strategic management offers a traditional approach in which the top management team, or senior management team, was responsible for the strategy formation and the middle and lower-level managers were seen as the implementers of the strategies devised by the senior managers.

Once the senior management team has selected the strategies of the organisation, they need to be put into action. This requires the involvement of everyone in the organisation. The corporate strategies, and the senior management team's rationale for selecting them, need to be communicated to all parties. Not only should the organisation members be told what the strategies and overarching objectives of the organisation are, but the senior management team also need to ensure that there is understanding and buy-in because the wider the organisational support, the greater the chances of successful implementation. Members must be motivated and energised towards achieving these goals on business, functional levels and even individual levels.

Operationalising strategies are an important aspect of strategy implementation. They entail translating the overarching and strategic objectives into specific programmes, projects, tasks and activities. The middle and lower management levels in the organisation are responsible for this, as well as for overseeing it, so they must be empowered to do so. By translating the strategic goals or long-term objectives into shorter term goals and activities, the organisation members become aware of their roles in the strategic success of the organisation (refer to Figure 1.1 in Chapter 1 that depicts the hierarchy of organisational plans).

At its most basic level, strategy implementation is the action ('doing') stage of the process perspective of strategic management. Actions to successfully implement strategies are ensured through certain drivers such as leadership, management, and culture. Organisational culture is commonly referred to as 'the way we do things around here' and how things are done will impact on success. For example, if the organisational culture is negative and there is little support for the strategies, then the strategy implementation process becomes more challenging and can actually fail. But when the organisational culture is positive and there is wide buy-in, the efforts to implement the strategies are more co-ordinated and have a greater chance of success. Organisational culture and strategy are discussed in detail in Chapter 11.

The middle and lower levels of managers can use rewards to drive strategy implementation. By rewarding the actions, tasks and behaviour that contribute towards successful implementation of strategies, managers enhance the chances of strategy success. Managers should thus devise reward strategies and systems that are aligned to the overall strategic direction of the organisation.

The way that the organisation is structured also impacts on the strategy implementation process. If the strategy requires quick decision-making, then a bureaucratic structure that entails time-consuming red tape may hamper efforts. The organisational structure not only indicates the lines of authority and reporting, but also the process and lines for strategy implementation. Coupled with the structure of the organisation are the inherent systems and policies inside the organisation. Organisational systems, processes and policies are used to direct the execution efforts. Again, the systems, processes and policies should be aligned with the overall strategic direction of the organisation.

Finally, leaders and managers in the organisation need to empower and enable the employees and organisation members to carry out the tasks to implement the strategies. This requires the appropriate allocation of financial, human, physical and informational resources. If the resources are lacking, the implementation efforts will surely fail.

Although monitoring the implementation of the strategies takes place continuously, in terms of the process perspective on strategic management, it is regarded as the third stage.

### 3.1.3 Strategy review and control

Strategy review and control involves monitoring the progress of strategy implementation, measuring actual or realised performance, comparing actual performance with planned performance, identifying problems and instituting any necessary corrective actions. Although described as the third and final stage in the strategic management process, it is a continuous process. As strategies are implemented, the strategy review takes place.

Different methods of strategy review exist. One such method is continuous environmental scanning, which can be considered a review method as it provides feedback on changes in the environment that may impact on strategic choices and their execution. Another form of strategy review is implementation control. Similar to operational control, this is where deviations from the plans are identified and addressed as they occur. This implies that corrective measures are taken during the strategy implementation process to ensure that the strategic management process continues successfully.

It is mostly senior and middle managers who are involved in the strategy review process. Most important is the feedback from the review that needs to serve <sup>a<></sup> input in the amendment of existing strategies and goals, or the possible total reconsideration of the strategies and goals. Continuous feedback forms the foundation of the strategic management process.

LO 2: Criticise the process perspective of strategic management.

### **3.2 The new competitive realities - criticising the process perspective of strategic management**

The biggest critique of the process perspective of strategic management is that, in being a linear process, the complexity of the environment is not considered and dealt with sufficiently. Also, the process perspective supports the notion that it is mainly the top management team or senior managers who craft or formulate strategies while other levels of management merely implement those strategies.

In practice, strategic management is much more complex and dynamic than is portrayed in the process perspective. Strategy is not something that an organisation *has*, but is rather something that an organisation, and the people in the organisation, *does*. The reality of strategic management in the contemporary business environment is that it is a messy and complex process, influenced by many different aspects. Strategy, in reality, is crafted through a process of conversation and input from all levels in the organisation and inputs from various stakeholders (as discussed in Chapter 1, Section 1.7).

In Chapter 4, we take a closer look at *who* does strategy in organisations.

LO 3: Identify and explain the various management levels involved in strategic management.

### **3.3 The management levels involved in strategic management**

In a medium to large-sized organisation, there are usually three levels of management, namely top management, middle management and lower-level management. Top management comprises the CEO, the board of directors and senior managers. As described above, the top management team (or senior management team) will play a major role in setting the organisation's strategic direction and in analysing the environment. The information they gather will then be used to formulate the strategies.

It is mostly the middle and lower-level managers who are responsible for the execution of the strategies through the managing of employees. The top managers rely on the middle managers to ensure that their planned strategies are implemented. Top management then becomes more involved once again during the strategy review process. Chapter 4 offers a more detailed discussion of strategists.

LO 4: Explain strategic planning and recognise the strategic direction and environmental analysis in organisations.

### 3.4 Strategic planning

The following section discusses in more detail the process of strategic planning. The practising strategy box offers some background on Katlego Global Logistics and includes the vision and mission statement to serve as an example.

## Practising strategy: Katlego Global Logistics<sup>14</sup>

Katlego Global Logistics (Pty) Ltd was founded in 1998 by Moses Maboi and borne out of his drive and enthusiasm for attaining efficient and dependable service in the freight logistics industry. From the onset, Moses was motivated by his passion for his country and his dream to contribute to South Africa's economic potential by partnering with stakeholders to contribute to the development and value add for black-owned and -managed companies. Given his years of experience in the industry, Moses set out, not only to render quality and professional services in all freight- and trade-related services, but also to develop skills of employees through training and exposure.

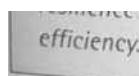
Katlego Global Logistics offers solutions in the areas of clearing and forwarding, air freighting and car-going, supply chain and inventory management, logistics, customs broking and project shipments.

Katlego Global Logistics adds the value of time and place utility as it offers integrated services and tailored, customer-focused solutions for managing and transporting documents, goods and information. This involves the integration of information, transportation, inventory, warehousing, material handling and packaging, and occasionally, security.

The company has become recognised as a freight and courier industry expert, supply-chain innovator and a business partner. It does not use contractors within the boundaries of South Africa, assuring customers that it is tracking and keeping their precious cargo safe. With a dedicated national fleet of vehicles ranging from small, utility one-ton vans to larger eight-ton trucks, Katlego Global Logistics is well represented nationally.

The vision of Katlego Global Logistics is to be the preferred supplier in the height logistics industry known for excellent service delivery. Their mission is:

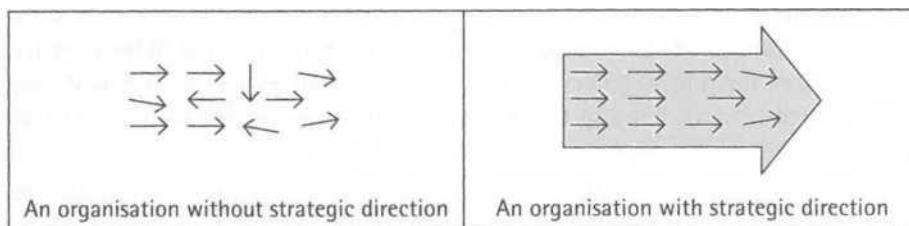
*To lead with insight and innovation, constantly strengthening the company's rpsihamn\* and ensuring fhQt our customers' needs are addressed with the utmost*



### 3.4.1 The strategic direction of the organisation

The organisation's management and employees need to know the reasons for the organisation's existence. The strategic direction clarifies the overarching purpose and goals of the organisation, as well as indicating to external stakeholders what the organisation is about. Several management tools are used to set the strategic direction. As an example, the practising strategy box on Katlego Global Logistics provides its vision and mission statements that offer a clear message on its purpose. The following section explains how the vision statement, the mission statement and the strategic goals are used to direct the actions and strategic efforts of the organisation over the long term.

Not only does the strategic direction provide the organisation and its members with a primary direction, but it also helps bind the organisation members as a cohesive unit. Figure 3.3 depicts the benefit of strategic direction. The diagram below indicates the multiple different directions in which the organisation and its members are working. The other one shows how the overall stated strategic direction (represented by the blue arrow) aligns the efforts of the entire organisation and its members in one direction.



**Figure 3.3** *The benefits of strategic direction*

Having sound strategic direction is a powerful contributor to strategic success as it forms the starting point for a carefully planned and implemented strategy. It also provides focus and directs all actions towards achieving the same goal.

Some organisations do not have separate vision and mission statements, while others have only mission statements. Organisations are diverse and varied, just like the people who work in them, and this creates room for a range of different practices. The strategic direction can be expressed through a vision, a mission or both. What is crucial is that the entire organisation and its members know where they are going and what they are working towards.

Table 3.1 offers a summary of the advantages of having clear strategic direction, expressed through the vision and mission statements of organisations.

*Table 3.1 Advantages of having clear strategic direction*

- |  |
|--|
| 1. It provides direction and a clear indication of what the organisation is aiming for.  |
| 2. It ensures that all the organisational efforts and all the organisation members are working towards the same goals.           |
| 3. It offers a clear message to internal and external stakeholders on what the organisation wants to achieve over the long term. |
| 4. It guides problem-solving and decision-making as the end goal is clear to all.  |
| 5. It provides the organisation with a unique identity.  |
| 6. It contributes to synergy among all managers and other employees and stakeholders.  |

### *The vision statement*

The vision statement is often referred to as the dream of the organisation. It is used as an indicator of the desired future position of the organisation. It is often not realistic in literal terms. For example, the vision of Katlego Global Logistics (see the practising strategy box provided earlier) is to be ‘the preferred supplier in the freight logistics industry known for excellent service delivery’. This may seem overly ambitious, but it is a powerful statement designed to motivate the entire organisation. Another example is that of the freight division of Grindrod Limited. Their vision is ‘to be a dominant and profitable freight services provider focusing on infrastructural development on the African continent’. The delineation of ‘African continent’ clarifies their playing field. A good vision statement should identify the direction and future of the organisation. As the entire organisation and its members need to work towards reaching this future destination, it should be persuasive and credible, and easily understood.

There is no standard format for a vision statement. Some organisations may opt for short and punchy vision statements, while others may opt for more descriptive versions. However, there are certain guidelines for what a vision statement should be, namely:

- It should present a clear picture of a desirable future, something to which the organisation and its stakeholders can aspire.
- It should guide decision-making, yet be flexible enough to allow the organisation to respond to changes in the environment.
- It should be easy to communicate, to explain and to understand.

Ultimately, the vision is not just a statement on a piece of paper, but rather galvanises and directs people in the organisation.

### *The mission statement*

The mission statement is also called the purpose statement of the organisation. In its most simplistic form, the mission statement provides an indication of what the organisation does and why it exists. The mission statement builds on the vision

statement. The mission statement is not only used internally within the organisation, but often used in external communication and the media. The mission is as much an internal statement as it is an external statement. The three core components of a mission statement are *product and/or service, market and technology*:

- The product and/or service: A mission statement should indicate the product or service that the organisation offers and should answer the question ‘what are our primary products and/or services that we offer?’
- The market: A mission statement should indicate the market that it hopes to serve and should answer the question ‘who is our primary target market?’
- Technology: Lastly, a mission statement should indicate the method (technology) used to deliver this product or service to the market and should answer the question ‘what technology will be used to provide the products and services to our market/s?’

In addition, a well-formulated mission statement could also contain the following:

- Often organisations give an indication of their commitment to stakeholders by including how important their customers are, or how the organisation invests in its employees or builds relationships with business partners (see Chapter 1 for an explanation of stakeholders). A good example is City Lodge Hotels:<sup>15</sup>

*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 is often expressed through stating their commitment to economic objectives. For example, ADvTECH, a placement, private education and training provider listed on the JSE, specifically refers to their aim to build, grow and achieve:

*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.<sup>16</sup>*

- Organisational values are principles that the organisation stands by; these values are held in high regard within the organisation and sets the standard of how the organisation wants to do business. An example of a mission statement that includes the organisation's values is Virgin Money, a financial services brand that entered the South African market with an aim of simplifying banking:

*Our mission is to give you: 1. A great deal, 2. Straightforward financial products, 3. Brilliant service.<sup>17</sup>*

- The organisational philosophy offers an indication of how the organisation plans to do business. The organisational philosophy is often linked to ethical standards; for example, Premier Hotels and Resorts, a hospitality service provider with hotels and resorts in South Africa has the following philosophy:

*I/Ve 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.<sup>18</sup>*

The value of setting clear strategic direction, whether through a vision or mission statement or both, is an important contributor to organisational success.

### The process of formulating a mission statement

Strategic direction is long term and ought to remain unchanged for an extended period. Organisations that change their strategic direction on an annual basis send a message that they are not sure where they are going. As the vision and mission statements are an expression of the strategic direction, these should also remain largely unchanged except, perhaps, for minor amendments to the wording.

Although there is no one agreed method for drafting a mission statement, most agree that it should involve as many people as possible because this contributes towards acceptance. External consultants may also be called in, but it is very important that the strategic direction be created internally.

One way to craft a mission statement is as follows:

- Orient those involved as to what constitutes a well-formulated mission statement.
- Do a brainstorming exercise to generate as many creative ideas as possible.

- Collate all the draft ideas and distribute them for comment.
- Continue this process until there is agreement on what the mission should be.

In the case of a start-up business, it is easier for a management team to compile the strategic direction. For established and multi-business organisations, however, the management team will need to maintain the business operations while the process to amend or redesign the strategic direction is underway.

### *Strategic goals*

Flowing directly from the mission statement is the need to translate the overarching direction of the organisation into strategic goals. The strategic goals have a shorter time frame than the vision and mission statements (five to ten years as a rule of thumb) because they are determined by the nature and the level of complexity and rate of change in an organisation and within its industry.

To be of value, strategic goals need to be measurable in terms of time, money and units.

Table 3.2 compares well-formulated and poorly formulated strategic goals.

Table 3.2 *A comparison of well and poorly formulated strategic goals*

Poorly formulated strategic goals	Well-formulated strategic goals
Our goal is to increase our market share.	Our goal is to increase our market share by 3% by the end of 2021.
The goal for 2021 is to expand our product range.	The goal for 2021 is to expand our product range by introducing two new products in the baby clothing division.
By 2023, we will open new stores.	By 2023, we will open one new store in Mahikeng, in the North West Province and one new store in Kimberley, Northern Cape.

The SMART principles can be used to formulate good strategic goals:

S - specific M -

measurable A -

achievable R -

realistic T -

time

Goals should be specific and measurable so that people know exactly what it is that will be expected of them. Goals must be considered attainable by those who need to work towards achieving them (if, on the one hand, they seem impossible to reach, people will see no point in even trying or will quickly become discouraged).

The goals should be realistic, yet aimed at a level that will motivate people (on the other hand, if they are too easy to reach, people will not be inspired to work harder). Finally, a well-formulated goal is linked to a specific time period so people have a deadline to work towards (an open-ended goal will carry no sense of urgency and could take years to complete).

Over and above meeting the SMART principles, strategic goals should also be congruent with the mission statement components, the overall strategic direction of the organisation and should 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). Also, goals should be acceptable - people tend to pursue goals that are consistent with their preferences and perceptions. Lastly, strategic goals should be flexible. Organisations function in a turbulent business environment, which makes it necessary to allow for goals to be modified due to changing circumstances.

## Using the balanced scorecard to set strategic goals

The balanced scorecard (BSC) is a strategic management tool that was developed by Kaplan and Norton.<sup>19</sup> When used in the strategic planning stage, it guides the organisation and management team to translate the strategic direction into strategic goals. One of the benefits of the BSC is that it offers a balanced approach to setting strategic goals. The ‘balance’ is grounded in its four perspectives: financial, customer, learning and growth, and business processes. At the centre of these, is the strategic direction, which will include the vision, mission and other statements.

For each perspective of the BSC, strategic goals need to be formulated that will contribute to the achievement of the strategic direction. Each perspective offers a view on what needs to be done with a focus on two internal measures (internal business processes and learning and growth) and two external measures (customers and finance). The balance between the internal and external perspectives ensure that the strategic goals are aligned with the strategic direction. The four perspectives of the BSC are explained below:

- The financial perspective, with a focus on the financial performance of the organisation. The financial perspective is linked to the expectations and needs of the shareholders, as well as to the financial performance or stewardship of the organisation.
- The customer perspective, with a focus on how the organisation’s customers perceive it. The customer perspective works towards a focus on satisfying customer needs and a consideration of how customers see the organisation.
- The learning and growth perspective, with a focus on sustainable growth, value creation and innovation. This perspective is also called organisational capacity and is aimed at the employees (human capital) and the capacity to achieve its goals.
- The business process perspective, with a focus on the core capabilities at which the organisation must excel in order to be competitive. This perspective is linked to quality and efficiency in all that the organisation does.

Each of these four perspectives is linked to a specific question which guides the setting of the strategic goals. Given the foci of each of these perspectives, the BSC is a handy tool that is used to translate the strategic direction into goals and targets. These targets can be seen as the shorter term aims at the business level, which guides the activities or actions needed on the functional level. Figure 3.4 provides guiding questions for each perspective. These four questions are used to select the most important strategic goals on corporate level (refer to Table 2.1 in Chapter 2, where a distinction was made between the various levels of strategy). A successful application of the BSC may include two to five goals in each perspective and each goal should be joined by a performance target that indicates whether the goal is achieved, as part of the review process.

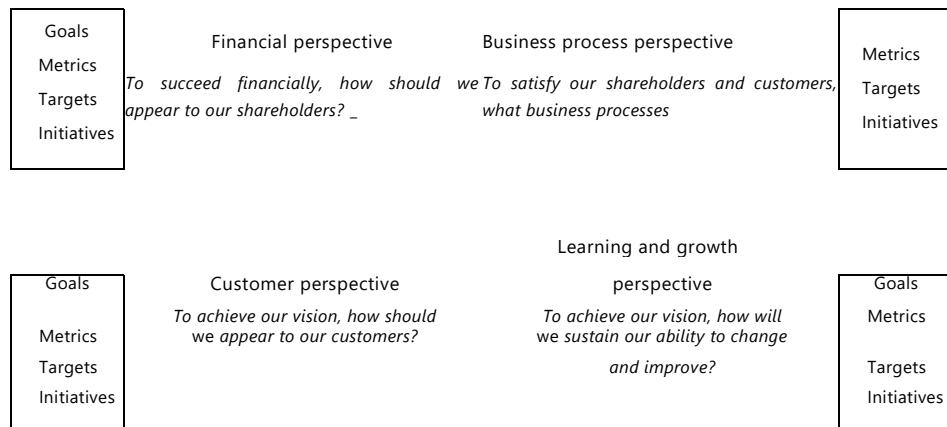


Figure 3.4 *The balanced scorecard*<sup>20</sup>

The scorecard is balanced in that it includes strategic goals and measures for all four perspectives. The purpose is to ‘balance’ the strategic goals by ensuring that one business area (such as finance) does not dominate the strategic direction of the organisation, while, at the same time, ensuring a focus on a few key metrics that could serve as a ‘scorecard’ for the whole organisation.

Table 3.3 provides examples of goals, metrics, targets and initiatives for each of the four perspectives.

Table 3.3 *Examples of goals, metrics, targets and initiatives for a balanced scorecard*

Perspective	Goal	Metric	Target	Initiative
Financial	Consistently achieving above-average returns on shareholders' investment	Return on equity (ROE)	25% ROE per annum for the next five years	Reduce the cost of inputs to achieve higher productivity levels

Perspective	Goal	Metric	Target	Initiative
Business process	More innovative product development	New product revenue as a percentage of total revenue	Increase new product revenue to 30% of total revenue by 2022	Introduce a new product development process
Customer	Retaining valuable customers	Customer retention rate	Improve customer retention rate by 20% over the next five years	Implement a loyalty programme
Learning and growth	Reducing waste in the manufacturing process	Waste as a percentage of total manufacturing cost	Reduce waste by 50% over the next five years	Introduce a total quality management programme

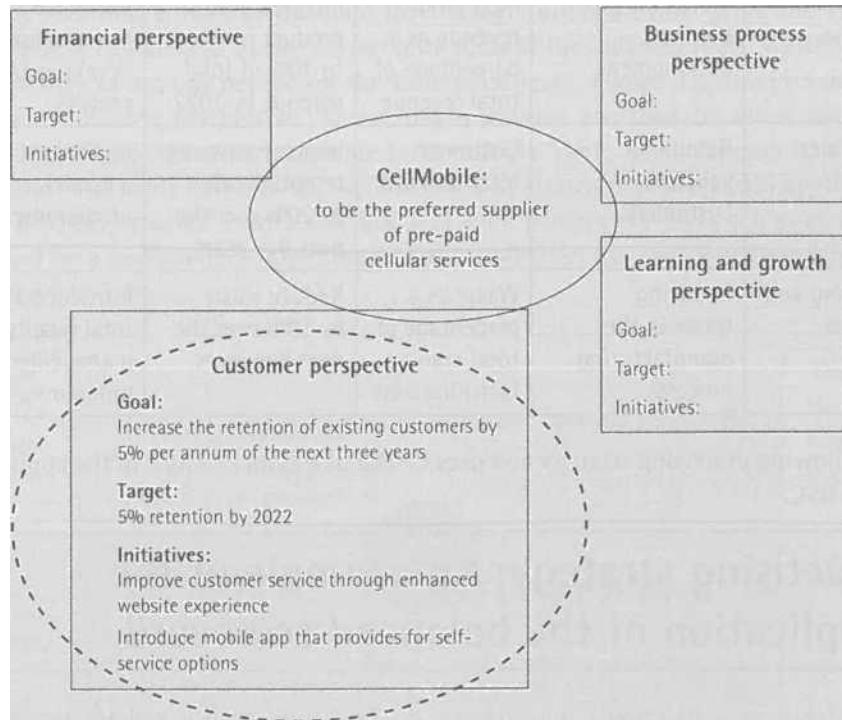
The following practising strategy box uses CellMobile as an example of the application of the BSC.

## Practising strategy: An example of the application of the balanced scorecard

CellMobile is a (fictitious) organisation in the South African cellular telephone industry. Their vision is to be the preferred supplier of pre-paid cellular services. Their growth strategy is aimed at developing their market by targeting customers in rural areas where other cellular services are unreliable and often interrupted.

If CellMobile uses the balanced scorecard, their starting point will be the vision and strategy which is aimed at growth. In each of the perspectives, they will set objectives, measures, targets and initiatives that contribute to being the preferred supplier and growing their market. For example, in terms of the customer perspective, a goal might be to increase the retention of existing customers by 5 per cent per annum for the next three years. The targets to be achieved, then, would be 'five per cent retention' and 'within a three-year period'. The initiatives to achieve this could now be devised, such as improving customer service by enhancing the CellMobile website services, or by making pre-paid vouchers more readily available. In terms of the business process perspective, CellMobile could set a goal to expand the cellular phone towers to ensure better service delivery and thereby be in a position to recruit more customers and thus grow their business. The goal could be to expand by two new towers every three months over the next two years. For this goal, the targets would be 'two towers', 'every three months' and 'over the next two years', and the initiatives could then be formulated.

The diagram below depicts the customer perspective within CeilMobile.



The balanced scorecard offers a valuable framework for setting strategic goals.

Once the strategic goals have been formulated, the strategy selection process starts. This is discussed in Chapter 7. In Sections 3.5 and 3.6, we provided a brief overview of the strategy implementation and strategy review processes.

### 3.4.2 The role of environmental analysis in the strategic management process

Continuous scanning of the external and internal environments of an organisation supports the strategic management process. The purpose of scanning the external environment is to identify opportunities that may be exploited, or threats that may prevent the organisation from attaining its strategic objectives.

Internal analysis is done for the purpose of understanding the organisation's key strengths and key weaknesses, so that it can build on key strengths and counter or mitigate key weaknesses. The role of resources and capabilities is discussed in Chapter 6.

While many organisations do environmental scanning periodically (for example, at an annual strategic planning workshop) it should really be an ongoing process that forms part of strategic evaluation and control (see Chapter 14).

- LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.

### **3.5 Strategy implementation**

The purpose of strategy implementation is to align the internal and external environments with the chosen strategy. Strategy implementation is often seen as the most challenging stage in the strategic management process. Scholars such as Jooste and Fourie,<sup>21</sup> Candido and Santos,<sup>22</sup> and Speculand<sup>23</sup> documented some of the challenges linked to strategy implementation. In addition to the recognition in the scholarly community, examples of strategy implementation failures often reach news headlines. Numerous studies have been conducted on strategy implementation and there is agreement amongst scholars and practitioners that strategy implementation is challenging, and it is where most strategy initiatives fail.

#### **3.5.1 Strategic programmes and projects**

Figure 1.1 in Chapter 1, depicts the hierarchy of organisational plans, which indicates that strategic plans and initiatives should be managed as special programmes and projects with a view to eventually becoming part of the day-to-day operations of the organisation.

#### **3.5.2 Key drivers for implementing strategy**

Once a strategy has been selected, it needs to be communicated to the entire organisation and those who are tasked with implementing it, need to know exactly what is required. Effective leadership and management are vital to the success of any strategy. The managers and leaders in the organisation are responsible, not only for communicating the strategy, but also for guiding the actions required to execute it. Simply informing staff and other stakeholders is not enough. A general understanding of the rationale behind the strategy and the alleviation of any uncertainties are both vital to ensure agreement and support among all who are responsible for strategy implementation.

Strategy execution and renewal is a continuous process with specific targets to be reached at specific points in time, and organisational management and leadership are responsible for keeping employees motivated. Because change goes hand-in-hand with uncertainty and resistance, leaders will need to help members come to terms with the change and empower them to guide others to do the same. Behaviour, actions and tactics will need to be adapted. Involving people in the change process and ensuring that they understand the reasons for the change will ease the transition. There should be a fine balance between driving the change and giving people time to adjust.

Strategy implementation deals with the ‘doing’ part of the strategy, and organisational culture plays an important role in the success or failure of an organisation. An unhealthy and negative culture can cause undue resistance to change which

seriously hampers progress. This is something management and leadership will have to tackle as it can undermine the entire strategic management process. Organisational culture can help or hinder the strategy execution process. Chapters 11 and 12 deal with organisational culture and the role of strategic leaders respectively in more detail.

Resource allocation is another important driver of strategy implementation. Resources comprise human resources, physical resources, information resources and time. Coupled with the allocation of resources, is the need for structure. Organisational structure indicates the lines of authority and responsibilities in the organisation. It forms the backbone of the organisation and helps to direct the various actions required to implement the strategies. The organisational structure needs to support the implementation of the strategies. A more detailed discussion of organisational structure is included in Chapter 13.

Finally, the last driver of strategy implementation is organisational learning, which is covered in Chapter 9. Organisational learning is a process in response to change and provides for change, creating new knowledge and practices and, ultimately, the transferring of knowledge.

### 3.5.3 Operationalising strategy

Below is a brief explanation of the functional tactics (ie short-term goals) to explain how strategy is translated into operationalised actions. We remind you of Table 2.1 in Chapter 2 where the levels of strategic decision-making are described. This section deals with operationalising strategic goals on the business and functional levels.

It is important that the entire workforce knows, not only the overall direction of the organisation, but also what needs to be done on a daily, weekly and monthly basis in order to achieve the strategic goals. The middle management cadre will take the lead in this process by translating the strategic goals into specific, measurable, achievable, realistic goals to be achieved within a year or less. Although the strategic goals are specific and measurable, their focus is on the long term. In order to ensure that these strategic goals are operationalised, they need to be translated and adapted for the medium term. The same criteria required for setting strategic goals is important here. When the middle managers (such as the section heads, departmental leaders and site managers) involve the supervisory level in this process, the acceptance of these medium-term goals is ensured. Medium-term goals are typically set for the functional areas in the organisation, such as the marketing, operations, human resources, finance and purchasing departments. The balanced scorecard also assists in this process. As we have explained earlier, the balanced scorecard has four perspectives and the organisation's vision and strategy form the starting point. Within each perspective, the balanced scorecard is used to specify the goals, measures, targets and initiatives. Each business unit and department in the organisation will have its own focused and specifically balanced scorecard.

In addition to the medium-term goals, functional tactics also need to be developed. Functional tactics provide even more detail to ensure the daily operationalisation of the organisation's strategies. A functional tactic is developed in support of the short-term goals. Functional tactics are even more specific and

require wider participation. The focus of the functional tactics is the tasks and activities required to operationalise the strategy and indicate what needs to be done immediately and on a daily basis.

Finally, the organisational actions to operationalise the strategy are guided by the organisational policies. Policies are often referred to as ‘red tape’ but form an important part of the fair and justified actions of the organisation and its workers. Policies provide detailed and specific guidelines and rules that direct the organisational activities - the framework and specific ‘do’s and don’ts’. Policies are often referred to as standard operating procedures. It is important that the organisational policies be documented and recorded in written format and made available to all the organisational members. In line with fair business practices, the policies should also be made available to the customers and other stakeholders. Policies guide the organisational managers in the control and co-ordination of organisational activities.

- L06: Explain strategy review and control and identify the main strategic control mechanisms in organisations.

### **3.6 Strategy review and control**

This chapter started with an explanation of the strategic management process. We indicated earlier that the process begins with the development of the organisation's strategies, followed by their implementation. The third phase is the review and control phase. In this phase, the management uses a range of different measures and processes to check on the progress of the implementation process and monitors the need for changes to some of the previously developed strategies and goals. As organisations operate in changing environments, the need for regular and continuous monitoring and review is important. Different methods to review the strategy implementation process exist and although the focus of each methodology is different, the aims remain the same: review and control.

Our focus is on the four main strategic control mechanisms, namely, premise control, strategic surveillance, special alert control and implementation/execution control. Typically, all four of these methodologies will be employed, but at different stages of the implementation process. When the strategies are devised, a number of assumptions or premises are made. Premise control is aimed at reviewing these assumptions in a focused way. If any of the assumptions are no longer valid, a change in the strategy is required. This type of control is very specific. With its exclusive focus, it is possible that other factors, that may also bear an impact on the success of the strategy, are overlooked. Hence the need for the strategic surveillance type of control.

Strategic surveillance is also referred to as environmental scanning and is not focused, but rather opens the opportunity for managers to consider a whole range of internal and external environmental factors. As organisations operate in a changing

environment, some changes may occur that were not predicted. Despite the proactive nature of the strategic management process, it is impossible to predict and plan for all changes, especially unexpected changes that lead to a total reconsideration of the strategies. This type of control is often referred to as implementation control or execution control. It takes place during the strategy execution process and comprises four steps: setting the standard, measuring the actual, identifying deviations and taking corrective measures. The functional managers are responsible for this type of control, with inputs from the supervisory level. Special alert control is linked to a largely unpredicted and unexpected event that warrants a total review of the strategy. Chapter 14 provides a detailed discussion of the different types of strategic review and control methodologies.

## The big picture

The process perspective of strategic management advocates that strategic management comprise three stages, namely, strategic planning, strategy implementation and strategy review and control. The process perspective supports a linear approach to managing organisations strategically and is also referred to as the traditional approach. Yet, as organisations and management thinking evolve, new perspectives and approaches to strategic management have emerged. These perspectives do not replace the traditional perspective, but rather open opportunities for managing organisations in new competitive realities.

The focus of this chapter was to introduce different perspectives and to provide specific details on the process perspective of strategic management.

## Summary of learning outcomes

L01: Explain the process perspective of strategic management.

The process perspective is a traditional approach to strategic management that follows a mostly linear process that is driven by the top management team and divided into three distinct stages or phases.

LO 2: Criticise the process perspective of strategic management.

The process perspective is a linear process that does not consider the complexity or the environment in which the organisation operates. The process perspective also sees strategy as a top-down function - with strategic decisions made by top management and middle managers tasked with implementing it.

**LO 3: Identify and explain the management levels involved in strategic management.**

The different management levels involved in strategic management fall within three main categories: top management, middle management and lower-level management. For the most part, top management is responsible for setting the strategic direction and middle and lower-level managers are responsible for the execution of the strategies.

**LO 4: Explain strategy strategic planning and recognise the strategic direction and environmental analysis in organisations.**

With the process perspective of strategic management, the first stage is strategic planning that starts with the setting of the strategic direction. By having strategic direction, organisations and its members form a cohesive unit. Strategic direction is expressed through a vision and mission statement. Organisations operate as open systems in changing environments which require environmental analysis. Environmental analysis includes and analysis of both the internal and the external environment. The purpose of scanning the external environment is to identify opportunities that may be exploited, or threats that may prevent the organisation from attaining its strategic objectives. Internal analysis is done for the purpose of understanding the organisation's key strengths and key weaknesses, so that it can build on key strengths and counter or mitigate key weaknesses.

**LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.**

The purpose of strategy implementation is to align the internal and external environments with the chosen strategy. Strategy implementation is often seen as the most challenging stage in the strategic management process. A number of drivers exist for strategy implementation. These include leadership, organisational culture, resource allocation, organisational structure and organisational learning.

**LO 6: Explain strategy review and control and identify the main strategic control mechanisms in organisations.**

Strategy review and control develop during this stage of the strategic management process. In this phase, the management uses a range of different measures and processes to check on the progress of the implementation process and monitors the need for changes to some of the previously developed strategies and goals. The four main strategic control mechanisms are premise control, strategic surveillance, special alert control and implementation/execution control.

## Discussion questions

1. Depict the process perspective of strategic management diagrammatically.
2. Explain what vision, mission, and value statements entail.
3. Critique the process perspective of strategic management.
4. Explain the role of environmental analysis in strategic management.
5. Explain strategic programmes and projects.
6. Identify and explain key drivers of strategy implementation and identify these in organisations.
7. Explain strategy review and control and recognise various control mechanisms in organisations.

## Learning activities

1. Interview two managers in any two organisations of your choice about their perception of the value of the strategic management process. What did you learn about strategic management from these interviews?
2. Visit the website of strategist Tony Manning and read the blog at <http://www.tonymanning.com/stratblog/>. What are the implications of this perspective for strategic management as a process?
3. Read some of the work by scenario planner Clem Sunter (or visit the website <http://www.clemsunter.co.za/>). What role does scenario planning and environmental scanning play in the development of strategies?

## Endnotes

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# 4

# Strategising and strategists

Annemarie Davis

## LEARNING OUTCOMES

After reading this chapter, you should be able to do the following:

LO 1: Differentiate between the process and practice perspectives of strategic management.

LO 2: Explain the term 'strategising'.

LO 3: Differentiate between deliberate and emergent strategising. LO

4: Explain the roles and responsibilities of strategists.

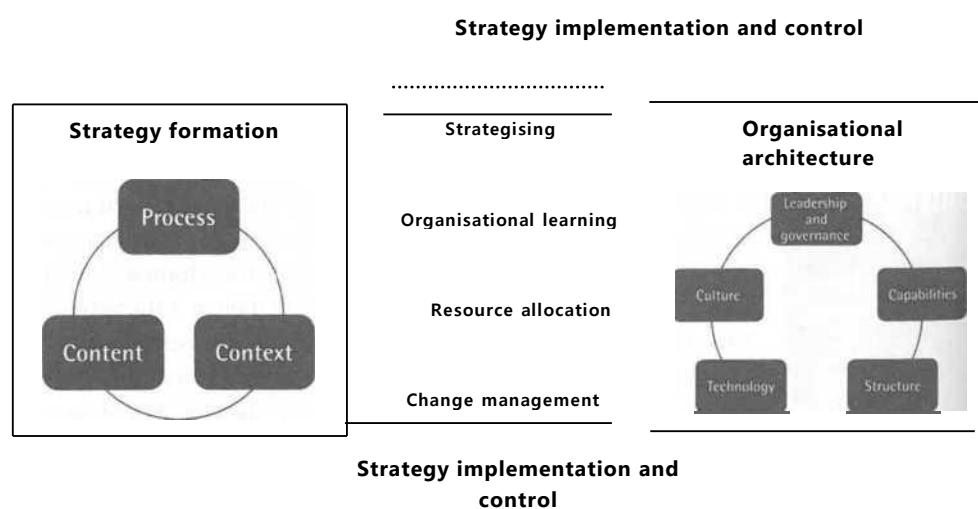
## KEY WORDS

<b>Deliberate strategy</b>	<b>Strategising/strategy making</b>
<b>Emergent strategy</b>	<b>Strategy</b>
<b>Middle management</b>	<b>practices/tools of strategy</b>
<b>Practitioner/strategist / strategy</b>	<b>Strategy</b>
<b>practitioner/ strategy actor</b>	<b>practices/tools of strategy</b>
<b>Praxis</b>	<b>Strategy-as-practice perspective</b>
<b>Process perspective of strategic management</b>	<b>Strategy-as-process perspective</b>

## CHAPTER ORIENTATION

Chapter 3 explained the process perspective of strategic management. It also described the three stages in the strategic management process. In this chapter, we focus on strategising - the actions of strategists that influence the strategy of the organisation in much less formal, structured and interactive ways. It is important to note that organisations typically have (and should have) a formal strategic management process and our argument here is not that these processes are wrong. However, organisations should realise that strategic management is influenced by much more than just their formal processes. They should find ways of tapping into the more informal strategising activities within the organisation and using it to their advantage. The chapter will also discuss the strategic actors commonly found in organisations, and how they shape strategy (the

The case study describes Aspen Holdings' history and strategy that was formulated by the CEO, Stephen Saad and his team of managers. The opening case also describes Aspen's deliberate strategy to invest in capital projects, as well as their emergent strategy to enter the Australian market. This case proves that formulating strategies can be deliberate or emergent. In other words, organisations can have formal processes in which they think about and decide what their strategy should be (deliberate strategy), while in other instances, the actions of strategists will lead to strategies emerging from the pattern of decisions (emergent strategy). The purpose of Chapter 4 is to describe the people involved in strategy formulation, implementation and review. In short, this chapter will look at who the strategists are and how they strategise - specifically, the roles and responsibilities of the various strategists. There is a range of actors that participate and influence the strategic activities in the organisation. The traditional approach to strategic management assigned specific roles to specific actors, but more contemporary approaches indicate that the roles are not as clear cut as traditionally proclaimed. For this chapter, we start off with a differentiation between a process and practice perspective of strategic management, followed by an explanation of the term 'strategising'. Then, we will differentiate between deliberate and emergent strategising. The chapter concludes with a discussion of the various roles and responsibilities of strategists. Finally, the chapter offers concluding comments on the activity of strategising and who does it.



**Figure 4.1 Strategising in the context of this book**

## Case study

### **Aspen - Strategising over 160 years**

The organisation known today as Aspen Pharmacare has a rich history that stretches over 160 years. Berry Grey Lennon, a chemist from Ireland, settled in the Cape, South Africa, and opened a chemist and druggist in Port Elizabeth in 1850. Not only did he establish a household brand, but he also served as chief strategist to grow a company that has proven its ability to survive and thrive in a changing business environment. By 1858, Lennon advertised his products in the local press and they featured on the cover page of the first issue of the South African Medical Journal in 1884. From here on, the wholesale chemist expanded and incorporated as a public company in 1898 under the name Lennon Ltd. Today this is the Aspen Pharmacare Trading Company and continues to carry the 1898 registration number. By 1911, Lennon Ltd had 21 pharmacies across South Africa. During the years that followed, Lennon Ltd continued to grow and by 1930, it had established itself as the largest pharmaceutical company in the southern hemisphere. In 1968, the South African Druggist group, which included Lennon Ltd, listed on the Johannesburg Stock Exchange. During the 1970s, Lennon Ltd capitalised on the birth of the generic industry and focused on providing equivalent products on the expiry of patents. The establishment of the Lennon Ltd Research and Development department in 1975, led to the registration of a wide range of generic products. Through the 1980s and 1990s, Lennon Ltd became an undisputed leader in the generics field.

During 1997, from a converted house in Durban, Aspen Healthcare was founded by among others, Stephen Saad and Gus Attridge. Aspen was listed on the JSE through reverse listing into Medhold Ltd and by 1999, had acquired the South African Druggist group (which included Lennon Ltd). At that time, the South African Druggist group was the oldest pharmaceutical business in South Africa.

Moving from strength to strength is what Aspen is known for - from establishing Aspen Australia in 2001, to taking the lead in a broad-based economic empowerment deal in 2002, to launching the first generic anti-retroviral drug in 2003, to constructing a state-of-the-art facility in Port Elizabeth in 2004 (with two new facilities added in Port Elizabeth in 2016 and 2018 and subsequent investments in manufacturing infrastructure currently taking place, to acquiring Fine Chemicals in Cape Town in 2004 ... the list continues.

In 2002, Aspen Pharmacare launched its new corporate identity which has grown to accommodate nearly 50 business units across the world. Aspen remains one of South Africa's success stories and one of the top 40 companies listed on the JSE. Aspen is established as a global player and a leading speciality and branded multi-national pharmaceutical company that provides treatment for a broad spectrum of acute and chronic health conditions experienced through all stages of life.

In 2006, Aspen Holdings reported gross revenue of R3,4 billion - in 2018, the gross revenue was more than 10 times that, namely R42,6 billion, as released on 30 June 2018.

The success of Lennon Ltd and the Aspen Group can arguably be ascribed to the vision and guidance of its leaders. Moreover, the deliberate attempts to stay ahead of the game has proven to be successful. Aspen and its leaders are committed to sustaining life and promoting healthcare through increasing access to its high-quality, affordable medicines and products.

*Stephen Saad - the strategist*

As a strategist, co-founder and Group Chief Executive of Aspen, Saad is widely recognised for his astute leadership, passion, commitment and focus. There are many stories that testify to his out-of-the-box thinking while managing to stay focused on the end goal: continuous improvement of efficiencies and performance. One example of his strategising activities is from 2001, when Aspen expanded its operations to Australia with only two people and two laptops. Saad and his team followed a simple strategy to enter the Australian market: Aspen hired doctors, who had been forced to retire at ages 60 to 65, as sales representatives. They obtained access to practising doctors more readily than ordinary sales representatives did. They were rejuvenated and highly motivated.

Aspen, under the leadership of Saad and his senior management team, continues to increase the number of lives benefiting from their products, reaching more than 150 countries across the world. Aspen supplies products to more than 150 countries, has 23 manufacturing facilities at 15 sites on six continents and employs approximately 10 000 people.

In South Africa, Aspen was a driving force in the development of the Public Health Enhancement Fund, a three-year partnership between the public and private health sector in South Africa, which invests millions of funds in assisting government to address a number of public healthcare priorities identified by the Department of Health.

Saad's philosophy on strategising is evident in his commitment to the company's employees. 'There's a basic value system we drive in the business. We give ownership and trust to our people and let them make many of the decisions. That's the biggest aspect to Aspen's success.' Saad also confirms that the company invests heavily in capital projects, which provide an important strategic advantage to the group by enabling it to add value to its expanding portfolio of products that require complex manufacturing processes.

When asked about the ingredients of leadership, Saad stated 'Always understand where you come from and stay true to your roots. Remember how you treated clients with humility at the beginning and continue to show them the same respect that we have become known for.'

Saad and his team are constantly on the lookout for opportunities, challenges and competitor actions and build their strategies on a clear understanding of the past, which informs the future: 'Don't look back except to learn.' Saad also explains that perseverance has been the single most important contributor to what Aspen has achieved. He explains that another critical factor to his success as a strategist is a thorough understanding of the detail - having a thorough understanding of the environment, the operating conditions and all role-players.'

**On strategising, Saad confirmed that it is extremely important to have both a clear vision and a plan. He explains that it can change at any point but it must be both simple and understandable to all. 'Make sure you really understand the details of your business - the critical detail, then list five or six priorities and ensure that you and your team focus on those priorities.'**

**He also advises surrounding yourself with people who are more competent than you are in the areas they specialise in and that you should not be threatened by competence. 'I believe that one of the critical factors for ensuring success is to trust those you have appointed to lead your businesses'**

**Aspen offers shareholders a proven record of accomplishment. The company is widely recognised as being a responsible corporate citizen. Aspen remains globally competitive through its centralised regulatory, supply chain and procurement resources that provide a competitive advantage to the group. The ongoing focus on the continuous improvement of efficiencies and performance sets a strong foundation from which to operate.**

**LO 1: Differentiate between the process and practice perspectives of strategic management.**

## **4.1 The process and practice perspectives of strategic management**

The traditional perspective of strategic management as a formal and rational process has attracted considerable criticism for various reasons. One of these is that the process perspective is limited and out of touch with the complexities of strategy as it happens in reality. On the one hand, it tends to regard strategies as being formulated through relatively formal structures and systems, with not much attention being given to the effects of interpersonal relations and political processes.<sup>1</sup> Practice research and a practice-oriented perspective of strategic management, on the other hand, takes interpersonal relations and political processes into account and aims to understand the messy realities of how strategies are formed.

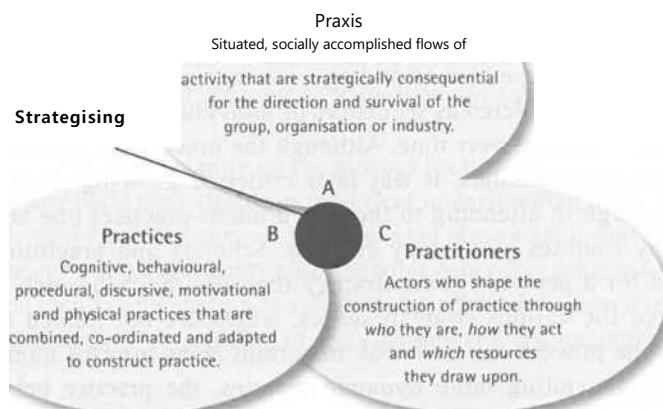
The process perspective of strategic management has its origins in the 1980s and processes are considered as sequences of individual and collective events, actions and activities developed over time. Although the process perspective initially gained support from many scholars, it was later criticised as being an approach that did not go far enough in attending to the actual micro-practices (the acts of strategists) and everyday routines of strategy crafting. Scholars and practitioners around the world called for a perspective on strategy that was more in touch with reality and acknowledged the various strategic actors, which are not limited to top managers only. While the process research took important steps forward humanising strategy research and generating more dynamic theories, the practice perspective takes it further. The practice approach is seen as necessary for researching the fundamental details of strategy making.

The practice perspective in strategic management is known as the strategy-as-practice perspective. The key insight of strategy-as-practice studies is that strategy work (strategising) relies on organisational and other practices that significantly affect both the process and the outcome of resulting strategies. Thus, the scope of the strategy-as-practice perspective is wider than just the strategy formulation process itself. The practice perspective focuses on social practices as the basis for explaining strategy emergence. It seeks to identify the strategic activities reiterated in time by the diverse actors interacting in an organisational context.<sup>2</sup> The strategy-as-practice perspective is concerned with the detailed aspects of strategising - how strategists think, talk, reflect, act, interact, emote, embellish, politicise, which tools and technologies they use, and the implications of different forms of strategising for strategy as an organisational activity. The practice perspective is also concerned with what people do less often during board meetings, strategy breakaways and other occurrences. Strategy-as-practice researchers recognise the complexity of the process and the potential influence of organisational members, not only through formal organisational processes, but also in everyday activities.<sup>3</sup> The strategy-as-practice research field is not only focused on the microactivities, but also on the context within which these micro-activities take place.

The strategy-as-practice perspective supports and builds on the strategy process perspective and views strategy as a situated, socially accomplished activity - meaning that it is done by people and influenced by their background and context. It refers to activities that are connected with particular practices such as strategic planning, annual reviews, strategy workshops and their associated discussions.

The strategy-as-practice perspective distinguishes between strategy praxis (the work), strategy practitioners (the workers) and strategy practices (the tools). Figure 4.2 depicts the conceptual framework that forms the foundation of the strategy-as-practice perspective.

The three elements of praxis, practices and practitioners, depicted in Figure 4.2, are discrete but interrelated social phenomena. It is thus not possible to study one without also drawing on aspects of the others.



**Figure 4.2** A conceptual framework of the strategy-as-practice perspective<sup>4</sup>

Strategising occurs at the nexus between praxis, practices and practitioners. A, B and C represent stronger foci on one of these interconnections depending on the research problem to be addressed. What this means in practical terms is that the act of strategising (or strategy making) happens when practitioners (such as the CEO, the business consultant or the board of directors) use strategy tools and processes (such as the SWOT analysis or the balanced scorecard) during, for example, a strategy workshop. But, the practice perspective also takes this deliberate strategising further: the act of strategising is not always situated in a formal setting - often strategising emerges as the organisation and its managers cope with changes in the environment and occurring as individuals or groups act in ways that influence the organisation in profound ways.

- Prajds is linked to human action and encompasses ‘all the various activities involved in the deliberate formulation and implementation of strategy’.<sup>5</sup> In everyday terms, praxis refers to the flow of activities such as meeting, consulting, talking, calculating, writing, presenting, communicating, completing documents, and so on, that are employed to constitute strategies.<sup>6</sup>
- Practices are the social, symbolic and material tools through which strategy work is done. These tools are combined, co-ordinated and adapted to construct strategy practice, and include theoretically and practically derived tools such as Porter’s five forces of competition, a SWOT analysis, resource-based view analysis and value chains, as well as material artefacts and technologies such as PowerPoint, flipcharts, and spreadsheets.<sup>7</sup> Because of the unique characteristics of organisations, their managers and employees and the underlying organisational culture, practices are diverse and variable, which means that no single approach to strategy formulation and implementation is correct for all organisations. Organisations customise their strategising practices to suit their circumstances.
- Practitioners, or strategists, are the actors - the individuals who draw upon practices to act. In this book, we prefer to use the term ‘strategists’. Practitioners/ strategists are interrelated with practices and praxis. They derive agency through their use of the practices, namely, ways of behaving, thinking, emoting, knowing and acting prevalent within their society, combining, co-ordinating and adapting the practices to suit their needs in order to act within and influence that society.<sup>8</sup>

As alluded to earlier, we accept that strategy is not only a deliberate, top-down process. Middle managers and operational-level employees are also important strategic actors or strategists. While their actions and influence on strategy may be unintended on an organisation level, middle managers and operational-level employees are significant for organisational survival and competitive advantage. In this book, we identify and discuss a wider range of actors as strategists, going beyond top managers to include other levels of employees, as well as the board of directors and consultants.

**LO 2: Explain the term 'strategising'.**

## 4.2 Strategising

Strategising is essentially what strategists do, and can be described as devising or influencing strategies. Through their actions, strategists influence the allocation of the organisation's resources and control or influence key actions. The terms 'strategising' and 'strategy-making' are often used interchangeably and include strategising activities. Strategising not only involves those inside the organisation, but also consulting firms, business schools, business media, academic journals, professional societies, enterprises and management in a joint endeavour that all recognise as somehow strategic.<sup>9</sup> For example, when we look at the case study, Stephen Saad, CEO of Aspen, clearly influences key actions of the organisation. But he does not do this on his own: he specifically refers to those who are appointed to lead the business, that is, the managers. The case also describes Aspen's deliberate strategy as a growth strategy that led the organisation into new markets and product ranges. The next level of strategies may be more emergent in nature as an organisation's strategy is partly proactive and partly reactive. The following section describes strategising from a deliberate strategy and emergent strategy perspective.

**LO 3: Differentiate between deliberate and emergent strategising.**

## 4.3 Deliberate and emergent strategising

As explained in earlier chapters, strategy deals with what the organisation plans to do and achieve in the future. Strategic thinking entails an analytic and logical approach to establishing the future direction of the organisation and the action plans to achieve it. In Chapter 3, we explained that the process of strategic management comprises three distinct stages: planning, implementation and review. This implies that before a strategy can be implemented, it needs to be crafted. However, often, organisations find themselves in a situation in which so much change has taken place between formulating and implementation, that the strategy needs reconsideration and/or alteration. Despite basing strategic decisions on a range of assumptions that were logically and conceptually developed, change can render the strategies obsolete, or force organisations to formulate strategies during the implementation process.

*Deliberate strategies* are implemented and realised as intended. In order for this to happen, three conditions need to be satisfied:

1. The management team must know precisely what they wish to achieve and what they intend for the future of the organisation before any actions are taken.
2. Organisation means collective action. All members of the organisation must believe in the strategy and work towards it.

3. The strategy must be realised exactly as intended, with no external interference.<sup>10</sup>  
This is difficult given the pace of change in the contemporary business environment.

For a strategy to be emergent, it may develop outside the original intentions of the original strategic plan. This does not mean that an organisation intentionally ignores the original strategic plan - rather, it is a rethinking of strategy that is necessitated by immediate circumstances. Thus, strategy may suddenly be rationalised to mean something very different from what was originally intended.<sup>11</sup> *Emergent strategies* are actions taken by middle managers and other strategists within the organisation outside of the formal and deliberate strategic management processes. Middle managers are more involved with the operations of the organisation and are able to make changes to the strategies when required. This means that some strategic initiatives may arise initially without the awareness of the senior management team. Emergent strategy implies learning what works - taking one action at a time in search of that viable pattern or consistency. It is also frequently the means by which deliberate strategies change. This does not mean that the senior management team loses control, but rather that strategies are open, flexible and responsive to allow the organisation to learn and adapt to its environment. Emergent strategising enables management to act before everything is fully understood. It enables the senior management team, who cannot be close enough to a situation or who cannot know enough about the varied activities of its organisation, to surrender control to those middle-level managers who have enough current and detailed information to shape realistic strategies. Whereas the more deliberate strategies tend to emphasise central direction and hierarchy, the more emergent strategies open the way for collective action and convergent behaviour. The approach of this book is that strategic and strategising decisions are not only a way of making sense of an emergent pattern of activity, but also a way of creating sense in the absence of any such patterns, as a response to the anxieties of the human condition or to the uncertainties with which managers are characteristically faced.<sup>12</sup> Strategic decisions cannot always await consensus, commitment or visible action. When existing strategies are no longer convincing, the decision complexes associated with them cease to be effective carriers of meaning, and new rationalisations of the world in the form of new decisions, however provisional, must be constructed in their place.

All management levels and employees have specific roles to fulfil in ensuring successful strategising. Often, a disconnect exists between the perspectives of the various role-players. For example, the senior management team of the organisation decides, after a strategic review, to launch a new strategy. This new strategy involves a range of commitments, most of which have already been made, either in anticipation of the decision or in reactive response to market pressures (deliberate strategising). Many of the commitments agreed upon are modified along the way (emergent strategy) and at least one major part of the strategy is never implemented <sup>at</sup> all (unrealised strategy). Accordingly, the strategy of the organisation changes and the change is reflected both in management thinking and in the organisation's <sup>d</sup>actions and behaviours. The next section focuses on the roles and responsibilities of strategists or strategy practitioners.

LO 4: Explain the roles and responsibilities of strategists.

## 4.4 Strategists

A strategist is the ‘doer’ of the strategy. Whereas top managers have traditionally been regarded as the custodians of strategy, the idea that other people and even objects (artefacts) can also be strategists is gaining ground. Any individual or group in the organisation that controls key or precedent-setting actions<sup>13</sup> (for example, middle managers and strategy consultants) can be regarded as strategists. Since objects can also control or influence key actions, we can extend this definition to include presentations, written documents, information systems, and so on.

By accepting that strategists are not only from the top management echelons - or even appointed as strategists, we then also need to look at the different categories of strategists. For example, within the middle management level, individuals may exist that offer a range of skills that make them strategists and enable them to *do* strategy. Hodgkinson and Clarke<sup>14</sup> found that individual strategists will, cognitively speaking, fall into one of four broad types: detail-conscious, big-picture conscious, non-discerning and cognitively versatile. Bear in mind that the complexity of the environment, the size of the organisation, the experience levels of the managers and workers all influence the skills needed by strategists. Often strategists who fall within a combination of these categories are best suited to the unique circumstances in which the organisation finds itself. These categories of strategists are described in Table 4.1.

Table 4.1 *Category of strategists*

Strategists	Description
Detail-conscious strategy workers	P-actioners who are detail-conscious are highly analytic and driven by the minutiae of available data, with little or no regard for intuition. They have a tendency to approach problems in a step-by-step, systematic fashion.
Big picture-conscious strategy workers	Practitioners who are big-picture conscious can become preoccupied with gaining an overview of the problem at the expense of the details. They are highly intuitive in orientation, with little or no regard for analytic approaches to problemsolving and decision-making.
Non-discerning strategy workers	Non-discerning practitioners deploy minimal cognitive resources in order to derive strategic insight, being disinclined to process the detail or to extract a bigger picture from such detail. They rely on opinion and wisdom received from others and thereby relieve themselves of the burdens of analytic and intuitive processing altogether.

<b>Strategists</b>	<b>Description</b>
Cognitively versatile strategy workers	These practitioners possess in equal abundance the inclination to attend to analytical detail and cut through that detail, as and when required. This type of practitioner is able to switch more readily between analytic and intuitive processing strategies.

Various strategists, both internal and external, that influence organisational performance and strategic success are discussed below.

#### 4.4.1 Top managers as strategists

The role of the top management team is to set the overall strategic direction of the organisation by formulating' the strategy, allocating the resources and reviewing the strategic success. They are responsible for gathering information from both the internal and external environment, and choosing strategies and actions to help the organisation gain a sustainable competitive advantage. They communicate this to middle-level management, explaining the rationale behind their strategic choices so that middle managers can link the strategies and strategic goals to implementation efforts.

The top managers are also responsible for the review of strategies. They reflect upon their decisions and actions and this may lead to changes or new decisions and actions. Sensing or sense-making may also lead to new insights or realisations and may affect current or future decisions. The case study showed that the Aspen CEO, Stephen Saad, regularly looked towards what happened in the past in order to learn from it. He also explained that organisational plans can change at any point and how important it is to understand the details of the business. Saad confirmed the importance of a thorough understanding of the environment, the operating conditions and all role-players.

A strategist who is responsible for guiding the strategic planning in an organisation is often referred to as a 'strategic planning champion' (SPC)<sup>15</sup>. An SPC is an expert in strategic thinking with specific analytical and technical skills, including the ability and knowledge to apply strategic management concepts to the organisation and use management tools and planning models for strategic practices. There are three roles that SPCs must perform to work effectively - some strategists may be stronger in a specific role while others may offer a combination of these roles or have these roles fulfilled by members of their management team. Listed below are the three roles that SPCs must perform:

- The social craftsperson integrates different expectations from groups and individuals to ensure buy-in into the overall strategic direction, creating a positive and common ground from which to plan the strategic future of the organisation. He or she deals with tensions and conflicts, and changes a volatile situation into a positive one.

- The artful interpreter adjusts general strategic planning practices to align them with the local routines and norms. He or she contextualises the strategy so that others can identify their own roles in it.
- The known stranger ensures a balance between distance and closeness in the interaction between strategists and other parties to maintain objectivity while at the same time cultivating trust.

The senior or top management team needs to have sufficient detail of the organisation to ensure that the strategising is sound and to be able to allocate scarce resources to put the strategies in place. The practising strategy box below, illustrates the strategising abilities of one of South Africa's top business leaders, Sizwe Nxasana.

### **Practising strategy: Sizwe Nxasana, FirstRand group**

Sizwe Nxasana has an illustrious career and served in three different industries where he made a marked difference.

He started by establishing Sizwe 8t Co, the first black-owned audit practice in KwaZulu-Natal. In 1996, he became the founding partner of NkonkiSizweNtsaluba, the first black-owned national firm of accountants, where he remained until March 1998. The firm is now the fifth largest audit firm in South Africa. He left to join Telkom SA as Chief Executive Officer in 1998.<sup>16</sup> He turned Telkom around in the seven years that he served as CEO - changing it from a struggling state-owned enterprise to a formidable ICT company.

He joined the FirstRand Group and led the group to record highs. Under his leadership, FNB has implemented affordable methods that people can use to do their banking in the convenience of their homes. For instance, he said, looking at cellphone banking, there are solutions for all people across the board.<sup>17</sup>

#### **4.4.2 Board of directors as strategists**

Boards of directors of companies, being the focal point and custodians for corporate governance, influence strategising in organisations. Although strategic decisionmaking is done by senior management, the board of directors influences the overall direction and monitors the relationship between management and other stakeholders to ensure that the organisation is sustainable in the long term (refer to Chapter 1, Section 1.6, where we distinguished between the terms 'shareholder' and stakeholder'). Historically, boards of directors focused on strategy once annually, often at a one-to- two-day off-site workshop or *lekgotla*. New trends indicate a change in this practice where board meetings become a discussion on strategy to ensure that appropriate progress is being made and that new competition or technology is being assessed in a fast-changing business environment.

In South Africa, the King III Report on Corporate Governance and the King IV report on Corporate Governance for South Africa<sup>18</sup> offer principles to oversee the functions and role of the board of directors. One of these principles requires the board to ensure that strategy be aligned with the purpose of the organisation. The board is also responsible for the appointment of a chief executive officer. It provides leadership by endorsing the chief executive officer to lead the process of strategy crafting. The role of the board is more aligned to monitoring and reviewing strategies than crafting them. However, the consulting firm, McKinsey, surveyed board members to learn where they would most like to spend additional time and 66 per cent of the board members surveyed indicated they want to spend more time on strategy, and less time on compliance-related topics.<sup>19</sup> The practising strategy box below, illustrates the roles of the Board of Directors at Woolworths Holdings Limited.

## **Practising strategy: Woolworths Holdings Limited (WHL)<sup>20</sup>**

The board process at Woolworths Holdings Limited is managed by the company secretary. The board and board committees meet on a quarterly basis and the board engages with management on performance against the strategy on a quarterly basis.

Woolworths has three operating subsidiaries - Country Road Group, Woolworths and David Jones. Woolworths acquired the Australian department chain store, David Jones in 2014. The other Australian retail chain in the Woolworths portfolio is Country Road that contributed 16 per cent to its revenue in 2017.<sup>21</sup>

The executive committees of Woolworths, David Jones and the Country Road Group oversee operational governance and meet monthly. Each business unit has a leadership team that reviews the strategic objectives and capital initiatives and assesses the risks and opportunities within their unit.

The various board committees report back to the board on how they carried out their responsibilities. The committees assess their mandates annually as documented in their respective terms of reference and undertake internal reviews of their effectiveness. WHL board meetings are held on a regular basis in Australia to ensure that directors receive adequate exposure to the Australian retail market and the dynamics within which the WHL Group operates.

### **Board role and function**

The WHL board is guided by a charter that is reviewed annually. The charter includes a delegation of authority, which sets out the delegation of matters by the board to its committees and the Chief Executive Officer. There are a number of governance policies that complement the delegation of authority. These policies are reviewed annually, and the board approves all amendments.

#### 4.4.3 Middle managers as strategists

Traditionally, the role of middle managers was seen to be limited to implementation. However, in the flattened organisational structure, middle management is now much closer to the strategic apex and makes a variety of contributions. Consequently, the new model of the middle manager is one that has a more strategic focus.

Four strategic roles of middle managers have been identified. These include:<sup>22</sup>

1. Implementing deliberate strategy. This role is aligned to the traditional view of strategic management, but remains valid in the contemporary business organisation, especially in relation to deliberate strategies. It deals with managerial interventions, actions and tasks to align the organisational action with the strategic intentions of top management. Middle managers' abilities to understand, anticipate and manage the processes needed to secure positive and pervasive commitment to strategy is a critical general management implementation skill. Middle managers implement strategy by translating corporate strategy into action plans and individual objectives.
2. Synthesising information. This refers to the interpretation and evaluation of information. How middle managers understand and share information influences the success or failure of organisational strategies. Not only do middle managers provide information concerning internal and external events to top managers, but they are also responsible for passing information down to subordinates, which can reduce uncertainty and resistance to change. This flow of information forms a valuable foundation for management decision-making. Middle managers combine strategic macro-information and hands-on micro-information.
3. Reshaping the strategic thinking of top management by selling to them strategic initiatives that diverge from their current conception of strategy. This role links with emergent strategising. Middle managers frequently become organisational champions for initiatives developed at the operating level. This role is distinct from product championing as it centres on influencing corporate management to adjust their current concept of strategy. It is defined as the persistent and persuasive communication of strategic options to top management.<sup>23</sup> By proposing and defining issues for top managers, middle managers provide important contributions to an organisation's strategic direction and thereby influence organisational effectiveness.<sup>24</sup>
4. Managing change and facilitating adaptability. Middle managers have downward influence and need to support, guide and alleviate the concerns and fears of subordinates. Formulating and implementing strategies go hand in hand with change, and middle managers play an important role in managing these change processes by adapting and amending work practices to align them to the changing environment. Middle managers are also required to deal with conflict. Within their areas of responsibility, middle managers have the authority and responsibility to facilitate change.

Middle managers contribute in various ways to strategising. Middle managers should be clear thinkers and be good at identifying what needs to be done and then guiding their subordinates to get it done.

#### 4.4.4 Consultants as strategists

The management consulting industry is considered to be one of the most powerful forces shaping organisational strategy. Management consultants are practitioners who are considered knowledgeable about the business environment and organisations. They have a wealth of industry contacts and good reputations based on experience. The practising strategy box below describes Deloitte Consulting's philosophy in helping organisations craft and execute strategies.

Guidance from outside the organisation is often sought, especially when managers inside the organisation lack expertise in a specific area, or when decisionmaking has come to a standstill. Furthermore, when an organisation experiences short- to medium-term staffing issues, consultants can fill the role of full-time employees. Most importantly, management consulting firms pool their resources, knowledge and experiences across industries and are authoritative forces in advising on best practices.

### **Practising strategy: Deloitte Consulting**

Helping organisations innovate, transform, and lead

'As the world's largest management consulting business, Deloitte is distinct in its ability to help clients solve their most complex problems, from strategy to implementation. We are differentiated by our capability to execute the advice we provide to help clients in the markets where they operate today and where they want to be in the future. Delivering this kind of value requires the skills to integrate a broad range of talent and skills - across human capital, strategy and operations, and technology - aligned to the unique needs of our clients' industry sectors, businesses, and organizations'.<sup>25</sup>

'That is where Monitor Deloitte excels. Our strategy practice takes a 21st- century approach to strategy that, combined with our deep industry experience, positions us to collaborate with you to create executable strategies. Unlike our competitors, we can see strategy through to implementation and, as a result, increase our impact. It is an approach that can help organizations move more quickly and pragmatically to take advantage of new opportunities while helping to mitigate risks along the way. And it can work for your business'.<sup>26</sup>

#### 4.4.5 Individuals as strategists

From the strategy-as-practice perspective strategising activities are operationalised at different levels from the organisational to the individual. Strategising happens in a dynamic space through interactions between workers on different levels. From the preceding sections, it should be clear that we not only consider the top managers to be the strategists, but confirm that the doers of strategy are found on all levels of the organisation. In fact, there may be strategists on the lowest level of the organisation as the immediate environment calls for swift reaction to changes in the business environment. It may be argued that the nature of the strategic work on the lower levels of management is mostly emergent and more operational in nature. When we break down strategy work on an individual level, we appreciate the micro-level strategising. Yet, the work of these individuals ought to be recognised in shaping the overall strategy.

Strategic success is enhanced by the collective efforts of all the strategists. Success is enhanced, or limited, by the quality of the strategists and the degree to which they work together in sharing information, debating ways to make strategic and operating improvements, and joining forces to solve problems. Strategists differ in their management styles, skills, values, attitudes, willingness to take risks, perception of success, concern for social responsibility, short-term versus long-term orientation and ethics.

### The big picture

In this chapter, we get a glimpse of the complexity of strategy formation. On the one hand, there is the process perspective of strategic management that considers strategy formation as a formal process with specific management roles and tasks assigned to each stage in the process. On the other hand, the practice perspective offers a broader view of strategic management that not only considers a wider range of strategists (such as the board of directors, top managers, middle managers and consultants), but also allows for the messy realities of doing strategy in practice. Both approaches are present in most organisations.

Within the strategy-as-practice perspective, strategising is the result of the interaction between strategy praxis, strategy practices and strategists. Formulating and implementing strategies should be proactive in nature, but due to the changing business environment, some strategies are reactive. Deliberate and emergent strategising is influenced by the business environment and the strategy practices and strategists. Deliberate strategies tend to emphasise central direction and hierarchy, while the more emergent ones open the way for collective action and convergent behaviour.

## **Summary of learning outcomes**

### **LO 1: Differentiate between a process and a practice perspective of strategic management.**

The process perspective is a traditional approach to strategic management that follows a mostly linear process that is driven by the top management team and divided into three distinct stages or phases.

The practice perspective of strategic management recognises the complexities of strategic management in reality and recognises that strategic management is not a linear process. The perspective is concerned with the detailed aspects of strategising by looking at how and why strategy is done and by whom.

### **LO 2: Explain the term 'strategising'.**

Strategising is the act of making strategy and happens when practitioners use strategy tools and processes to develop, implement, review and *do* strategy.

### **LO 3: Differentiate between deliberate and emergent strategising.**

The difference between deliberate and emergent strategising lies in the formality, the people involved, the duration and the central direction. Emergent strategising takes place outside the formal strategic planning sessions and is deemed open, flexible and responsive to the environment. Deliberate strategising is more formal and originate from specific interventions and hierarchy.

### **LO 4: Explain the roles and responsibilities of strategists.**

Strategists are found throughout the organisation, as well as outside of them. Different levels of managers, the board of directors, external consultants and individuals on micro-level form part of the group of strategists in an organisation. The involvement and responsibilities may differ between these strategists, but ultimately each has a role in the doing of strategy.

## **Discussion questions**

1. Differentiate between the process and practice perspective of strategic management.
2. Explain the term 'strategising'.
3. Differentiate between deliberate and emergent strategies.
- 4- Identify the different kinds of strategists and explain their role in strategising.

## Learning activities

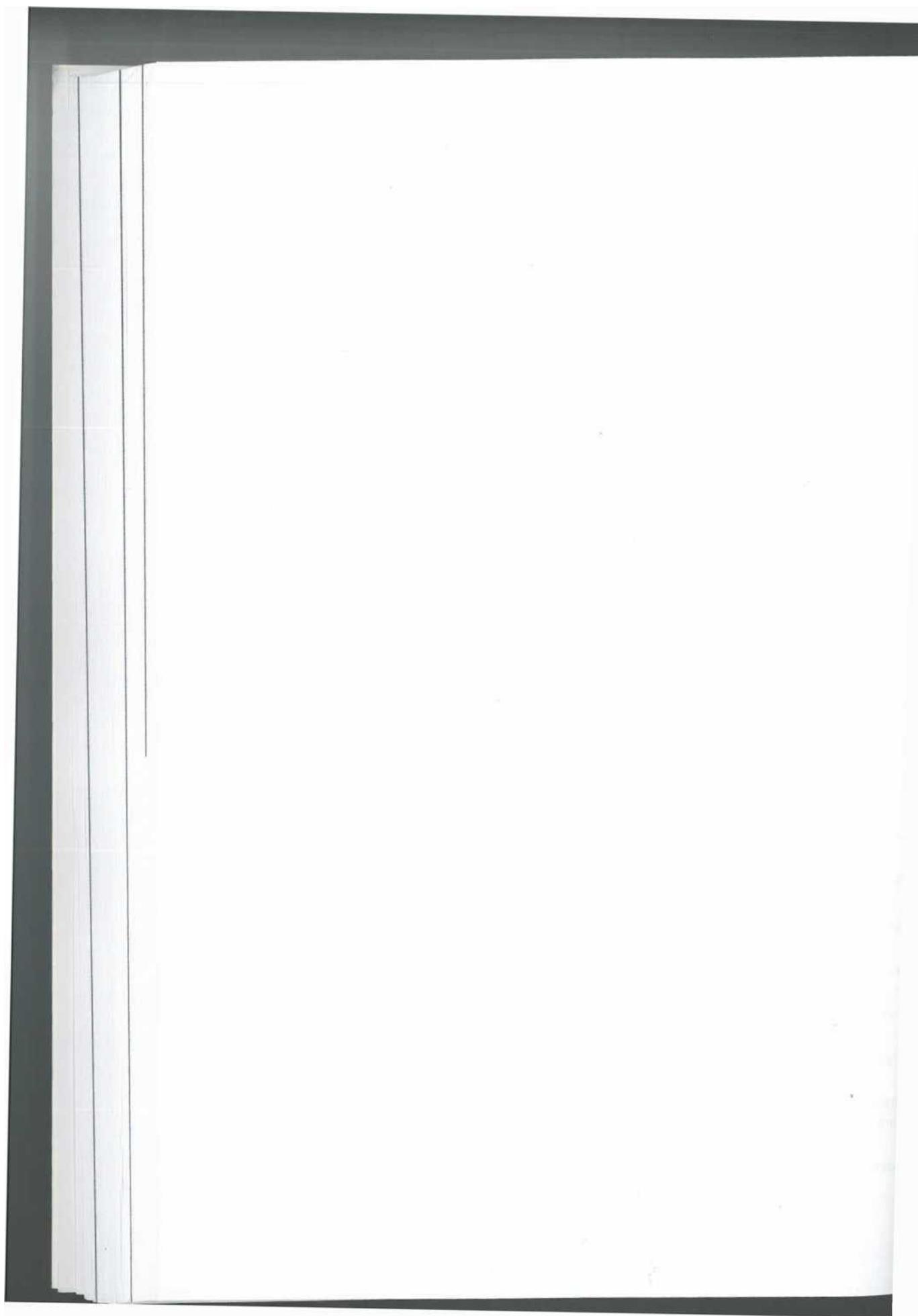
Interview a middle manager in your organisation, or any organisation of your choice, and do the following:

1. Ask him or her to describe how strategising is done in the organisation. Evaluate the descriptions against the definitions of deliberate and emergent strategy that were discussed in this chapter.
2. Ask the manager to explain his or her role in the development and execution of strategy. Use the information in Table 4.1 to determine what type of strategist you have interviewed. Substantiate your answer.
3. Read the CEO report that forms part of the integrated report of the organisation and identify the deliberate strategising activities described in the document.

## Endnotes

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# 5

# The external context of strategy

Clifton Singh

## LEARNING OUTCOMES

- After studying this chapter, you should be able to:
- LO 1: Explain the external environment in the context of strategic management.
  - LO 2: Explain the importance of strategic context in strategic planning and decision making.
  - LO 3: Analyse the remote environment to identify opportunities and threats facing an organisation.
  - LO 4: Analyse the market environment to identify threats and opportunities facing an organisation.
  - LO 5: Discuss strategic responses to changes in the external environment.

## KEY WORDS

- **Economic environment**
- **External (or macro-) environment**
- **External Factor Evaluation Matrix**
- **Global environment**
- **Industry**
- **Legal environment**
- **Market environment**
- **Opportunity Political environment**
- **Strength Social-cultural environment**
- **Strategic agility**
- **Threat Strategic ambidexterity**
- **Strength Technological environment**
- **Weakness Threat**

## CHAPTER ORIENTATION

The environment is what gives organisations their means of survival. In Chapter 1 (Section 1.6) we indicated that organisations source inputs from the environment, transform that into outputs, which is then given back to the environment. The success of an organisation as a system is largely determined by its successful interactions with the environment. Structurally, the management environment can be divided into the micro-, market and remote environments. This chapter focus on the market and remote environments.

Our case study 'Uber comes to Africa', paints a picture of the traditional metered taxi industry that faces new competition since Uber entered the market. The world of business is characterised by competition and unpredictability, and it is essential for strategists, organisations and industries to adapt and be responsive to changes in its environment and not to depend on their successes of the past. A dependence of successes of the past will be devastating with far-reaching implications.

The effect of the environment on organisations and their strategic choices should not be underestimated or considered lightly. Instead, organisations and industries must be able to respond quickly to changing circumstances posing as threats and opportunities, and alter their strategies accordingly as they strive for a strategic fit between their organisation and the environment.

Strategy is thus context-specific and while each organisation has unique internal and external contexts, the primary focus of this chapter will be on the external context, in other words, the environment outside the boundaries of the organisation, called the external (or macro-) environment. The external environment comprises two sub-environments, namely, the market and remote environments, which were explained in Chapter 1 (Section 1.6). Understanding these environments and their strategic context is vital to making strategic choices that will guide and direct the organisation. While the previous chapters focused more on how strategy is crafted, this chapter provides important tools that strategists can use to gain insight into the strategic context of their organisations and develop a strategic perspective of the organisation and its environment. Figure 5.1 depicts the focus of this chapter in relation to the broader strategic management process.

In this chapter, we will first explain the external environment in the context of strategic management. Second, an explanation will be provided for the importance of strategic context in strategic planning and decision-making. Third, an analysis of the remote environment for the purposes of identifying the opportunities and threats facing an organisation will be addressed. Then, attention will be given to the analysis of the market environment, in order to identify opportunities and threats to an organisation. Lastly, strategic responses to a changing external environment will be explained.

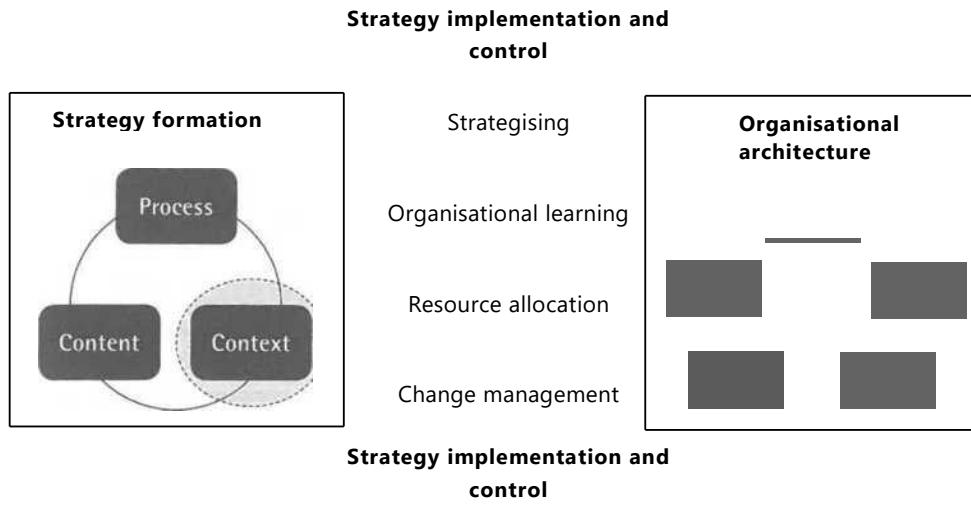


Figure 5.1 *The external context of strategy*

## Case study

### Uber comes to South Africa

There was a time, in the early days of motorised transport, when ears were not allowed to drive faster than 6.4km per hour and commercial motor vehicles were not allowed on public roads unless someone carrying a red flag walked in front of it. These were among a series of draconian laws enacted in Britain and parts of the USA from the mid-1860s, reportedly backed by railroad barons who were scared of the competition posed by the new founded 'road locomotives'.<sup>1</sup>

Some 120 years later, a similar battle is playing itself out on the streets of cities in South Africa. This time, the disruptor is the ride-hailing smartphone application, Uber, and the part of the rail barons is being played by the traditional metered-taxi industry.<sup>2</sup> Uber launched in South Africa in 2012 and has since redefined the traditional industry model for taxi operators. The Table 5.1 lists various consumer and competitor dimensions of the taxi industry and compares the traditional metered taxi and the Uber taxi in terms of these dimensions.

**Table 5.1** Traditional metered taxis versus Uber taxis

<b>Consumer and competitor dimensions of the taxi industry</b>	<b>Traditional metered South African taxis</b>	<b>Uber taxis</b>
Reserving a taxi	Customers wander the streets looking for a cab or wait at a depot or call a central office and wait.	Customers connect to the Uber application on smartphones and reserve a taxi.
The taxi ride	The main aim of the taxi driver is to get the customer to his or her destination.	Taxi drivers perform their best since they are aware that services are rated and poor service rendered will influence future business.
Payment method	The taxi meter or the route travelled, determines the price charged by the metered taxi. Customers pay metered taxi drivers in cash.	The cost of using Uber is debited from the customer's bank account and no cash payments are necessary. Uber calculates the price by taking the following into account: <sup>3</sup> (i) base fare: the price for pick up; (ii) time: from start to the end of the trip; (iii) distance: kilometres of the route travelled; (iv) surge price (if applicable); and (v) tolls and other fees (if applicable). The base fare, time and distance rates will differ depending on the vehicle option chosen by the customer and the city.
After the taxi ride	Services rendered are not rated.	The customer rates the driver and the driver can improve his or her reputation for future customers.

Uber (a software development organisation) has experienced explosive growth around the world since it was founded in San Francisco in the USA in 2009 with just a single car. A valuation of Uber in February 2018 estimated it at a staggering US\$72 billion (approximately R850 billion at the average US\$/Rand exchange rate of R11.80 at the time of the valuation).

### **Hostility to Uber**

Mention the word *Uber* and it is bound to set off a range of comments. Despite consumer willingness to try out and adopt Uber, it has run into obstacles in a number of its markets, both in developed and developing countries. The South African metered taxi companies and taxi operators are fighting back, co-ordinating protest marches and calling on the government to clamp down on Uber, which they accuse of flouting the laws that regulate

public transport. Uber drivers are also intimidated by other metered taxi drivers claiming that Uber is stealing their business and operating illegally. However, more often than not, people who make use of Uber did not previously use metered cab taxis<sup>4</sup> and Uber flourishes globally.

LO 1: Explain the external environment in the context of strategic management.

## **5.1 The external environment in the context of strategic management**

No organisation exists within a vacuum, and organisations should always be viewed as open systems - influenced by changes in its environment. For example, new trends in technology, nature and society are slowly revolutionising the business environment on a global and unprecedented scale<sup>5</sup> - no organisation can escape these changes as was also illustrated in the case study. This 'globality' is characterised by greater interconnectedness and interdependencies between countries and organisations. These forces emanating from the external environment exert an enormous amount of influence on organisations. Strategists in organisations are therefore required to respond appropriately to changes in their remote environments. Furthermore, as industry players, they should be able to adapt or actively change their market environments to enhance their competitive positions and survive.<sup>6</sup>

'Going green', 'eco-friendly' and 'sustainable practices' are now commonly accepted and are more than just buzz words or jargon. One of the aims of Uber, as discussed in the case study, is to improve the transportation ecosystem, proving itself as an organisation concerned about the natural environment. A growing number of customers, employees, investors and other stakeholders are demanding that organisations behave 'responsibly' in terms of the natural environment (where the natural environment is only one of the variables in the external environment). As such, a new compact between business and society is being advocated where 'business as usual' is no longer an option. The term 'compact' refers to an *agreement between various parties*. The agreement is the decision, approval and acceptance of a new arrangement/relationship (whether formal or informal) which is being advocated between business and society in general. The United Nations Global Compact (UNGC), for example, is a call to organisations around the world to align their strategies and operations with ten universal principles. These principles are human rights, labour, the environment and anti-corruption. Three specific principles were formulated for the environment theme, where the 'environment' refers to the physical or natural environment (as a variable in the remote environment of organisations). First, organisations should support a precautionary approach to environmental challenges. Second, organisations should undertake initiatives to promote greater environmental responsibility. Lastly, organisations should encourage the development and diffusion of environmentally friendly technologies.<sup>7</sup>

Historically, the business world has primarily always considered internal stakeholders (such as business owners, investors, employees and management) in developing strategy. Business is now increasingly under pressure to deal comprehensively with external stakeholders (such as the community, government, activist groups, competitors, the media, and so on) as well (you may refer back to the explanation of the classification of stakeholders in Chapter 1, Section 1.7). Therefore, a profound understanding of the external environment gained through knowledge of the interests and influence of key external stakeholders is paramount to strategic decision-making and planning, and is recognised as a source of strategic value.<sup>8</sup>

The context within which organisations exist is defined by their markets and remote environments. Figure 5.2 depicts the organisation and its environment, consisting of the micro-environment (over which management has control) and its market- and remote environments (over which management has no control).

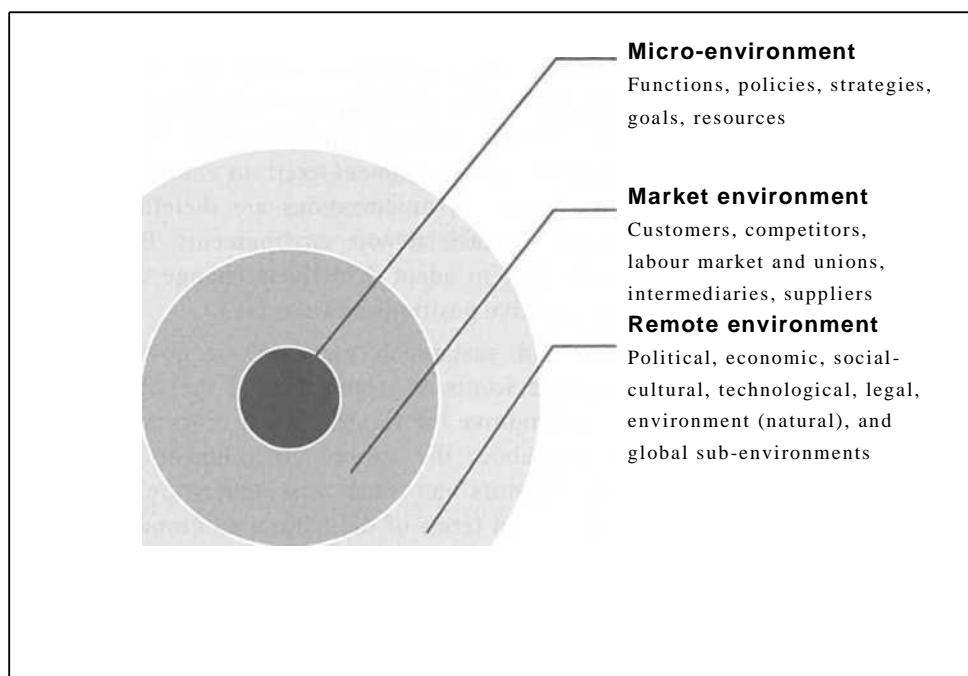


Figure 5.2 *The organisation and its environment*

Two levels of the analysis of the macro-/external environment, that will influence the organisation's strategic direction and strategic actions, can be identified, namely:

1. Analysis of the remote environment. This analysis focuses on the identification and forecasting of trends pertaining to political, economic, socio-cultural, technological, legal, environmental (or natural) and global variables.

2. Analysis of the market environment. This analysis focuses on the key role-players in this environment (such as customers, competitors, the labour market and unions, intermediaries and suppliers), along with the factors and conditions influencing an industry's profit potential.

Although these analyses will be discussed separately in this chapter, performance is likely to improve when the organisation integrates the results of both analyses.<sup>9</sup> The analysis of the remote and market environments will be explained in more detail in Sections 5.3 and 5.4 of this chapter.

LO 2: Explain the importance of strategic context in strategic planning and decision-making.

## **5.2 The importance of strategic context in strategic planning and decision-making**

The boundaries and interfaces that exist between organisations and the external environment are relatively fluid and cannot be defined easily or clearly. As a result, unexpected changes in the external environment may occur from time to time, and strategists need to be prepared to react to these changes. Under such conditions, timely and accurate information about the environment is critical for strategic decision-making and planning. For example, if organisations know very little about the preferences of their customers and their future trends, they will have difficulty designing new products and/or services, setting up a production schedule, or developing strategic and marketing plans.

However, the reality is that strategists often do not have enough information about the external environment readily available. They are operating in turbulent industries and can be challenged even further when they have to operate under conditions of rapid change and uncertainty. Strategists are not only constrained by a lack of information about the environment, but also by a limited ability to understand and predict the future.

Ideally, for strategic decision-making and planning to be effective, strategists must not only understand the context of their current management environments, but also the context of their future management environments.

An organisation's success is, to a certain extent, determined by the characteristics of the industry in which it exists and the market for which it competes. Furthermore, different industries are characterised by different competitive conditions and dynamics. Hence, when viewed in relation to competitors, as well as to competitive *threats* and *opportunities* existing in the external environment, all organisations have inherent *strengths* and *weaknesses* and are exposed to external *threats* and *opportunities*:<sup>10</sup>

- Strengths are internal organisational resources and capabilities that can lead to a competitive advantage (Chapter 1, Section 1.8 provides an explanation of competitive advantage).
- Weaknesses are internal resources and capabilities that an organisation may not possess yet but are necessary, resulting in competitive disadvantage until the organisation acquires them.
- Opportunities are conditions in the external environment that allow an organisation to take advantage of organisational strengths, overcome weaknesses, and/or neutralise environmental threats.
- Threats are conditions in the external environment that may stand in the way of organisational competitiveness or the achievement of stakeholder satisfaction.

If strategists do not understand the strategic context, in other words, how the external environment affects their organisations, their ability to make decisions, formulate and execute plans will be severely limited.<sup>11</sup> When studying the organisation in relation to its external environment and key role-players in this environment, strategists should:

- take advantage of inherent or internal strengths and the identified opportunities arising from the external environment
- overcome inherent weaknesses, or neutralise identified threats found in the external environment in order to ensure the strategic ‘fit’ or consistency between the opportunities and threats in the external environment and the strengths and weaknesses in the internal environment.

Strategic direction is an outcome of melding the desires and expectations of key organisational stakeholders with environmental realities.<sup>12</sup> Therefore, a profound understanding of the external environment, coupled with an understanding of its key role-players, is paramount to charting an organisation’s road to success. Understanding the external strategic context should lead to the identification of strategic alternatives and provide a basis for crafting strategies, as well as providing the organisation with a foundation for all other tasks of strategic management. The next section focuses on the remote environment, as a sub-environment of the external (or macro-) environment.

LO 3: Analyse the remote environment to identify opportunities and threats facing an organisation.

### 5.3 Analysing the remote environment

To a large extent, organisations can only respond to the fundamental forces arising from the remote environment. While individual organisations can exert some influence over their market environments, they can rarely influence the remote environment (except, for example, through radical technological innovation, as in the case of organisations such as Intel or Microsoft in the microprocessor, microcomputer and software industries).

In the discussion that follows, we will first identify the remote environmental forces, and will then discuss the remote environment in an African and regional context. Lastly, we will address the evaluation of an organisation's strategic response to factors in the remote environment.

### 5.3.1 The identification of remote environmental forces

The most important elements of the remote environment can be identified using the traditional PEST framework. They comprise the following factors:<sup>13</sup> *political (P)*, *economic (E)*, *socio-cultural (S)* and *technological (T) factors*. The traditional PEST model can be extended to include a consideration of *legal (L)*, *environmental (E)* and *global (G)* factors, (where (E) refers to the natural environment) to yield the acronym PESTLE/G. You may also refer to Chapter 1 (Section 1.6) in which the management environment is explained.

Analysing the environmental forces and trends at a global, a regional and a domestic level, respectively, is important because it can have an impact on an organisation and its internal/micro- and market environments. Below are just a few examples of the implications that external environmental forces hold for markets and organisations.<sup>14</sup>

- Political factors. Political factors include aspects such as the government and its political policy and economic interventions and policies. The government of a country is a major role player in the remote environment of all organisations. An example of political forces in South Africa is the change of leadership in the ruling party, namely the African National Congress (ANC). On 14 February 2018, the former president Jacob Zuma resigned and was replaced by President Cyril Ramaphosa. This had an enormous effect on various indicators, for example, the value of the country's currency and business confidence. Business confidence can be measured in terms of the Business Confidence Index, which is the weighted mean of five sectoral indices, namely, that of manufacturers, building contractors, retailers, wholesalers and new vehicle dealers. Business confidence can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 indicates neutrality and 100 indicates extreme confidence.<sup>15</sup> Index Points in South Africa increased to 45 Index Points in the first quarter of 2018 from 34 Index Points in the fourth quarter of 2017 - an increase of 11 points.<sup>16</sup> As a result of these influences, business organisations are also affected. For example, an increase in business confidence may result in organisations investing more in new machinery, equipment or buildings in order to increase their productive capacity in lieu of an expected increase in the demand for their products. Also, consumers will spend more, and foreign investors will be more willing to invest in South African organisations due to higher business confidence levels. South Africa has seen many key economic policy changes by government, especially for the period 1994 to 2013. The Reconstruction and Development Programme (RDP), as part of the election platform of the ANC

in the 1994 elections, was chosen as the primary socio-economic programme with the aim to establish a more equal society through reconstruction and development, as well as strengthening democracy for all South Africans. Due to various constraints, the government replaces this policy in 1996 by a new macro-economic policy framework called the Growth, Employment and Redistribution (GEAR) strategy, with the aim to stimulate faster economic growth, which was required to provide resources to meet social investment needs. In 2005, GEAR was replaced by the Accelerated and Shared Growth Initiative for South Africa (ASGISA) as further development on the first two developmental strategies. ASGISA had the following aims: to reduce poverty by 2010, and to halve unemployment by 2014 from the 28 per cent in 2004 to 14 per cent by 2012. It also recognised that the policies implemented to address these issues needed to be at the forefront of economic policy decision-making. ASGISA was replaced in 2010 with the New Growth Path (NGP), envisioned to accelerate growth in the South African economy, and to do so in ways that rapidly reduces poverty, unemployment and inequality. In 2013, government introduced the National Development Plan (NDP) 2030 as South Africa's socio-economic development roadmap. This policy was adopted as the blueprint for a future economic and socio-economic development strategy for the country. The NDP is viewed as a policy blueprint for eliminating poverty and reducing inequality in South Africa by 2030. In order to address the country's socio-economic imbalances, the NDP identifies the key constraints to faster growth, among other things, and presents a roadmap to a more inclusive economy.<sup>17</sup>

- Economic factors. These include factors such as the economic growth rate, the inflation rate, interest rates and exchange rates. Economic forces influence the demand for products and services, so it is important for strategists to monitor and forecast events in the domestic and global economies. Economic forces are often interdependent with socio-cultural forces. For instance, an ageing population can influence unemployment figures and salaries of a younger workforce significantly.
- Socio-cultural factors. These include factors such as social values, culture, lifestyles and demographics. Stakeholder groups are products of society. Their values, morals, beliefs and subsequent behaviours and lifestyles are therefore influenced by society at large. Developing social trends may also offer organisations various opportunities. For example, health and fitness lifestyle trends have created opportunities in the home fitness, nutritional supplement, low carbohydrate food and even bicycle industries. Organisations therefore stand to gain if strategists can identify and assess the effects and opportunities presented by socio-cultural forces, as well as manage and sustain their relations and reputation with stakeholder groups.

- 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. They also have the power to transform society and revolutionise the way business is conducted. This is evidenced by the rise of the internet, as well as by the communication and computing industries. Innovation and technology can spill over from one industry to another, especially if they are closely related. The opening case study indicated that technology is responsible for changes in the metered taxi industry. Uber became a major role-player in this industry, which reinforces the statement that organisations should also monitor developments in innovation and technology in neighbouring, related and even unrelated industries. Strategists need to evaluate the consequences for their own products and services, creating strategies that could take advantage of these changes.
- Legal factors. These include factors such as regulations and laws with which organisations must comply. No organisation is fully exempt from government legislation and regulations. However, not all laws and regulations apply equally to all organisations. Some (such as smoking laws) pertain to specific industries, whereas other legislation (such as occupational health and safety, labour relations, and employment equity in South Africa) cuts across entire industries. In our case study, it was indicated that the South African government finds it difficult to regulate the new industry created by Uber. Once regulated, it will have an influence on Uber, as well as on the metered taxi industry.
- Environmental factors. These include ecological and environmental forces of nature such as weather, climate, climate change and associated factors such as water shortages. The Western Cape water crises in 2017/2018, as a result of prolonged drought, is affecting all industries in South Africa, especially the agricultural, hospitality and tourism industries. Even households and individuals are affected. For example, in 2018 Cape Town households were faced with water and sanitation tariff increases of approximately 27 per cent. An increase in these tariffs will have a negative effect on consumer behaviour and spending patterns, influencing all industries. The principles of the UNGC, alluded to earlier in Section 5.1, calls on organisations to align their strategies to their environmental principles.
- Global factors. Organisations are operating in an increasingly global economy. Examples of global trends<sup>18</sup> which have the potential to significantly affect and challenge strategists and leaders in the next 30 years are briefly discussed in Table 5.2.

Table 5.2 *Global trends*

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Increasing population</b>	The world's population is increasing fast from 7.6 billion in June 2018 to an expected 9.7 billion by 2050. <sup>19</sup> The South African population, as on 4 June 2018, based on the latest United Nations estimates, is 57,348,015 <sup>20</sup> and is expected to grow to 72,754,583 by 2050. <sup>21</sup>	The need for basic necessities, such as food, water and housing, will increase as the population increases, while, at the same time, water and food sources will come increasingly under pressure due to diminishing farmland and pollution.
<b>Increasing urbanisation</b>	Megacities with 10 million or more inhabitants will become commonplace. In South Africa, Johannesburg is set to be classified as a megacity by 2030, with its population exceeding 10 million people <sup>22</sup> , while Lagos, Cairo and Kinshasa will each have to cater for over 20 million people. <sup>23</sup>	Due to the high urbanisation rate, the need for various products and services (such as the need for education, water, electricity, housing and medical services) to mention only a few, increases.
<b>The spread of infectious disease</b>	Migration and cross-border flow of labour and goods are increasing, causing the likelihood of epidemics and the spread of infectious diseases such as hepatitis A, typhoid fever, and malaria. An outbreak of listeriosis (a serious foodborne disease) has been ongoing in South Africa since the start of 2017. There were 978 laboratory-confirmed cases and 183 fatalities reported over the period 1 January 2017 to 14 March 2018.	Infectious diseases (such as malaria and meningitis) cause a growing demand for preventative measures (such as insect repellents and inoculations) and treatment options. Outbreaks of foodborne diseases may require strategists to place more emphasis on preventative quality controls, and to act quickly in the case of an outbreak. The food processing company and three of its retailers export to 15 countries in the African region. All of the affected countries had to recall the implicated products. <sup>24</sup>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Natural resource crises</b>	<p>The global natural resource crises are worse than its financial crises. The 2016 Living Planet Report<sup>25</sup> calculates that humans are using 30 per cent more natural resources than the Earth can replenish each year, which is leading to deforestation, degraded soils, polluted air and water, and dramatic declines in the number of fish and other species. The problem is also getting worse as populations and consumption keep growing faster than technology can find new ways of expanding what can be produced from the natural environment. This has led to the prediction that by 2030, if nothing changes, humankind will need two planets to sustain its lifestyle.<sup>26</sup> In Africa and South Africa specifically, the need for and conflict over water resources are prominent.<sup>27</sup> Since 2014, the City of Cape Town has been experiencing a record drought for three consecutive years (the worst in more than a century). The drought, exacerbated by climate change and population growth, has sparked a water crisis in Cape Town. In March 2018, municipal leaders warned that residents are increasingly likely to face a 'Day Zero' scenario. Day zero is defined as the day when the supplying dams are depleted, and residents are expected to live on less than 25 litres per day. If the city is unable to deal with the crisis, then four million people may have to stand in line surrounded by armed guards to collect rations for drinking water.<sup>28</sup></p>	<p>Organisations will increasingly be required to operate in ways that are environmentally sustainable by reducing their carbon footprint, reducing waste and reducing their water usage.</p>

Global trends	Explanation	Examples of implications for strategists
Environmental degradation	<p>Biodiversity is often used as an indicator of the state of the natural environment since it refers to the diversity of micro-organisms, plants and animal species, as well as to the ecosystems within which they interact and live. The 2016 Living Planet Report indicates the Living Planet Index (LPI), which measures biodiversity by gathering population data of various vertebrate species and calculating an average change in abundance over time. The LPI can therefore be regarded as an important indicator of the planet's ecological conditions. From 1970 to 2012, the LPI shows a 58 per cent overall decline in vertebrate species (mammals, birds, fishes, amphibians and reptiles). The most common threat to declining populations is the loss and degradation of habitat. This refers to the modification of the environment where species lives, by either complete removal, fragmentation or reduction in quality of key habitat characteristics. Common causes are unsustainable agriculture, logging, transportation, residential or commercial development, energy production and mining. For freshwater habitats, fragmentation of rivers and streams and abstraction of water are common threats. Species overexploitation, pollution, invasive species, disease and climate change are further threats and contribute to environmental degradation.<sup>29</sup> The decline in species populations is inextricably linked to the state of the ecosystems that sustain them. Destruction of these ecosystems represents a risk, not just to plants and animals, but to humans as well - ecosystems provide us with food, fresh water, clean air, energy, medicine and recreation. Human life depends upon healthy and diverse natural systems for the regulation and purification of water and air, climate</p>	<p>Organisations will increasingly have to understand the impact that its current and future operations will have on biodiversity and the ecological systems that they operate in. This is already becoming part of the legal environment. For example, in South Africa Environmental Management Inspectors (also known as the 'Green Scorpions') specifically police for transgressions of environmental laws and regulations.</p>

Global trends	Explanation	Examples of implications for strategists
Economic integration	<p>Economic integration refers to an agreement between countries in a geographic region to reduce and ultimately remove, tariff and non-tariff barriers to the free flow of products or services and factors of production among each other.<sup>30</sup></p> <p>Economic integration is a phenomenon of the second half of the 20th century that has been experienced on a varying scale and intensity throughout the world. Countries from all continents seem eager to join economic alliances that range from customs unions to areas of full economic integration, such as the European Union. Strong and weak economies participate in such groups, aiming at stability and growth.</p>	<p>Inevitably, participating in these alliances conveys important changes in the domestic business environments of organisations. For example, the competition in the market environment of organisations may change completely as a result of economic integration. Changes in the quantity and quality of demand may also appear, requiring strategists to reconsider and change organisational strategies based on these changes. South African President Cyril Ramaphosa on 20 March 2018 punted the idea of a single currency for African countries in a bid to attract infrastructure investment and enable intra-African trade, a decision that will have an influence on all participating countries and organisations within these countries.</p>
Advances in technology and information technology	<p>Advances in technology create new processes, systems, material, equipment and components. New technology enables organisations to develop new and innovative products and/or services. Advanced information systems can disseminate essential, timely and accurate information faster and more efficiently. New processes can increase the productivity of organisations. New technology and information technology results in increased competition and forces organisations to use the latest technology to sustain their competitive advantage.</p>	<p>Organisations need to be aware of technological changes and how they affect their businesses. While organisations can use technology to improve their own efficiency, they can also be the victims of technology. There is the obvious threat of hacking, which means that organisations have to pay very close attention to cybersecurity. On a more fundamental level, technology can enable new breeds of competitors and change the business landscape, as we saw in the Uber case study earlier in this chapter.</p>

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**Peet Venter & Tertia Botha (eds)**



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# CONTENTS

PREFACE .....	ix
ABOUT THE AUTHORS .....	xi
ACKNOWLEDGEMENTS .....	xiii
CHAPTER 1: THE RELATIONSHIP BETWEEN GENERAL MANAGEMENT PRINCIPLES AND STRATEGIC MANAGEMENT .....	1
1.1 Managers and management .....	6
1.2 The management process .....	7
1.3 Levels of management .....	11
1.4 Areas of management .....	13
1.5 The hierarchy of organisational plans .....	14
1.6 The composition of the management environment.....	16
1.7 Stakeholders and stakeholder relationship management .....	22
1.8 Competitive advantage, sustainable competitive advantage and transient competitive advantage .....	23
The big picture .....	27
Summary of learning outcomes.....	27
Discussion questions .....	29
Learning activities.....	30
Endnotes .....	30
CHAPTER 2: INTRODUCING THE PRACTICE OF STRATEGY .....	31
2.1 The origins of strategic management.....	33
2.2 The universal principles of strategic management .....	34
2.3 Defining strategy .....	40
2.4 Strategic decisions .....	43
2.5 How do we measure the success of strategy? .....	44
2.6 A contemporary strategic management framework .....	45
The big picture .....	49
Summary of learning outcomes.....	49
Discussion questions .....	50
Learning activities.....	51
Endnotes .....	51

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

CHAPTER 3: A PROCESS PERSPECTIVE OF STRATEGIC MANAGEMENT .....	53
3.1 A process perspective of strategic management .....	57
3.2 The new competitive realities - criticising the process perspective of strategic management .....	62
3.3 The management levels involved in strategic management .....	62
3.4 Strategic planning .....	63
3.5 Strategy implementation .....	73
3.6 Strategy review and control .....	75
The big picture .....	76
Summary of learning outcomes .....	76
Discussion questions .....	78
Learning activities .....	78
Endnotes .....	78
CHAPTER 4: STRATEGISING AND STRATEGISTS .....	81
4.1 The process and practice perspectives of strategic management .....	85
4.2 Strategising .....	88
4.3 Deliberate and emergent strategising .....	88
4.4 Strategists .....	90
The big picture .....	96
Summary of learning outcomes .....	97
Discussion questions .....	97
Learning activities .....	98
Endnotes .....	98
CHAPTER 5: THE EXTERNAL CONTEXT OF STRATEGY .....	101
5.1 The external environment in the context of strategic management .....	105
5.2 The importance of strategic context in strategic planning and decision-making .....	107
5.3 Analysing the remote environment .....	108
5.4 Analysing the market environment .....	125
5.5 Strategic responses to changes in the external environment .....	134
The big picture .....	137
Summary of learning outcomes .....	138
Discussion questions .....	139
Learning activities .....	139
Endnotes .....	140

CONTENTS

CHAPTER 6: STRATEGIC RESOURCES AND CAPABILITIES .....	145
6.1 The importance of resources, capabilities and core competencies in strategic management.....	148
6.2 Appraising the value of resources and capabilities.....	155
6.3 The resource-based view of internal analysis.....	158
6.4 The identification of capabilities and core competencies to create value .....	160
6.5 The contribution of resources, capabilities and core competencies towards competitive advantage and sustainable competitive advantage .....	165
6.6 Capturing the value generated by resources, capabilities and core competencies .....	170
The big picture .....	171
Summary of learning outcomes: .....	172
Discussion questions .....	173
Learning activities .....	173
Endnotes.....	174
CHAPTER 7: DEVELOPING AND CHOOSING APPROPRIATE STRATEGIES .....	177
7.1 Strategic goals and strategic choices .....	182
7.2 Corporate level strategic options: creating corporate value and synergy .....	184
7.3 Managing the multi-business organisation .....	194
7.4 Business-level strategic options: creating and sustaining competitive advantage.....	196
7.5 Evaluating strategic choices .....	200
The big picture .....	201
Summary of learning outcomes .....	201
Discussion questions .....	202
Learning activities .....	203
Endnotes.....	203
CHAPTER 8: STRATEGY IMPLEMENTATION AS CHANGE MANAGEMENT .....	207
8.1 What is strategy implementation and how does it differ from strategy formation? .....	211
8.2 Barriers to successful strategy implementation.....	213
8.3 Principles of strategy implementation .....	214
8.4 Change - a fundamental strategy implementation element .....	219
8.5 Types of strategic change .....	220
8.6 Models of planned change .....	222

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

8.7 Barriers to successful strategic change andways to overcome them .....	229
The big picture.....	231
Summary of learning outcomes .....	231
Discussion questions .....	233
Learning activities .....	233
Endnotes.....	234
CHAPTER 9: THE LEARNING ORGANISATION .....	235
9.1 What is a learning organisation? .....	237
9.2 Barriers to organisational learning .....	239
9.3 Individual learning .....	241
9.4 Transferring knowledge to others.....	242
9.5 Becoming a learning organisation .....	244
The big picture.....	250
Summary of learning outcomes .....	251
Discussion questions .....	252
Learning activities .....	252
Endnotes.....	252
CHAPTER 10: RESOURCE ALLOCATION FOR STRATEGY IMPLEMENTATION ...	255
10.1 Resource allocation for strategy implementation .....	257
10.2 A strategic execution framework .....	265
10.3 Managing strategic initiatives.....	270
10.4 Creating an environment for effective resource allocation .....	275
The big picture.....	276
Summary or learning outcomes.....	277
Discussion questions .....	277
Learning activities .....	277
Endnotes.....	278
CHAPTER 11: ORGANISATIONAL CULTURE AND STRATEGY .....	279
11.1 Organisational culture.....	283
11.2 The layers of organisational culture .....	283
11.3 Cultural assessment .....	288
11.4 Instilling an organisational culture that supports good strategy implementation .....	291
11.5 Culture indicators.....	293

## CONTENTS

11.6 Key considerations in organisational culture and strategy .....	294
The big picture.....	295
Summary of learning outcomes.....	296
Discussion questions .....	297
Learning activities .....	298
Endnotes.....	298
 CHAPTER 12: RESPONSIBLE STRATEGIC LEADERSHIP .....	301
12.1 Leadership versus management .....	305
12.2 The role of strategic leadership in strategy implementation .....	307
12.3 Responsible strategic leadership.....	309
12.4 Practising responsible strategic leadership.....	314
12.5 Sustainability and sustainable development .....	316
The big picture.....	319
Summary of learning outcomes.....	319
Discussion questions .....	320
Learning activities .....	321
Endnotes.....	321
 CHAPTER 13: ORGANISATIONAL STRUCTURE AND STRATEGY .....	323
13.1 Organisational structure and the role of top management in organisational design .....	326
13.2 Organisational structure alternatives .....	330
13.3 Applications of organisational structure .....	342
The big picture.....	345
Summary of learning outcomes.....	345
Discussion questions .....	346
Learning activities .....	346
Endnotes.....	347
 CHAPTER 14: STRATEGIC CONTROL AND RISK MANAGEMENT .....	349
14.1 Defining strategic control .....	351
14.2 Strategic control and the strategic management process .....	353
14.3 Types of strategic control .....	354
14.4 The balanced scorecard as a strategic control tool .....	357
14.5 Risk, strategic risk and strategic risk management .....	359
14.6 Corporate governance.....	363

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

The big picture.....	366
Summary of learning outcomes <sup>r+</sup> .....	367
Discussion questions.....	368
Learning activities.....	368
Endnotes .....	369
GLOSSARY OF KEY TERMS.....	371
INDEX .....	<b>383</b>

# Preface

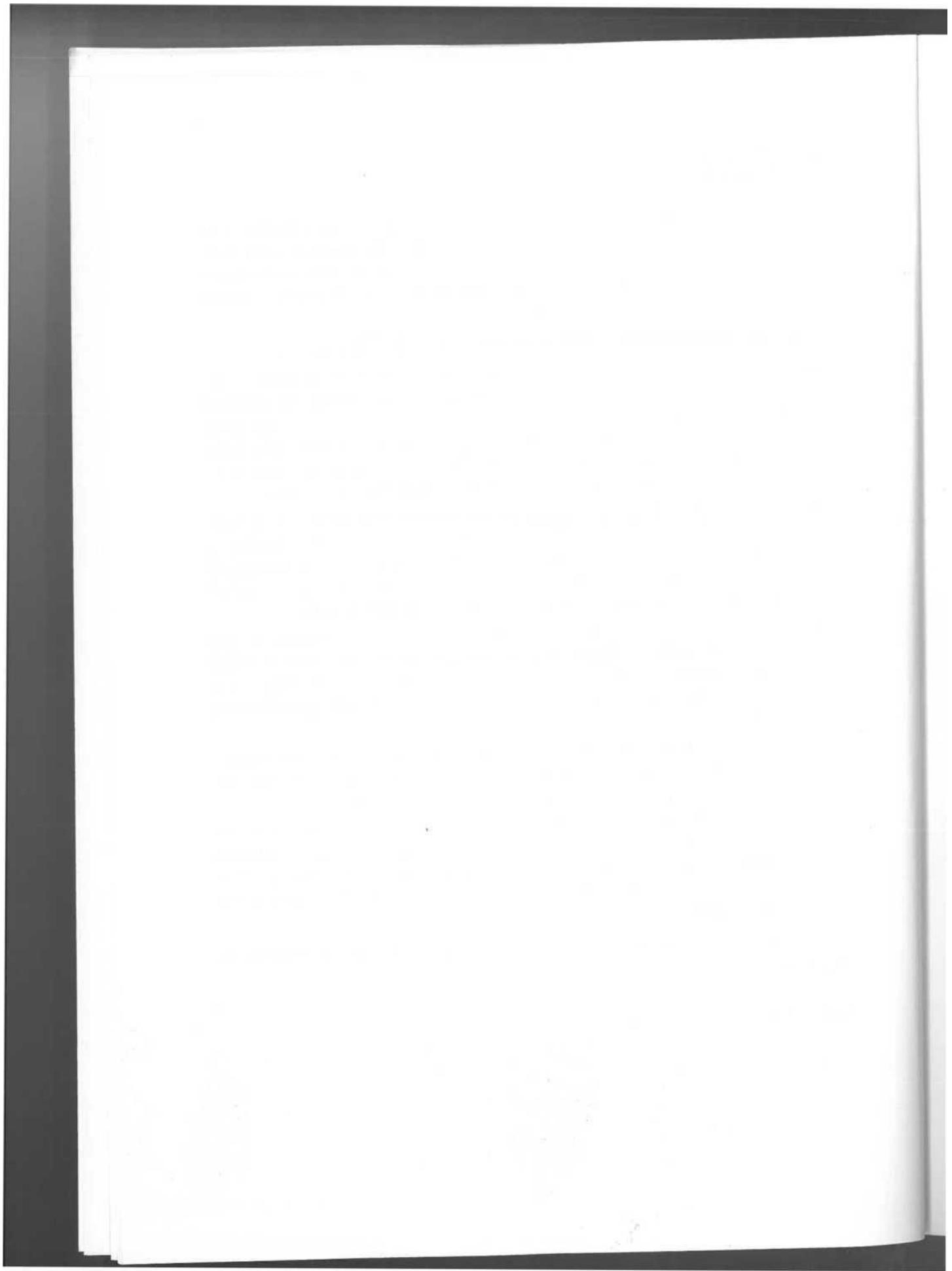
A question that I was asked often when writing and compiling this book (and that, in all honesty, I had asked myself more than once) was: why another strategy book? There were, after all, quite a number of books, international and local, already available on the South African market. It became clear that we had to position this book definitively to make a unique contribution to the extant body of knowledge.

So how, then, is this book different? We believe that there are five key aspects:

- A cursory review of strategic management books shows that the focus is very strongly on the process of strategy formulation, i.e. the thinking and analytical aspects of strategic management, as opposed to the 'doing' part of strategy, which is often dealt with in one or two chapters towards the end. Given that it is the greatest challenge to managers in the 21st century and the greatest reason for strategy failure, we decided to focus on strategy implementation instead.
- Most strategic management books portray strategic management as a neat, analytical and rational process that flows from top to bottom in the organisation. Rather than promoting the unrealistic idea of strategy as a purely rational and deliberate outcome, we acknowledge and explore the idea that strategy is often emergent, messy and experimental, and above all a human activity.
- Top management has long been regarded as the custodians of strategy. The idea that there are other strategists (human and non-human actors) such as middle managers and consultants that influence the strategic direction of the organisation and distribution of resources emerged only relatively recently, and we include this factor.
- We focus on strategy as something that people 'do' rather than something that an organisation 'possesses'. Since people are the building blocks of strategy, we recognise that strategy is both a cognitive and political activity.
- Most South African textbooks rely on secondary sources. While we use recent secondary sources from the extant body of knowledge, we conducted primary research among southern African top and middle managers and drew on these managerial perspectives to enrich our material with firsthand accounts of the strategy experience.

We trust that you will find value in the contemporary and different perspectives we present in this book.

Peet Venter



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Peet Venter is a Professor of Strategy at the University of South Africa's Graduate School of Business Leadership (the SBL). He holds an MBA from the University of Pretoria, and a Doctor of Commerce in Business Management from the University of South Africa. In addition to his more than 20 years' experience in teaching and supervising postgraduate students in management and strategy, Prof Venter has considerable practical experience in the telecommunications industry, and has worked on many strategic projects in various private and public organisations. He has published widely in the areas of strategy and strategic marketing.

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## PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

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# The relationship between general management principles and strategic management

Tersia Botha

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- LO 1: Explain the concepts 'manager' and 'management'.
- LO 2: Explain the management process, indicating the four characteristics thereof.
- LO 3: Differentiate between the various levels of management.
- LO 4: Explain the various areas of management.
- LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.
- LO 6: Explain the composition of the management environment.
- LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.
- LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.

## KEY WORDS

- Areas of management
- Competitive advantage
- Effectiveness
- Efficiency
- Leading
- Lower management
- External environment
- Management functions
- Management process
- Management
- Manager
- Market environment
- Micro-environment
- Middle management
- Objective
- Operational plans
- Organising
- Planning

- Remote environment
- Resources
- Stakeholder
- Strategic plan
- Sustainable competitive advantage
- Tactical plan
- Top management
- Transient competitive advantage

## CHAPTER ORIENTATION

Why do business organisations exist? Take a few moments to ponder this question. Business organisations exist for various reasons. Entrepreneurs generate new business ideas, determine the feasibility and viability of these ideas and start new business ventures, in which resources are transformed into need-satisfying products and services, which are then sold to customers. The entrepreneur hopefully realises a profit, of which a part thereof is reinvested in the business organisation in order to grow and develop the business, ensure its long-term survival, create jobs, contribute to the wealth and wellbeing of society and remunerate the owners for the investment made in the organisation. As the business grows, the role of the entrepreneur changes from being the inventor of new ideas, to the manager of the business organisation. The bigger the organisation becomes, the more complicated the management process becomes, which bring us to the next fundamental question - what is the best way to manage an organisation?

When we study the evolution of management theory, this is the one recurring theme that management theorists attempt to answer. Do a quick Google search for the best way to manage an organisation. You will find thousands of views on this topic - ranging from 'tips to manage a small business' to 'how to manage a big corporate effectively and efficiently'. The reason for the numerous views on this topic is to enable us to see the proposed 'best' way to manage a business organisation in the context of the social, political, economic, technological, international, and ecological forces that affect organisations and society at a specific time. As these forces change (and they change constantly and at an accelerating pace), business managers need to change and adapt to changing circumstances in the management environment. Changing circumstances lead to great uncertainties for businesses, particularly in respect of their sustainability and management.

The opening case provides us with an example of a highly successful organisation that did extremely well on ground level - there were 88 Health and Racquet Clubs in South Africa and 22 abroad, realising a turnover in excess of R1 billion in December 1999,

with after-tax profits of R100 million per annum. The company employed thousands of people and had a membership in excess of one million. In spite of its good financial performance, the company failed. Why? Firstly, the reason for the company's failure can be ascribed to a lack of strategic management. The company's board, which is mainly responsible for strategic management and leadership, became dysfunctional, resulting in a company that lacked strategic direction, a coherent strategic plan, and an effective and efficient management team to implement the strategic plans, and well-formulated action plans. Lastly, poor and ineffective communication, with little concern for corporate governance, led to the failure of the company.

The purpose of this book is to provide the reader with the necessary background and information, to be able to practise strategy successfully in the contemporary business environment. Essentially this means to:

*develop a long-term and coherent strategic plan within the opportunities and constraints of the business environment, that leads to the development of strategic actions that need to be implemented and controlled, that will put the organisation in a position of advantage and enable it to survive over the long term and realise its long-term vision, goals and plans.*

Before we can focus on practising strategy, we first need to address the relationship between general management and strategic management. This chapter will commence with an explanation of managers, management and the management process, the various levels and areas of management, followed by an explanation of the hierarchy of organisational plans. Thereafter, we will focus on the composition of the management environment, stakeholder and stakeholder relationship management. Finally, competitive advantage, sustainable competitive advantage and transient competitive advantage will be addressed.

## Case study

### LeisureNet - Death of a business

For a few weeks in September and October 2000, Peter Flack was the interim chief executive officer of the ill-fated South African company LeisureNet. He had been called in as a turnaround specialist. He found that the company had deteriorated so far and so fast that all that could be done for it was to close it.

LeisureNet was a large business, but the lessons Flack draws from the LeisureNet failure need to be learned by every manager. Flack's account of one of South Africa's most spectacular corporate failures is briefly provided below.

Every organisation, whether it be a club, church, company or country, requires four basic ingredients for it to be successful. These are leadership, a strategic plan, a management team capable of implementing the strategy, and an action plan which breaks the strategic plan down into measurable bits. A business is measured against these factors.

LeisureNet, a successful and profitable company, invited one of the directors of Coronation FRM to sit on their board. A brief look at the results for the year to December 1999 showed a group with a turnover in excess of R1 billion and which made in excess of R100 million after tax per annum. As a rough rule of thumb, companies that produce after-tax profits equal to 10 per cent of gross revenue are considered healthy businesses.

The company operated 85 Health and Racquet (HEtR) Clubs in South Africa and employed 4,500 people who provided an excellent service to nearly one million club members. In addition, the company expanded offshore and had built 22 HEtR Clubs in Australia, Britain, Germany and Spain, with a number being in the process of construction. On the surface, LeisureNet was a company with strong leadership, a clear strategy and an obviously competent management team.

At the first board meeting that Flack attended, it was clear that the board had become dysfunctional and there was conflict between the executive and non-executive directors. The previous joint chief executive officer of LeisureNet had been transferred to Healthland International Limited (again as joint chief executive officer). Healthland International Limited was a company that operated health and fitness clubs in Australia. The previous leaders had sold almost all their interests in LeisureNet and had been awarded a substantial and meaningful stake, free of charge, in Healthland International Limited. LeisureNet's young managing director of the South African operations had been approached to take the job as CEO of LeisureNet but had not accepted the position, and the terms of his appointment had not been finalised. It was clear that there was a problem with leadership.

Part of the conflict at board level was due to the fact the LeisureNet had been used to fund, staff and train employees of Healthland. The HEtR Club business had been pillaged to establish Healthland's operations and all available cash had been invested in Healthland and little, if any, in the HEtR Club business. Some R370 million of this available cash had come from selling shares. The result was a lack of maintenance and refurbishment at HEtR Clubs.

On closer examination, there was no strategic plan. A strategy, which is not reduced to writing, is a hope, wish or prayer, but not a plan. A strategic plan requires that its participants follow a procedure, which identifies and analyses the various internal and external issues that affect the business.

The lack of a coherent strategic plan in LeisureNet can be seen from the fact that the company had over the previous five years, when it was still in business, also established a food business, a golfing business, an education business, a casino bid, a gymnasium equipment supplier, a restaurant and the six-member Imax theatre chain. Despite the fact that LeisureNet owned only half the equity of the Imax group, the company guaranteed 100 per cent of the leases of the purpose-built facilities housing the theatres and which extended over 13-20 years.

Structure follows strategy and the lack of strategy manifested itself in the composition of the board of directors of LeisureNet. Instead of the various disciplines inherent in a company being represented on the board of directors, for example, finance, information systems, human resources and the line operations, the board consisted of two former joint chief executive officers, the managing director of the local operations and a host of non-executive directors.

Although the management information system was homegrown and, in many instances, required a duplication of effort, the accounting system, sales system, marketing and human resources procedures were well thought out. In moving offshore with Healthland International Limited, the business there had adopted the best of the local operating systems, acquired a standard management information system and had recruited the most senior of the local managers. The glaring omission, however, related to the position of chief financial officer and the treasury and cash management functions for this massively cash-hungry growth business in a state of rapid development. Ultimately, this gap in the management structure caused the downfall of Healthland as there was no action plan of any kind.

The group, with the notable exception of the HStR Club business, did not meet, let alone pass, any of the standards required by the four components for any successful business, namely, leadership, strategic planning, management and action planning. There were two other glaring omissions, namely, a lack of corporate communications and corporate governance.

The group could have been saved had it been possible to raise sufficient money to complete the building of the Healthland clubs under construction, or if the sale of these offshore clubs could have been concluded in a way that would have released LeisureNet from its obligations to the Healthland group. In the end, both attempts failed. Both of these failures can be traced back to fundamental flaws in the issues of leadership, strategy, corporate communications and corporate governance.

Source: Adapted from Flack, P. 2001. 'Death of a Business'. *Succeed Magazine*, June/July.

LO 1: Explain the concepts 'manager' and 'management'.

## 1.1 Managers and management

Although the term 'manager' has many meanings, for the purpose of this chapter, we will define a manager as a person who is responsible for running a part of or an entire organisation. The term 'management' refers to the interlocking functions that managers perform. For the purposes of this book, management is defined as:

*the process of working with and through others to achieve organisational objectives in a changing environment.*

Managers experience more pressure today than at any other time in history. Changes in the world that are impacting on managers include the growing globalisation of economies, technological innovations, trends towards democratisation, increasing social imbalances and climate change, to mention only a few. In South Africa, the credit rating agency S&tP Global downgraded the country's credit rating in November 2017 to full junk status, while its counterpart Moody's placed the country on review for a downgrade. The downgrading followed a similar announcement by third major rating agency Fitch, affirming South Africa's rating at sub-investment or so-called 'junk status'. The reason for the downgrade by this agency was the weak economic growth in the country that led to the deterioration of public finances beyond previous expectations. It also flagged the role that the political turmoil of the country played in hamstringing policy.<sup>1</sup> Having a credit rating at sub-investment level means that South Africa is not regarded as a country with good investment opportunities and investors will be hesitant to invest money in the country's private and public sectors - resulting in a slower economic growth rate, a lower gross national product, and a threat to business managers.

Business managers need to cope with diverse and far-reaching challenges such as these constantly. They have to keep pace with ever-advancing technology and find ways to incorporate the internet and e-business into their strategies and business models. They must strive to remain competitive in the face of increasingly tough global competition, uncertain environments, cutbacks in personnel and resources, and massive economic, political and social shifts. The diversity of the workforce creates other dynamics: How can managers maintain a strong corporate culture while supporting diversity, balancing work and family concerns, and coping with the conflicting demands of all employees for a fair chance at power and responsibility? The field of management is undergoing a revolution that requires managers to do more with less, to see change rather than stability as the nature of things, and to create a vision and cultural values that enable people to create a truly collaborative and enabling workplace.

Successful organisations don't just happen; they are managed to be that way. To be successful under such circumstances, every organisation needs skilled managers. In our opening case, we saw a once successful organisation that closed due to poor management and more specifically, poor strategic management.

The question that we can ask ourselves now is what should managers do to achieve organisational objectives as effectively and efficiently as possible within a changing environment? The objective of this chapter is to provide the reader with a contemporary view of general management principles and the application thereof in modern organisations, and to demonstrate the relationship between these general management principles and strategic management. This will lay the foundation for the contemporary strategic management principles that will be discussed in the remainder of the book. Everything addressed in subsequent chapters of this book relates to practising strategy in contemporary organisations and the job of the modern strategist.

LO 2: Explain the management process, indicating the four characteristics thereof.

## 1.2 The management process

For the purposes of this book, management is defined as:

*the process of working with and through others to achieve organisational objectives  
in a changing environment.*

Although this may seem to be a very simplistic definition, we can identify four major characteristics, namely:

- (1) management is a process
- (2) management entails working with and through others
- (3) management aims to contribute to the realisation of organisational goals and objectives, and in doing so, management needs to balance effectiveness and efficiency and makes the most of limited and scarce resources
- (4) management needs to cope with a changing environment.

Each of these components will be discussed in more detail below.

### 1.2.1 Management is a process

In general, a process can be described as a structured, interrelated set of activities that, when executed, produce a specific output. The management function in an organisation can also be viewed as a process.

Managers need certain inputs (or resources) to deliver certain outputs (or performance). Managers need people (human resources); capital (financial resources), physical resources, raw materials, components, information, and entrepreneurial and management skills to produce products and/or services, create jobs, make a profit, achieve organisational goals and add value, and contribute to the wealth of society. The transformation of inputs to outputs requires management to perform certain activities or functions. All managers, regardless of the type of organisation, the

level at which they are involved, their designated role(s) or specific skills, engage in some manner in four fundamental, interrelated activities in order to achieve some or other goal(s), also called the management functions. These functions are planning, organising, leading, and controlling.

- Planning is the management function that determines the organisation's vision, mission, strategic direction and goals. It involves identifying ways of realising the goals, adding value to the organisation and its stakeholders and finding the resources needed for the task within a complex environment. Plans are mostly made by top management and its duration varies from one to five or even ten years. These are called 'strategic plans'. Tactical plans are made by functional managers (such as financial, human resources, research and development, marketing and operations managers) to support the organisation's long-term plans. Operational plans are made by lower management (often called 'first-line' or 'supervisory' management) to plan for short periods ahead. Planning has a top-down nature in organisations, originating from top management and cascading down to lower levels of management and even at the level of the individual worker in an organisation.
- Organising is the second step in the management process. Once the goals and plans have been determined, management has to allocate the organisation's resources to relevant departments or individuals. Tasks, roles and responsibilities must be defined and policies and procedures established to achieve the goals. Thus, organising involves developing a framework or organisational structure to indicate how people and other resources should be deployed to achieve the goals. The success of an organisation lies in directing the different resources towards the achievement of a common set of goals. The better the resources are co-ordinated and organised, the more successful the organisation will be. Because organisations have different goals and resources, it stands to reason that each one should have an organisational structure that will accommodate its needs. Management must match the organisation's structure to its strategies. This process is called 'organisational design'.
- Managers are responsible for getting things done through other people - they collaborate with their superiors, peers and subordinates, with both individuals and groups, to attain the goals of the organisation. Leading the organisation entails using influence and power to motivate employees to achieve goals. Leading from the top means communicating strategic goals and motivating departments, sections and individuals to perform as well as they can.
- Controlling means that managers should constantly make sure that the organisation is on the right course to attain its goals. Control also enables management to identify and rectify any deviations from the plans, and to consider factors which might oblige them to revise their goals and plans.

It is important to realise that the functions of management do not occur in a tidy, step-by-step order. At any given time, a manager is likely to be engaged in several management functions simultaneously.

While performing the planning, organising, leading and controlling functions, managers are constantly faced with opportunities and threats that need to be addressed and decisions that need to be made. When planning, a manager needs to make decisions about goals and when, where and how they should be realised. When controlling, the manager may find out that the goals have not been realised. Thus, a problem exists that needs to be solved and the manager needs to decide on the most appropriate course of action. When organising, managers must make decisions that involve the creation of an organisational structure and the deployment of resources that will enable the organisation to attain its goals. When leading, the manager must decide how to influence and direct the behaviour of followers so that they willingly pursue the goals of the organisation. Decision-making is therefore a central aspect of all four managerial functions. In the opening case, managers (and the senior manager especially) at LeisureNet made poor decisions, resulting in the failure of the organisation.

The term ‘resources’ is extremely comprehensive. The following basic resources can be found in all organisations, namely, people (human resources), money (capital or financial resources), raw materials (physical resources), knowledge (information resources), technology, information and components. Management utilises these resources to achieve the goals of the organisation as efficiently and effectively as possible. Resources are scarce and management’s biggest challenge is to utilise its resources as productively as possible. Managers need to make choices in terms of what programmes, projects and activities to pursue with the limited resources at their disposal. Managers also have the task of bringing resources together, deciding which resources are necessary for a specific situation or specific circumstances, and in what quantities, to achieve the organisation’s goals. The success with which an organisation achieves its goals and satisfies the ever-increasing needs of society depends on the competence of its managers in utilising its scarce resources. If managers utilise resources well, the organisation will be successful. If a country’s organisations are competitive and successful, the country as a whole will prosper because successful organisations satisfy needs, not only by producing products and services, but also by providing jobs and contributing to the wealth of society. The inputs or resources of an organisation are transformed to realise certain outputs, of which goal achievement, products, services, profit, job creation, efficiency and effectiveness are the most important outputs.

In the case study, we saw the detrimental effect of the poor management of LeisureNet’s financial resources - LeisureNet was used to fund, staff and train employees of Healthland. The Health and Racket Club business was pillaged to establish Healthland’s operations and all available cash was invested in Healthland, with very little in the Health and Racket Club business. This resulted in a lack of maintenance and refurbishment at Health and Racket Clubs.

### 1.2.2 Management entails working with and through others

Managers get things done by working with and through other people. Management is, above all else, a social process. Many collective purposes bring individuals together

- building houses and cars, publishing books, offering tertiary education, providing personal financial services, and so on. The activities that are needed to build a house or a car, publish a book, offer tertiary education programmes and to provide advice on personal finances, cannot happen on their own. In all cases, managers are needed to get things done by working with and through other people and other organisations.

The ability to work with and through others is therefore an important skill that managers should have in order to be successful. Problems with interpersonal relationships and failure to build and lead a team are often the reasons why managers fail, as we have already seen in the case study of this chapter.

### 1.2.3 Management aims to achieve organisational goals and objectives, balance effectiveness and efficiency, and make the most of limited resources

An objective can be described as a target to be strived for. A university student, for example, can set an objective for him or herself, to graduate with a specific degree by a given date. All actions taken or activities performed by the student, will be with the view to achieve this target. As with individuals, organisations formulate organisational objectives. Organisations will also be more successful when their activities are guided by challenging, yet realistic and achievable objectives. Organisational goals and objectives serve later as measuring sticks for performance. Without goals and objectives, the management process would be aimless and wasteful. In the case study, we determined that the absence of organisational goals and objectives, contributed to the failure of the company.

It is important to distinguish between the concepts of effectiveness and efficiency. Effectiveness is achieved when the organisation formulates and pursues appropriate (or stated) goals. Effectiveness, in essence, means ‘doing the right things’ in order to achieve the objectives of the organisation.

Given the reality of limited resources, effectiveness alone is not enough. An organisation also needs to be efficient. Efficiency enters the picture when the resources required to achieve an objective are weighed against what was accomplished. The organisation will be more efficient if the ratio between benefits (outputs or performance) and costs (inputs or resources) is more favourable. Efficiency essentially means ‘doing things right’. Efficiency is achieved by using the fewest inputs (such as the number of people employed or the amount of capital utilised during the financial year) to generate a maximum amount of output (such as a number of products produced or the profit realised within a financial year).

Managers are responsible for balancing effectiveness and efficiency. Too much emphasis on either effectiveness or efficiency leads to mismanagement. On the one hand, managers must be effective by getting the job done. On the other hand, managers need to be efficient by reducing costs and not wasting resources.

Too much emphasis on effectiveness will mean that the job gets done, but limited resources are wasted. Too much emphasis on efficiency will mean that the job gets done, but available resources are underutilised. Thus, the answer lies in a balanced emphasis on effectiveness and efficiency - the job gets done and limited resources are not wasted.

In a business context, organisations have access to limited and scarce resources and managers need to make the most of these resources. In the bigger picture, we live in a world of scarcity and limited resources. Although experts and non-experts alike may quibble over exactly how long it will take to exhaust our non-renewable resources or come up with exotic new technological alternatives, one fact remains: our planet is becoming increasingly crowded and sustainability and sustainable development should be among the main concerns for managers. Organisational sustainability means to maintain, to keep being, to preserve and to support, with structures to hold on to. For an organisation to be sustainable, it must sustain its resources and the uses thereof. It also means that organisations should balance their social, environmental (ecological) and financial aspects - the so-called 'triple-bottom line' which will be further explained in Section 1.7 of this chapter. In productive organisations, managers are the custodians of limited and scarce resources and it is their job to see that the basic factors of production are used efficiently and effectively.

#### **1.2.4. Management needs to cope with a changing environment**

Successful managers are the ones who anticipate and adjust to changing circumstances rather than those who are passively swept along or caught unprepared. In Section 1.5, we will elaborate on the management environment.

We can conclude this section with *Business Week's* amusing but challenging profile of tomorrow's managers: 'The next generation of corporate leaders will need the charm of a debutante, the flexibility of a gymnast, and the quickness of a panther. A few foreign languages and a keen understanding' of technology won't hurt either'.<sup>2</sup>

LO 3: Differentiate between the various levels of management.

### **1.3 Levels of management**

The management process and functions of management, explained in the previous section, merely provide us with a starting point for understanding what management and strategic management, specifically, entails. To add to the complexity of the process, management takes place at different levels and in different areas within organisations. While managers at each level and in each area must generally possess planning, organising, leading and controlling skills, certain job-specific activities and skills are more important at one level than at another.

Managers function at various levels in the organisational hierarchy. A small organisation may have only one layer of management, whereas a medium- to large-sized organisation may have several layers. In general, relatively large organisations (especially governmental organisations) have three levels of management: top-level managers, middle managers and lower-level managers.

- Top management, also referred to as senior management, represents the relatively small group of managers who control the organisation as a whole and with whom the final authority and responsibility for executing the management process rest. Top management is responsible for strategic planning that includes determining the vision, mission, strategic direction, overall goals, strategies and plans of the organisation. Top management is concerned mainly with strategic planning that has the following characteristics: first, strategic planning focuses on the entire organisation; second, it aims to reconcile the organisation's strengths and weaknesses in its internal environment, with the threats and opportunities in the external environment; third, strategic planning focuses on creating and maintaining a competitive advantage for the organisation; fourth, it considers synergy and aims to co-ordinate the efforts of departments and individuals to contribute to the attainment of competitive advantage and the long-term goals of the organisation; lastly, strategic plans filter down in the organisation to form the basis of tactical and operational plans.  
Top managers are also responsible for designing the organisation's broad organisational structure, leading the organisation (through the top executive) and controlling it. Top management also influences the corporate culture, organisational change, the allocation of resources on corporate level and determines the culture of the organisation in terms of organisational learning. Strategic managers continuously monitor the external and internal environment of the organisation to identify possible opportunities, threats, strengths and weaknesses. The annual reports of organisations usually depict their top management structure. This level of management generally comprises the board of directors, partners, the managing director, chief executive officers, management committees and other governing bodies. In this book, the focus will be on the top management of organisations and their responsibilities in terms of strategic management. Traditionally, top managers were considered the only people responsible for strategic management. The contemporary view of management suggests that top managers alone are not the only strategists and that any individual or group in an organisation that controls key actions can be regarded as a role-player in strategic management.
- Middle management, also referred to as functional management, is responsible for specific departments or functions of the organisation. Middle management primarily deals with tactical planning and implementing the policies, plans and strategies formulated by top management. It normally includes the functional heads, such as the marketing manager, the financial manager, the purchasing manager and the human resources manager. Middle management is concerned with the near future and is therefore responsible for medium-term and short-term planning, organising functional areas, leading by means of the departmental

heads, and controlling the management activities of the middle managers' own departments. Middle managers also continually monitor environmental influences that may affect their own departments. The trend in recent years of corporate restructuring, delayering, downsizing and decentralisation of decision-making has been responsible for large numbers of middle managers being made redundant. Electronic technology has reduced the need for middle management in some organisations. In the area of information management, in particular, computers have replaced the information-gathering tasks of middle managers. Middle managers are, however, still essential in linking the upper and lower levels of the organisation and in implementing the strategies developed at the executive level.

- Lower-level management (also called supervisory or first-line management) is responsible for even smaller segments of the organisation, namely, the different subsections. The managerial functions of first-line managers are centred around the daily activities of their departments or sections, on short-term planning, and on implementing the plans of middle management. Their primary concern is to apply policies, procedures and rules in order to achieve a high level of productivity, to provide technical assistance, to motivate subordinates and to accomplish day-to-day goals. Typically, they spend a large portion of their time supervising the work of subordinates. Because of this, first-line management is a vital force in the organisation. These managers hold the power to increase or decrease the productivity and output of most organisations. They also maintain the crucial interface between management and the major body of employees in the organisation. This level of management usually comprises titles such as office manager, shift supervisor, advertising manager, debtors' clerk or section manager.

LO 4: Explain the various areas of management.

## 1.4 Areas of management

We can distinguish between various functional areas of management in organisations, namely, finance, operations, human resources, procurement, research and development, public relations and marketing.

- The financial function is responsible for obtaining the necessary finances for an organisation at the lowest cost, investing these finances in assets that would earn greater returns than the cost of capital, as well as managing the profitability, liquidity and solvency of the organisation.
- The operations function includes that group of activities concerned with the actual provision of goods and services to the organisation's clients. Operations management systematically designs, directs and controls the process that transforms inputs into products and services for both internal and external customers.

- The human resources function involves the appointment, development and maintenance of the human resources of the organisation. To enable the organisation to operate at optimum levels, the human resources manager must appoint the right people and provide them with the right training in order to make the best use of them.
- The procurement function is concerned with buying the materials and resources needed to create products and services. The manager responsible for procurement needs to balance a number of constraints. He/she needs to ensure that the right product is available, at the right time, in the right quantity and of the right quality, at the best possible price.
- The research and development function is responsible for developing new products and services and improving old products and services. This function is critical in organisations that operate in fast-changing environments, such as information technology, communications, and so on.
- The public relations function of an organisation is responsible for creating a favourable, objective image of the organisation and for establishing good relationships with those directly or indirectly concerned with the business and its products or services.
- The marketing function is responsible for getting the final customer and client to buy the organisation's products or services. The marketing function is concerned with new product development, promotion and distribution.

While all the functions listed above are specialised areas of management, which require more specific and specialist skills, managers in each area still plan, organise, lead and control. A financial manager, for example, is responsible for determining the financial goals of the organisation, thus performing the planning function of management. The financial manager also needs to organise financial activities by allocating financial tasks to people so that financial goals can be achieved. The financial manager takes the lead in financial activities, motivating and directing members of staff in the financial section to perform their duties in pursuit of the financial targets. Lastly, financial managers need to ensure that financial goals are accomplished through the implementation of financial control mechanisms.

LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.

## 1.5 The hierarchy of organisational plans

From the discussions so far, we have learned that management is a process and that managers engage in some manner in four fundamental, interrelated activities (planning, organising, leading and control) in order to realise the goals of an organisation and to add value to the organisation and society. These activities are executed on various hierarchical levels of an organisation, and the focus of strategic management and of this book, is on the highest of these levels, namely, top or senior management. The

planning stage of the management process is a top-down approach, which entails top managers formulating a strategic plan, which is a document that indicates the direction of the organisation. A strategic plan consists of the following seven elements: vision; mission; analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis); core organisational values; goals; objectives and strategies.

- Strategic plans filter down in the organisation and form the basis of tactical plans crafted on middle management levels.
- Tactical plans focus on the functional areas of the organisation, are more specific than strategic plans and should take synergy into account. So, in other words, it should contribute to the attainment of the overall organisational goals. Tactical plans form the basis of operational plans, developed by middle and lower levels of management.
- Operational plans are narrowly focused, with a relatively short time horizon. Three basic forms of operational plans exist, namely, single-use, standing, and individual plans.
- Single-use plans are used once to meet the needs of a particular or unique situation. Programmes, projects and budgets are examples of single-use plans. In this context, a programme refers to a set of activities designed to accomplish a specific objective over a period of time. A programme consists of various projects, with predetermined completion dates and budgets. A budget can be described as a numerical plan for allocating resources to specific predetermined activities.
- Standing plans provide guidance because they deal with issues or problems that occur frequently. Policies, procedures and rules are examples of standing plans.
- Operational plans form the basis of individual plans, which are defined as the broader organisational plans that are translated into plans for the individual worker. It is also on the individual level that the implementation and execution of strategic plans commence, from where they culminate in the realisation of operational goals, and, ultimately, in the strategic goals of the organisation. The hierarchy of plans is depicted in Figure 1.1.

For managers to formulate realistic operational and individual plans, they need clear guidance and plans from strategic and tactical managers. Only if the different kinds of plans are understood, will lower levels of management and individuals be able to develop operational and individual plans.

The execution of the fundamental managerial activities by all levels and areas of management does not happen in isolation - the organisation (as a system) is part of a bigger system that we refer to as the management environment. The composition of the management environment is described in the next section.



Figure 1.1 *The hierarchy of organisational plans*

LO 6: Explain the composition of the management environment.

## 1.6 The composition of the management environment

It is crucial to realise that organisations and their managements, source inputs from the environment, transform them into outputs, which are then returned to the environment. These are the main elements of any system: input -► transformation -+ output. The success of the organisation as a system is largely determined by the efficiency and effectiveness illustrated by its management in performing planning, organising, leading and controlling functions. Furthermore, a system's success depends on successful interactions with its environment. In this context, the environment includes other sub-environments such as suppliers, labour unions, financial institutions, customers, and so on. The organisation is dependent on its external environment. Managements must therefore understand the structure and dynamics of the unique management environment of their organisations and, even more importantly, the unique strengths, weaknesses, opportunities and threats pertaining to the environment that impact directly or indirectly on the success of the organisation.

As the first step to a better understanding of the management environment, it is important for the manager to take account of its structure and dynamics. Without such an understanding, no realistic strategising can take place. Structurally, the management environment can be divided into the micro-environment, the market environment (industry) and the remote environment.

### 1.6.1 The micro- or internal environment

The micro-environment can also be referred to as the internal environment and includes the organisation's functions, policies, strategies, goals, objectives, and available resources, and also designates the area over which the manager has total or full control. Vodacom, a leading cellular network, has various features that we can identify from its micro-environment. For example, it represents a culture characterised by a winning spirit and passion for the job, progressive human resources policies, commitment to transformation, investment in social development programmes, successful staff retention programmes, competitive remuneration packages, successful skills development programmes, and commitment to ethical conduct and social development. Top or strategic managers play a profound role in the establishment of the micro-environment of the organisation. The factors in Vodacom's micro-environment are all under the direct control of its management, mainly the strategic managers of the company.

### 1.6.2 The external environment

The external environment comprises two major components, namely the market environment and the remote environment. The external environment also designates the area outside of the organisation over which the manager has no control.

#### 1.6.2.1 *The market environment*

The market environment lies between the micro-environment and the remote environment and forms a buffer between the organisations and the remote environment. Some authors refer to it as the operating, competitive, task environment or industry. Other authors, in turn, refer to it as the 'meso-environment' or the intermediate environment. For the purpose of this book, we shall refer to it as the 'market environment'. The market environment comprises the following sub-environments: (1) customers (clients), their needs, purchasing power, behaviour and bargaining power; (2) suppliers of capital, materials and labour and the bargaining power of suppliers; (3) the population from which the organisation recruits its labour force and the unions representing it; and (4) competitors, including new entrants, existing competitors, the availability of substitute products or services and complementary products or services.

## The customer

Customers can be defined as all those people or organisations that buy products or services from other people and other organisations. On the other hand, the market for the organisation's product and/or service consists of people who have needs to be satisfied and the financial means with which to satisfy their needs. The customer and the market for an organisation's product and/or service, is the main reason why an organisation exists. This is true for both private-sector and public-sector entities. For business entities in the private sector, to have no customers is to have no revenue and no profits; their survival depends on the customer. On the other hand, owing to their annual budget allocations from government, the supply of public-service entities do not depend, for their survival, on their products or services they supply to their customers, which is the community. Customers also exhibit buyer behaviour, which is influenced by variables in the macro-environment. For example, demographic trends affect the number of customers, economic trends influence the purchasing power of consumers, and cultural values can influence the buying behaviour of most customers.

## Competitors

Aside from customers, competitors are the single most important day-to-day force associated with an organisation. Competition in the market environment is a situation in which different organisations with more or less the same product or service compete for the business patronage by the same consumers. Every organisation that tries to market a service and/or product in the market environment is constantly up against existing competition. In the case of business organisations, the competition is other businesses currently active in the same market sector who are competing for a share of the market. New entrants refer to potential competitors that have the resources to enter the current market in which established organisations operate.

A thorough competitor analysis, in which strategic managers should play a major role, can help an organisation to understand, interpret and predict its competitor's actions and responses. Understanding the actions of competitors is clearly an important factor contributing to the organisation's ability to compete successfully.

## The labour market and labour unions

Although the labour market in economic theory equates to other markets, such as the financial market or the market for products and services, it has its own unique characteristics. The labour market comprises many different markets, such as those for various skill levels, occupations, age groups, industries, genders and geographical regions. These markets are to some extent interchangeable, yet barriers to mobility do exist. Another important difference between the labour market and other markets is the temporary nature of employment relationships. Once a purchaser buys products for consumption, it becomes the property of the buyer. This is not so with the employment relationship. Either the employer or employee may decide to terminate the relationships. This leads to greater fluidity and unpredictability in the labour

market. Organisation's ability to attract and retain capable employees from the labour market is essential to its success. This ability, on the one hand, is greatly influenced by the strategic managers of an organisation. On the other hand, an organisation's personnel recruitment and selection alternatives are often influenced by the nature of both its external and its internal environments. An organisation's access to needed personnel is affected primarily by three factors, namely, the organisation's reputation as an employer, local economic conditions and subsequent employment rates, as well as the availability of people with the required skills. Organisations thus also compete for skilled and competent labour with other organisations, where labour unions play an integral role. Again, strategic managers play a profound role in determining the organisation's reputation as an employer and in its ability to attract and retain the necessary skilled human resources.

### Intermediaries

In addition to consumers, competitors, the labour market and labour unions in the market environment, intermediaries also play an important role and affect the organisation directly and indirectly. Intermediaries act as middlemen between the manufacturer of products and services and the final consumer thereof. Intermediaries include wholesalers, retailers, agents and brokers, all of whom play a role in bringing a product or service from the manufacturer to the final consumer. Financial intermediaries, such as banks, insurers and other financial institutions, play a role in providing an organisation with the necessary capital to start and run a successful business.

### Suppliers

Organisations need various inputs and depend on suppliers to provide regular supplies of these inputs. Most of the inputs used by the organisation form part of a value- creation process manifested in the value chain. The value chain can be described as a chain of activities that an organisation, operating in a specific industry, performs in order to deliver a valuable product or service for the market that it serves. Through the use of a value chain, value can be created for the role-players and a sustainable competitive advantage created for the organisation. The concentration of suppliers and the availability of substitutes are, on the one hand, of extreme importance to the effective functioning and survival of the organisation, and, on the other, also significant factors in determining supplier bargaining power. The terms *competitive advantage* and *sustainable competitive advantage* will further be clarified in Section 1.8.

#### 1.6.2.2 *The remote environment*

The remote environment refers to the broader environment within which the organisation must function. The remote environment surrounds the market environment. It includes all PESTLE/G (explained in Chapter 5, Section 5.3.1) external influences that do not fall directly within the sphere of influence of the organisation, but which do have a bearing on its activities. When analysing the macro-environment, the emphasis falls on the changes that the uncontrollable variables at the macro-level

cause and the strategic implications these hold for the organisation. For the purpose of systematic analysis, a number of sub-environments can be distinguished within the remote environment, namely, the political; economic; social, technological; legal; environmental; and international environments. Each of these sub-environments of the remote environment will be discussed below in more detail.

### The political/legislative environment

The state is a major role-player in the remote environment of an organisation, because it influences the organisation primarily as a regulating force. The state enforces laws, directly affecting the way that organisations operate. Tax regulations, for instance, have a direct influence on each and every organisation and individual. Value-added taxes (VAT), for instance, was 14 per cent in South Africa. In the budget speech delivered on 21 February 2018, Malusi Gigaba the country's minister of finance at the time, announced an increase in the value-added tax rate of 1 per cent to 15 percent, the first increase of this tax rate in 25 years. The country experienced major changes in its political environment in 2018. The major leadership changes of the ruling political party, the African National Congress, made world news. Former president Jacob Zuma resigned and was replaced with President Cyril Ramaphosa, who announced major cabinet changes and declared a country free of corruption. These adjustments led to major changes in financial markets, with an increase in the value of the country's currency, having a direct impact on organisations, especially those involved in multi-national business. With this in mind, strategic managers should be aware of changes in this environment that may require them to revisit the organisation's vision, mission statement, goals and strategies.

### The economic environment

After technology, the economic environment plays a huge role in the remote environment. Organisations are influenced by factors such as business cycles, interest rates, inflation, unemployment, trends with regard to the gross national product (GNP) and the economic growth rate, monetary and fiscal policy, trends in the balance of payments, the current and provisional status of the economy in terms of recession and depression, the influence of resources, and so on. The economy, in turn, is affected by technology, politics, ecology, social trends and the international environment. These cross-influences constantly bring about fluctuations in the economy, affecting organisations, strategic managers and all other levels of management. Strategic management therefore needs to keep abreast of economic changes and trends which require them to revisit the organisation's vision, mission statement, goals and strategies.

### The social environment

The social environment refers to the cultural and demographic aspects of the environment. Cultural forces, which underpin society and surround an organisation, are often not as visible as other general environmental forces. Culture refers to the unique pattern of shared characteristics, such as values, that distinguish the members

of one group of people from another group. A value can be defined as the basic belief about a certain condition that has considerable importance and meaning to individuals. People's values are relatively stable over time. A value system comprises multiple beliefs that are compatible and supportive of one another. Managers need to appreciate the significance of the values and value systems of all its stakeholders

- globalisation and global competition is a reality and the number of organisations that accept contracts and other assignments in other countries, is rapidly increasing. Realising the importance of cultural diversity can help strategic and other managers understand their international partners and, ultimately, to be more effective and efficient managers. The social environment also includes various demographic factors, such as, the age distribution population growth rate, emphasis on safety, career attitudes, and so on.

## The technological environment

The technological environment is primarily responsible for changes in the remote environment. Technology can be defined as the knowledge, tools, actions and techniques that are used to transform ideas, information, raw materials and components into finished products and services. Furthermore, technology encapsulates the physical elements of human invention and innovation. Many new technologies are radical enough to force organisations, especially in high-tech industries, to reconsider their vision, purpose and methods of operation or face extinction. An analysis of the technological environment is crucial for strategic managers.

The most basic effect of technology and technological innovation is probably higher productivity. The ability of an organisation to produce more and better products poses a threat to competitors, compelling them to reassess their strategic plans, organisational structures, production methods, markets and other functional strategies. Effective management of technology and innovation is an extremely important source of competitive advantage for an organisation.

## The environmental environment

The environmental environment (also referred to as the ecological or physical environment) relates to the limited natural resources from which an organisation obtains its raw materials. However, organisations also dispose of waste or some of their waste in the ecological environment. The ecological environment consists of the natural environment, as well as human-made infrastructure. Geography, the weather and climate, the availability and exploitation of natural resources (raw materials, water, and so on), as well as conservation agreements and conventions all form part of the natural environment. The human-made environment, in turn, refers to the roads, railways, airports, harbours, communication infrastructure and energy supplies that have an influence on all organisations.

Organisations are becoming increasingly aware of the natural environment and the interdependence between organisations and the natural environment. This interdependence presents opportunities and threats to organisations. One of the major

threats is a shortage of natural resources, especially water and energy. The rising cost of energy, the cost of pollution, damage to a country's natural resources and climate changes are all threats from the natural environment. Managers should take timely steps to ensure that no actions on the part of their organisation have detrimental effects on the environment. Sustainability issues, such as green industries, buildings and transport, have become crucial for strategic management.

### The global environment

Globalisation and organisations conducting business across the borders of a country is a reality. The international environment poses threats, as well as opportunities for organisations. Strategic managers need to consider these for successful strategic management in contemporary organisations.

Within the management environment discussed in this section, all managers, but strategic managers, in particular, need to be aware of the various stakeholders in the management environment. This is the focus of the following section.

LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.

## 1.7 Stakeholders and stakeholder relationship management

Various views exist in terms of who or what constitutes a stakeholder of an organisation. The so-called narrow view of stakeholder theory refers to stakeholders as a group of individuals within the boundaries of the organisation. This view only considers stakeholders who are directly linked to the organisation, such as employees, customers and financial institutions. The broader view of stakeholder theory looks beyond the stakeholders within the organisation. It includes groups within the organisation, as well, as those on the outside, such as the community, local and national government.

In this book, we will adopt Clarkson's definition of organisational stakeholders:

*An organisation's stakeholders are the people or groups of people that have, or claim ownership, rights, or interests in an organisation and its activities, past, present and future. Such claimed rights or interests are the result of transactions with, or actions taken by the organisation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group, for example, shareholders, employees, customer and suppliers.<sup>3</sup>*

In general, stakeholders are classified as external or internal. External stakeholders are those individuals or groups, who do not work directly within the organisation, but who are affected by the strategies, plans and actions of the organisation. External stakeholders include the community, government, activist groups and not-for-

profit organisations, competitors, the media, industry associates, organised labour, customers, suppliers, analysts, consultants and researchers.

Internal stakeholders are stakeholders who work directly within an organisation. Internal stakeholders are shareholders/business owners, investors, employees and management.

Traditionally, the primary goal of organisations was to realise a profit and thereby satisfy the needs and expectations of its owners (or shareholders). Contemporary organisations adopt the triple-bottom line - an accounting framework with three parts, comprising the social, environmental (ecological) and financial parts. By adopting this framework, organisations evaluate their performance on a broader perspective to create greater business value. The triple-bottom line not only focuses on the expectation of shareholders (profit), but simultaneously on the expectations of all stakeholders. Therefore, to be regarded as successful, an organisation needs to be (i) profitable; (ii) take responsibility for the physical environment in which it operates; and (iii) meet its social responsibilities.

Management on all hierarchical levels should acknowledge the important role that stakeholders play in organisations. Strategic managers, especially, must take into account the impact that the organisation's vision, goals, strategies, projects and plans have on all stakeholders. Organisations are responsible for considering and protecting the rights and expectations of all their stakeholders.

At the same time, the influence that stakeholders have on the organisation should also be considered. This calls for a stakeholder relationship management process, which will bear tangible and intangible long-term rewards for the organisation. For example, new products, new markets, stronger supply chains, a diverse workforce, and trusting relationships will all yield a competitive advantage for the organisation.

In our discussion so far, we have referred a number of times to the term *competitive advantage*, which is a key term in strategic management.

- LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.

## **1.8 Competitive advantage, sustainable competitive advantage and transient competitive advantage**

In Section 1.6, we elaborated on the management environment. The market environment was identified as the environment comprising customers, competitors, the labour market and labour unions, intermediaries and suppliers. In this environment, competition is taking place - organisations are competing for the same customers, suppliers, skilled labour and intermediaries. The most widely used framework for classifying and analysing these forces of competition in a specific industry was developed by Michael Porter of Harvard Business School.<sup>4</sup> His framework views the profitability or

attractiveness of an industry as determined by five sources of competitive pressure in the particular industry. These five sources are (1) competition from providers of substitute, products and/or services; (2) competition from new entrants or potential competitors; (3) competition from established rivals (competitors); (4) the power of suppliers; and (5) the power of buyers.

1. Competition from substitutes is influenced and determined by the buyers' propensity to substitute or buy substitute products and the relative prices and performance of substitutes.
2. Competition from new entrants or potential competitors to the industry is influenced by various factors, such as the capital needed to enter the industry, product differentiation, and legal barriers to enter the industry.
3. Competition from established rivals (competitors) in the industry is influenced by factors such as the diversity of these rivals, product differentiation to be found in the industry, exit barriers and cost conditions.
4. The power of suppliers is also determined by various factors, for example, the price sensitivity of suppliers and their relative bargaining power.
5. Lastly, the power of buyers is influenced by factors such as competition between buyers, product differentiation, the information made available to buyers and the size and concentration of buyers relative to suppliers.

Once an organisation understands how the structure of the industry in which it operates drives competition in this industry, the profitability of the industry can be forecasted for the future. Determining industry structure involves the identification of the main players in the industry - the producers, customers, suppliers, and producers of substitute products. An examination of the key characteristics of each of the main players will determine the competition in the industry and bargaining power that we described in the previous paragraph. This analysis can subsequently be used to forecast industry profitability. Why? Organisations will only invest capital and other resources in an industry that meets its objectives in terms of profitability. Once an organisation understands the structure of its industry and have made forecasts of its profitability, strategies can be developed.

The next crucial question that needs to be answered is how industry profit is shared among the different organisations competing in a particular industry? To answer this question, it requires an identification of the sources of competitive advantage within the particular industry. We can use the term 'key success factors' to describe the factors in an industry that influence an organisation's ability to outperform its rivals or competitors. Once an organisation understands the drivers of industry profitability, it can identify strategies through which it can improve industry attractiveness and position itself relative to its competitive forces. In essence, this means that an organisation can earn superior financial performance either by (1) locating in an attractive industry; or by (2) establishing a competitive advantage over its rivals. Of these two, competitive advantage is the most important since competition intensifies constantly across almost all industries so that very few

industries can guarantee secure investment returns. Hence, we can conclude that the primary goal of a strategy is to establish a position of competitive advantage for the organisation. Stated differently, the primary goals of strategy is to put an organisation in a superior business position - which is a requirement for sustainability and survival over the long term.

At this point, we need to provide a formal definition of the term ‘competitive advantage’. The literature provides us with numerous definitions, for example:

*Competitive advantage is what makes you better than anyone else.<sup>5</sup>*

*Competitive advantage are conditions that allow a company or country to produce a good or service at equal value but at a lower price or in a more desirable fashion. These conditions allow the productive entity to generate more sales or superior margins compared to its market rivals.<sup>6</sup>*

*A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities?*

*There is no one answer about what is competitive advantage or one way to measure it, and for the right reason. Nearly everything can be considered as competitive edge, eg higher profit margin, greater return on assets, valuable resource such as brand reputation or unique competence in producing jet engines. Every company must have at least one advantage to successfully compete in the market. If a company can't identify one or just doesn't possess it, competitors soon outperform it and force the business to leave the market.<sup>8</sup>*

For the purposes of this chapter, we will define competitive advantage as follows:

*When two or more organisations compete within the same industry, one possesses a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals.*

Common sources of competitive advantage are the following: barriers to entry, capital, cost advantage, customer satisfaction, digital maturity, distribution, know-how, market power, bargaining power, brand name, corporate governance, critical mass, design, distinctive capability, economic advantage, economies of scale, intellectual property, sustainability, trade secrets, switching costs, market position, marketability, organisational culture, product development, risk management, technology and market position.

Having a competitive advantage is the result of an organisation matching internal strengths to external key success factors. It is crucial to point out that competitive advantage is not something static and stable. In fact, competitive advantage is a disequilibrium phenomenon: it is created by change and, once established, it starts a competitive process that leads to its destruction.

## PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

The changes that create competitive advantage, can be either internal or external. Internally, some organisations may, for example, have a greater creative and innovative capability than their rivals that may lead to a competitive advantage. Externally, changes in, for example, customer demands or technology can create a competitive advantage for an organisation that is faster and more effective in exploiting change than its rivals.

Once an organisation establishes competitive advantage, it is eroded by competition. The speed of this erosion will depend on the ability of competitors to challenge, either by imitation or by innovation. For a sustainable competitive advantage, the organisation must create barriers for other organisations to imitate and innovate its advantages. We therefore define a sustainable competitive advantage as:

*an organisation that has the ability to perform (or the potential to perform) better than its rivals over the long term.*

Organisations may have assets, attributes or abilities that are difficult to imitate or exceed which contribute to their competitive advantage. Competitive advantages are often short-lived and instead of building one advantage and defending it, a transient strategy focuses on innovation strategies that continually build new advantages. Therefore, we define transient competitive advantage as follows:

*an organisation that has the ability to build up temporary (or transient) advantages where they seize opportunities, exploit it, and then move quickly when they have exhausted the opportunity.*

Some of the competitive advantage of various South African companies are highlighted below.

## Practising strategy

### **Woolworths**

Max Sonnenberg founded Woolworths in 1931. His belief that success lies in providing customers with superior quality merchandise at reasonable prices has been instrumental in establishing Woolworths as one of South Africa's leading retail chains - a benchmark for excellence and an icon of quality.<sup>9</sup>

### **South African Breweries**

The South African Breweries Group, is one of the world's largest beer distributors with a market share of 98 per cent in South Africa. The company is at the forefront in addressing social inequities in its hiring, promoting, and training practices, and combating discrimination. The company's diverse workforce creates a global competitive advantage for the company.<sup>10</sup>

### **Edcon**

Edgars Consolidated Stores, commonly known as Edcon, is one of the country's most successful retail operations. The company firmly believes in the power of outsourced information technology for competitive advantage. From an information technology point of view, that means that the company thoroughly analyses available technologies and options for how these are delivered to the business. A key contributor to the success of the organisation's IT strategy has been its decision to outsource substantial components of its infrastructure, data processing, systems development, security and storage capabilities. Since there is a shortage of technology skills in the country, the company believes it simply does not make sense for Edcon to develop expertise in-house. Their core focus is retail, so they look for partners that are experts in the field of IT so that the company can focus on an understanding of business principles that apply to their market and leave the technology in the hands of appropriately skilled suppliers. The company's ability to appoint appropriate expertise to take care of specialist functions is critical to achieve and sustain growth.<sup>11</sup>

### **The big picture**

In this chapter, we highlighted the relationship between various general management principles and strategic management. The background and information provided lay the foundation for the successful practising of strategy, which is the focus of the remainder of the book. Strategists need to have a thorough understanding of the crucial role that strategic management plays in any business organisation. Without strategic management, the organisation is doomed for failure, as we have seen in the LeisureNet case study. Furthermore, strategists need to have a thorough understanding of the management environment in which it operates. Competition in this environment is becoming more fierce, due to various factors such as globalisation and the use of technology to conduct business, to mention only a few. Therefore, the establishment of strategies that will ensure the sustainability and long-term survival of the organisation is crucial. The study of strategic management focuses on how organisations achieve this competitive advantage, in other words how they achieve superior performance and sustainability over the long term. In Chapter 2, we will introduce you to the practice of strategy.

### **Summary of learning outcomes**

LO 1: Explain the concepts 'manager' and 'management'.

A manager as a person that is responsible for running a part of or an entire organisation. Management is defined as the process of working with and through others to achieve organisational objectives in a changing environment. To be successful, organisations need managers performing the management process.

**LO 2: Explain the management process, indicating the four characteristics thereof.**

The four characteristics of management are:

- (i) management is a process, consisting of four management functions namely planning, organising, leading and control;
- (ii) management entails working with and through others;
- (iii) management aims to contribute to the realisation of organisational goals and objectives, and in doing so management needs to balance effectiveness and efficiency and makes the most of limited and scarce resources; and
- (iv) management needs to cope with a changing environment.

**LO 3: Differentiate between the various levels of management.**

We differentiate between the top, middle and lower levels of management. Top managers are responsible for strategic planning, implementation and control for the organisation as a whole. Middle managers are responsible for specific departments or functions of the organisation.

Lower-level managers are responsible for even smaller segments of the organisation namely the various subsections.

**LO 4: Explain the various areas of management.**

Seven areas of management are distinguished, namely finance, operations, procurement, marketing, human resources, public relations and research and development.

**LO 5: Explain the hierarchy of organisational plans and depict it diagrammatically.**

The hierarchy of organisational plans consists of strategic, tactical, operational and individual plans. The strategic plan comprises seven elements, namely the vision, mission, SWOT analysis, core values, objectives and strategies of the organisation. Tactical plans focus on the functional areas of the organisation, whereas operational plans focus on subsections of the organisation, which may be single-use plans or standing plans. Individual plans are the translation of broader organisational plans into plans for the individual worker.

**LO 6: Explain the composition of the management environment.**

Structurally, the management environment can be divided into the micro-, market and remote environments. The micro-environment is the organisation itself over which management has control. It includes organisational functions, policies, strategies, goals, objectives, and resources. The market environment is also referred to as the competitive environment and consists of customers, suppliers, labour and labour unions, and competitors.

**LO 7: Explain the terms 'stakeholder' and 'stakeholder relationship management'.**

An organisation's stakeholders are the person or groups of people that have, or claim to have ownership, rights, or interests in an organisation and its activities, past, present and future. Organisations need to manage its relationship with all stakeholders.

**LO 8: Differentiate between the terms 'competitive advantage', 'sustainable competitive advantage' and 'transient competitive advantage'.**

When two or more organisations compete within the same industry, one possesses a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals. Sustainable competitive advantage refers to an organisation that has the ability to perform (or the potential to perform) better than its rivals over the long term. Organisations may have assets, attributes or abilities that are difficult to duplicate or exceed to lead to its competitive advantage. Competitive advantages are often short-lived and instead of building one advantage and defending it, a transient strategy focuses on innovation strategies that continually build new advantages. Organisations need to build up temporary or transient advantages where it seizes opportunities, exploit it, and then move quickly when it has exhausted the opportunity.

### **Discussion questions**

1. Provide an explanation of the terms 'manager' and 'management'. Is there a difference between contemporaiy views of these terms, compared to more traditional views?
2. Explain the management process and highlight the most significant components of the process.
3. Discuss the various levels and areas of management and highlight the most important responsibilities of each level and area of management.
4. Explain the composition of the management environment and indicate the importance thereof in terms of strategic management.
5. Explain the hierarchy of organisational plans and highlight the most important plans pertaining to each level of the hierarchy.
6. Explain the term 'stakeholder' and defend the importance of stakeholder relationship management in organisations, as well as the important role that strategists play in this.
7. Differentiate between competitive advantage, sustainable competitive advantage and transient competitive advantage. Also, highlight the importance of these concepts in strategic management.

## Learning activities

Choose a company that has been listed on a stock exchange for more than ten years and do the following:

1. Analyse the annual reports of this company and identify the following: (i) vision; (ii) mission; (iii) strategy; (iv) company values; (v) strategic goals.
2. Identify the competitive advantages of the company.
3. Identify the major stakeholders of the company.
4. What, in your opinion, is the main reason why the company has been in business for so long? Substantiate your answer.

## Endnotes

- <sup>1</sup> Donnelley, L. 2017. 'Global credit ratings agency has downgraded South Africa to junk status', 25 November. Available online at: <https://mg.co.za/article/2017-11-25-global-credit-ratings-agency-has-downgraded-south-africa-to-junk-status> (accessed 13 February 2018).
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- <sup>10</sup> See, 'Diversity creates global competitive advantage for South African Breweries', *Human Resource Management International Digest*, Vol. 10 Issue: 5, pp. 14-17 (2000), <https://doi.org/10.1108/09670730210792133>.
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# 2

# Introducing the practice of strategy

Peet Venter

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- L01: Explain the origins of strategic management.
- L02: Identify and explain the universal principles of strategic management.
- L03: Define strategy and explain its importance to the organisation.
- L04: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.
- L05: Explain how the success of strategy can be measured.
- L06: Discuss a contemporary strategic management framework.

## KEY WORDS

Business architecture	Strategic planning
Competitive advantage	Strategic thinking
Dynamic consistency	Strategising
External consistency	Strategists
Organisational	Strategy formation
sustainability	Strategy implementation
Strategic control	Strategy
Strategic management	

## CHAPTER ORIENTATION

Organisations generally have an imperative to survive and to perform above the average - as we have indicated in Chapter 1. The study of strategic management focuses on how organisations achieve this competitive advantage, in other words, how they achieve superior performance and sustainability over the long term. However, as the case study on Elon Musk suggests, the role of people in influencing strategy in the organisation cannot be underestimated.

In this chapter, we review the origins of strategic management, identify and explain the universal principles of strategic management, define strategy, explain how the success of strategy can be measured, and describe a contemporary strategic management framework.

# Case study

## Elon Musk - Leading with Vision

In 2006, Elon Musk announced in a blog his 'master plan' for sustainable mass transport. This entailed:

- creating a low-volume<sup>1</sup> car, which would necessarily be expensive.
- using that money to develop a medium-volume car at a lower price.
- using that money to create an affordable, high-volume car.
- providing solar power.

As one of the most admired technology entrepreneurs in the world, South African-born Musk is known for his vision to rid the world of fossil fuels, and Tesla's electric vehicles and solar power technologies are ways of doing just that. Musk's plan unfolded over the last decade or so first with the development of the Tesla S, an expensive, high-performing sports car, and the Tesla X and

Tesla Roadster.

Most recently, Tesla announced the Tesla 3, an affordable electric car, and with advance orders of more than 400,000 cars, it would seem as if the master plan is on track. In the meantime, Tesla also launched various products for residential and business solar energy production, such as the Powerwall battery system, solar panels and a 'solar roof', and their SolarCity business is now the second-largest solar provider in the US. In support of his businesses, Tesla built a Gigafactory (with Panasonic) for producing lithium-ion batteries for use in battery farms and electric cars.

When pursuing of his vision for a sustainable planet, Musk does not hesitate in sharing his ideas and technologies freely and in thinking out of the box. He made Tesla Motors' patents available to the industry for free, and has explicitly open-sourced the Hyperloop<sup>2</sup> train concept so that others can take the ideas and further develop them. In addition, he is striving to make travel to Mars affordable with Space-X and to establish a space colony on Mars.

Musk is often described as a transformational leader who has the following qualities:

- The capacity to think beyond what seems possible or viable today.
- The ability to make people believe in his vision, no matter how far-fetched it may seem.
- Leading by example - excellence is non-negotiable.
- A relentless (even obsessive) drive towards results - failure is not an option.

However, leaders like Musk are not always easy to work with. The amazing vision and drive that contribute to Musk's leadership style sometimes mean that 'an engineer might spend nine months working 100 hours a week on something because Musk pushed him to, and then out of nowhere, Musk will change his mind and scrap the project'.

In 2016, Musk updated his master plan to:

1. Create stunning solar roofs with seamlessly integrated battery storage.
2. Expand the electric vehicle product line to address all major [consumer] segments.
3. Develop a self-driving capability that is 10X safer than manual capability via massive fleet learning.
4. Enable your car to make money for you when you aren't using it.

With his track record up to this point, it would unwise to bet against him achieving exactly what he sets out to do.

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LO 1: Explain the origins of strategic management.

## 2.1 The origins of strategic management

While strategy is an ancient concept,<sup>3</sup> strategic management, as we know it today, originated in the late 1970s following a move away from corporate planning to a more externally focused process. Strategic management was characterised by a focus on competition as the key driving force in the business environment and profit maximisation as the primary goal of the organisation. The process of strategic management accordingly focused on the selection of markets and on the positioning of the organisation in its chosen markets relative to its competitors as a source of competitive advantage (ie superior performance over the long term). Initially, the focus of strategic management was to determine how the organisation could tap into sources of profit in an industry by virtue of its industry positioning. For example, by creating clear differentiation from its competitors, organisations could be in a position to charge higher prices for the perceived higher quality. This view, with Michael Porter<sup>4</sup> as its main proponent (which we discussed in Chapter 1, Section 1.8), was predominant until the 1990s and is still prominent in strategy texts to this day.

In the 1990s, the resource-based view (RBV) emerged as the dominant perspective on how organisations could achieve a competitive advantage. In accordance with the RBV, an organisation's internal resources and capabilities were the most important sources of profit and competitive advantage. The focus of strategic management accordingly shifted to understanding how organisations differed from their competitors (in terms of what capabilities they possessed) and how these differences could be leveraged for competitive advantage.<sup>5</sup>

Our understanding of how organisations practise strategic management and how they develop competitive advantage and organisational sustainability (the ability of the organisation to survive and outperform rivals in the long run) is shaped by our

environment (which we discussed in Chapter 1, Section 1.6} and is constantly evolving. For example, in the aftermath of a string of corporate scandals internationally, as well as locally (such as Enron, Fidentia and the Steinhoff scandal), the global financial crisis of 2008 and 2009, and the current state of governance in South Africa (such as the widely publicised problems in many state-owned companies like Eskom, South African Airways (SAA) and the South African Broadcasting Corporation (SABC), there is a strong focus on responsible and ethical corporate behaviour (which we referred to in Chapter 1 as the ‘triple-bottom line’).

In this book, we emphasise the importance of the environment, and the resources and capabilities of the organisation. At the same time, we recognise that strategic management is a dynamic discipline and that its key influences and debates change over time. However, while our understanding of the focus of strategic management and competitive advantage has evolved, the strategic management process itself has not always enjoyed the same attention. In this book, we argue that the strategic management process is also a fluid and changing concept. While there are many different views on how strategic management should be done, there are certain common principles that underlie the various views of strategy and strategic management. In the next section, we review these common principles.

LO 2: Identify and explain the universal principles of strategic management.

## **2.2 The universal principles of strategic management**

Most lecturers involved in teaching strategic management have experienced a situation in which students complain that the way strategic management is taught is different from the way it actually happens in their organisations. This could be seen as a sign of the theory/practice divide, and as reflective of the complexity of strategic management. More recently, the study of strategic management started to catch up to the practice of strategic management. Despite this complexity, there are some principles that are common to all views of strategic management, and we discuss these principles below, by using the example of Discovery Bank as it illustrates the application of these principles.

## Practising strategy

### **Discovery moves into retail banking<sup>6</sup>**

Discovery is a large, listed, financial services institution operating through Discovery Health (DH), Discovery Life (DL), Discovery Invest (DI), short-term insurer Discovery Insure, and the very popular and successful Discovery Vitality (a wellness loyalty programme). In addition, it has operations in the USA, where it licenses Vitality for use by employers and other health insurers, and in the UK, where it operated two joint ventures (JVs) with the Prudential plc - PruHealth and Prulife. Its core purpose is 'to make people healthier, and enhance and protect their lives'. Discovery is generally known for its innovativeness. For example, they are credited with the invention of the medical savings plan used widely by medical schemes today.

In 2015, Discovery received authorisation from the Registrar of Banks to establish banking operations in South Africa, and launched its banking products in 2019. This is according to Discovery CEO Adrian Gore, who said they are deep into the preparation phase of the new bank. Gore said it is a complicated process to assemble the right team, build the systems to support the bank, and develop products which banking clients need. Despite the complications, he remains upbeat about the prospects of Discovery Bank - saying it is an exciting project.

'We need to meet the needs of our customers. I think we can. We have strong ideas and convictions about that. If we can do that, the market will tell us,' said Gore.

Gore said they had tremendous success with their joint venture with FNB on the Discovery Card, which provides them with a launchpad for full banking services.

'We've got the capital, we've hired bankers, we're building substantial systems. We want to make an offering that's relevant and can win market share,' said Gore.

Discovery has an advantage over the big four traditional banks, as it does not have to maintain a country-wide network of branches and ATMs. This means Discovery Bank's costs will be lower than its competitors.

### 2.2.1 Principle 1: Strategy is about positive change

Strategic management is ultimately about positive change for the organisation as a whole. Positive change includes achieving superior performance, creating competitive advantage, creating shareholder wealth above the average, meeting the needs of all stakeholders (you may refer back to Chapter 1, Section 1.5 where we differentiated between shareholders and stakeholders), or, in some instances, just surviving in difficult times. It is also worth noting that it is about change, and managing such change, and not about just doing things as they have always been done (ie 'business as usual'). For example, the decision by Discovery to launch Discovery Bank<sup>7</sup> reflects Discovery's view that they will be able to use their expertise in the financial services industry and their loyal customer base to compete successfully in the retail banking industry and to create value for the owners of the group.

### 2.2.2 Principle 2: Strategy takes a long-term view

Strategy is about taking a long-term view and ultimately focusing on wealth creation and sustainability over the long term, rather than on merely creating quick wins or short-term gains.

### 2.2.3 Principle 3: Strategy is complex

Strategy is highly complex and is associated with high levels of uncertainty and risk. There are no easy answers, no recipes for success, and it is highly situated, meaning that it is different for every context. In other words, strategic management is about making big decisions during situations of high uncertainty and having to consider many different variables. Should strategic decisions fail, there may be very severe negative consequences for the organisation, so the risk is enormous. Discovery worked for some years on establishing Discovery Bank, and invested a lot of time and money into getting the necessary approvals and license, appointing the right personnel and establishing infrastructure. Should the bank not perform as envisaged, it could mean that this capital investment was not justified, and Discovery could end up losing a great deal of money.

### 2.2.4 Principle 4: Strategy has an internal and external focus

Strategy is about mobilising resources and capabilities inside the organisation to pursue opportunities outside of the organisation, or to respond to negative risks simultaneously. This typically means that strategic decision-makers have to understand the resources and capabilities of the organisation, and how it needs to change over time to keep up with a changing and unpredictable external environment. In the case of Discovery Bank, the board of Discovery felt that their internal resources and capabilities (such as their loyal customer base, their Vitality loyalty programme, innovation capabilities and their experience in the insurance industry) would enable them to pursue the perceived external opportunity in the retail banking industry.

### 2.2.5 Principle 5: Strategy is both deliberate and emergent

Organisations have very important formal processes to create deliberate strategies. Deliberate strategies are those strategies that the organisation intends to pursue in order to achieve its long-term goals. Hence, we often consider strategy as something abstract, as something that an organisation possesses, for example, ‘the strategy of company X is cost leadership’. However, there is increasing recognition that strategising is also a human activity, something that people do in organisations every day. The acts and decisions of strategists may lead to an ‘emergent’ strategy that is different from what the organisation intended. Robert Grant suggests that strategy exists in three places: the heads of managers, in the talk and documents they produce,

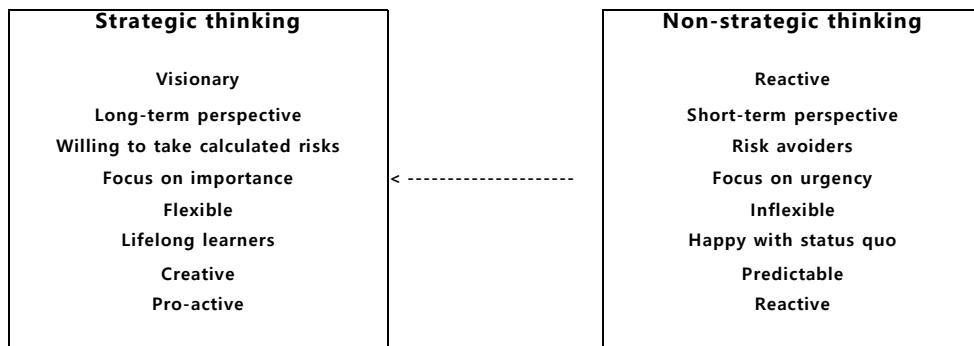
and in their actions. Only the latter two are observable.<sup>8</sup> This perspective implies that, if we are to understand strategy and strategic management, we have to understand who the strategists are, and how and why they make decisions and do what they do rather than focusing only on strategy at an abstract level. In fact, the realised strategy may often end up being quite different from the intended strategy. People do not act like rational robots, but that their strategic acts (and, by implication, strategy) are fuelled by who and what they are, as well as by cognition (rationality) and politics, the quest for power. In the opening case study, it is clear that Elon Musk's way of doing things plays a considerable role in the success of Tesla.

While top managers undoubtedly play a key role in the success of strategic management, the emerging strategy perspective suggests that top managers alone are not the only strategists. Any individual or group in the organisation that controls key or precedent-setting actions<sup>9</sup> can be regarded as a strategist. Accordingly, we can extend our perspective of strategists to include non-executive directors, strategic planners, middle managers and consultants. Through their own interpretations of strategy, or their own actions, these role players can influence the allocation of resources. It is, therefore, important to consider their role. Certain methodologies and systems can also be used to facilitate strategising, for example, strategy workshops and projects.

### 2.2.6 Principle 6: Strategy involves various different thought processes

The process perspectives of strategy often present it as orderly, analytical, rational and neat, and also as deliberate - a path that is chosen and pursued efficiently. In fact, there is much evidence to the contrary. Strategy is often emergent rather than deliberate, messy rather than neat, and experimental and fraught with failure rather than efficient and effective from the start. So, while there are elements of the strategy process that are designed to be rational and cognitive (eg conducting strategy workshops), there are a myriad of social interactions inside and outside of the workplace that influence the activities and decisions of strategists. There are different thought processes at work in strategic management. In fact, strategy is often referred to as both an art and a science, suggesting that it incorporates both a rational, analytical element, as well as an element of creativity. In addition, there are often power issues at work in strategy, where individuals or groups compete for power. As alluded to earlier, strategy work is about verbal and written communication. Strategists need to be able to use persuasive language and arguments, and be able to build a coherent story of strategy from the snippets of conversation taking place all over the organisation.<sup>10</sup> In addition, documents such as strategic plans, operational plans and strategy presentations are important forms of discourse that can influence the strategy and strategic decision-making.

Since the term 'strategic thinking' is used so often, it is useful to consider what it means. Figure 2.1 is a comparison of some characteristics of strategic thinking with non-strategic thinking. Strategic thinking is typically focused on the future and represents a certain willingness to take calculated risks. Strategic thinkers are also generally more creative, flexible and pro-active than non-strategic thinkers.

Figure 2.1 *Strategic versus non-strategic thinking*

### 2.2.7 Principle 7: Strategy happens at different hierarchical levels

In large multi-business organisations, strategic management and decision-making takes place at different levels. Table 2.1 compares strategic management and decision-making on corporate, business and functional levels of an organisation in terms of (1) where the decision-making takes place, (2) the scope of the decision, (3) the responsible people, and (4) the goals thereof. At the highest level, decisions about the growth path of the organisation are made by the board of directors or other governing bodies. This level of strategy is known as corporate-level strategy and the focus is on creating stakeholder value. It is at this level that decisions are made about the scope of the organisation, for example, mergers, acquisitions, divestments and globalisation. The decision by Discovery to enter the banking industry is an example of a corporate strategic decision.

Business-level strategy takes place at the level of the single business or business unit (eg a subsidiary) and the goal is for it to achieve competitive advantage within the markets in which it is competing. It supports corporate-level strategy by ensuring that it is successful in its markets, and draws on the corporate centre to provide it with the means to compete successfully. Business unit managers are responsible for attaining the overall goal of the organisation. In the case of Discovery Bank, the company will hope that with access to their existing customer base, corporate capabilities and Discovery's Vitality loyalty programme, it will be able to compete successfully in the banking industry.

Functional strategies, such as human resource or marketing strategies, are developed by functional managers to execute the business unit strategies developed by business unit managers, and to support the implementation of business strategies. For example, in setting up Discovery Bank, the human resource strategy in hiring the right talent to staff the bank is going to be crucial to its success.

Table 2.1 *Strategic management and decision-making at various hierarchical levels*

	Corporate-level strategy	Business-level strategy	Functional-level strategy
Where	Corporate centre	Business unit	Functional management
Scope	The multi-business corporation	Markets in which it is competing	Functional area (eg marketing)
Who is responsible	Board of directors	Business unit manager	Functional manager
Goal	Stakeholder value	Competitive advantage	Executing business unit strategy

Bidvest provides us with an example of the different levels of strategy that can be found in multi-business organisations.

## Practising strategy: Bidvest's corporate strategy<sup>11</sup>

Bidvest is a South African corporation that focuses on using diversification and innovation to grow their portfolio of successful, cash-generating businesses in consumer and industrial products, electrical products, financial services, freight management, office and print solutions, outsourced hard and soft services, travel and aviation services and automotive retailing.

The company uses acquisitions to invest in a blend of defensive, cyclical and growth assets; they prefer businesses that generate cash and are not heavily invested in assets, and are aiming to internationalise in certain niche markets in services and commercial products.

The company is aiming to establish dominant positions in each of the markets they operate in with broad product offerings. Bidvest prides itself on having a highly entrepreneurial and decentralised management and operations, and a strong record of efficient capital allocation to the businesses they own.

In contrast to the Bidvest head office, where corporate strategies are identified and decisions are made in terms of the scope of the organisation, the role of Bidvest businesses is to ensure that they compete successfully in their industries. Bidvest's business goal is to achieve competitive advantage in its various markets. Within each business unit, functional managers need to execute business unit strategies so that they can compete successfully in its market. For example, Bidvest Car Rental must have business level strategies and functional strategies to ensure that they compete successfully against other car rental companies.

LO 3: Define strategy and explain its importance to the organisation.

## 2.3 Defining strategy

In this section, we consider some key aspects and describe what we mean by strategy, as seen from our perspective.

### 2.3.1 What does it mean to be 'strategic'?

Not all actions and decisions in an organisation can be considered 'strategic'.

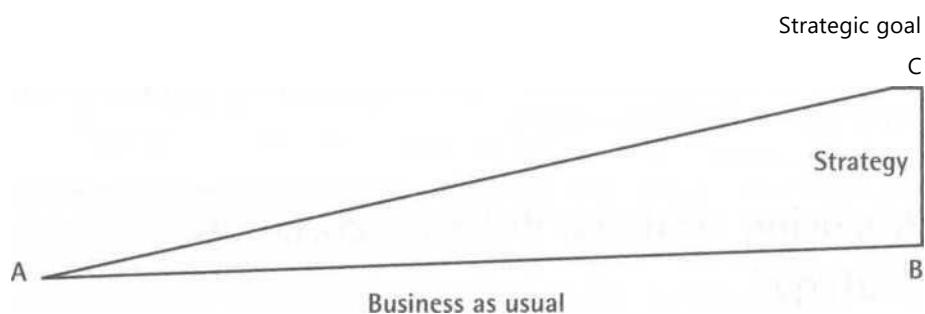


Figure 2.2 *Strategy versus business as usual*<sup>12</sup>

Consider Figure 2.2. If we take point A as where we are today, and we carry on doing what we are doing (ie business as usual) and we are somewhat lucky, we may end up at point B, in a slightly better position than we are today and perhaps, if we are very lucky, in a position where we are better off than our competitors. It is also quite possible that we will end up in exactly the same or even in a worse position than where we are today. However, we can set ourselves a long-term strategic goal (point C) that, if achieved, will take us considerably beyond where we are today and possibly even beyond our competitors - in other words, it will give us a competitive advantage that will lead to long-term survival. The difference between point B and point C is 'strategy'; those actions that will help us achieve our strategic goals. Strategic goals are also known as long-term or strategic objectives. Being 'strategic' thus involves the following:

- It is not 'business as usual' - we cannot simply keep doing what we have been doing for years and years and describe it as 'strategic'.
- It reaches across all business functions, that is, it is an organisation-wide issue, and across all managerial levels.
- It is not a quick fix or a small change. It requires a large, sustained change effort over a long period of time.
- It requires a large commitment of resources - it is not cheap or easy.

- While it may not be the domain of top management only, and it may be influenced by many other people, top management is ultimately responsible for achieving strategic goals (or for failing to achieve them) as we indicated in Chapter 1, Section 1.3.

### 2.3.2 The importance of strategy

Strategy is a coherent story about the future direction of the organisation. It provides members of the organisation with a framework to guide decision-making processes.

The strategic management process should combine the views and thinking of many members of the organisation and communicates the outcome back to the organisation so that everyone follows the same strategy.

Strategy is, in a sense, the verbalisation of the organisation's aspirations and accordingly provides an inspirational element that may be far removed from the realities of the present. In this sense, a good strategy can inspire, unite and motivate members of the organisation.

### 2.3.3 Defining strategy

Strategy has been described variously as the long-term direction of the organisation, a pattern in a stream of decisions,<sup>13</sup> the means by which organisations achieve their objectives and the deliberate choice of a set of activities to achieve competitive advantage.<sup>14</sup> These definitions make provision for both deliberate choices and for unplanned and emerging strategies. However, if we accept the idea that strategy is a conversation, we can imagine that strategy is shaped by ongoing discussions about the future of the organisation, and that strategy may simply be a believable story about the future of the organisation. What all of these definitions have in common is the notion of a direction for the future, whether it is a 'pattern' that can be recognised from the activities and decisions of the organisation, a deliberate choice of a set of activities, or the steps taken to achieve strategic goals.

Building on these definitions, and accepting that strategy is primarily a human activity, we define strategy in this book as the *direction provided by the actions and decisions of strategists in pursuit of organisational goals*.

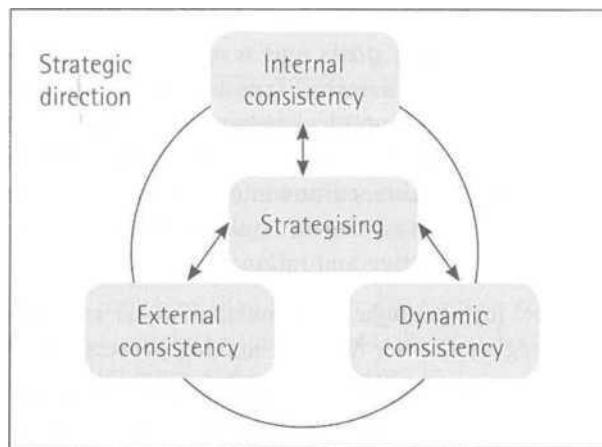
### 2.3.4 Defining strategic management

Traditionally, strategic management has been defined as setting strategic direction, setting goals, crafting a strategy, implementing and executing the strategy, and then over time and through a controlling process, initiating whatever corrective adjustments and corrections are deemed appropriate. However, more recent views have suggested that strategy is not this sequential and discrete, but is somewhat messier, overlapping and iterative. Independent of the process followed to develop and manage strategy, the purpose of strategic management is to ensure that the organisation applies the following four key elements:

1. Clear and consistent long-term strategic direction in terms of what the organisation wants to achieve in the future.
2. A profound understanding of the external environment to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible.
3. An objective knowledge of the key resources and capabilities the organisation possesses, as well as its value to enable the organisation to build on these and develop a distinct competitive advantage.
4. The proper alignment of organisational structure, systems, culture, and functional and operational management (collectively referred to as organisational architecture) to ensure the effective implementation of strategic plans, portfolios, programmes, projects and initiatives.

Strategic management is ultimately about consistently aligning the organisation with its internal and external environments, as shown in Figure 2.3. In this figure, *strategic direction* refers to the long-term goals of the organisation which can be expressed as, for example, vision and mission statements. It relates to the key elements against which all strategic decisions should be measured.

- External consistency refers to the extent to which the organisation's strategy is aligned with the opportunities and threats in the external environment (refer to the components of the external environment explained in Chapter 1, Section 1.6). Significant changes in the external environment will most likely require some changes in strategy.
- Dynamic consistency measures the extent to which the strategy of the organisation is consistent with the key resources and capabilities of the organisation in its micro-environment (refer to the components of the internal environment explained in Chapter 1, Section 1.6). In other words, is the organisation making the best possible use of its resources and capabilities to benefit from opportunities and to avoid having to deal with threats.
- Internal consistency addresses the extent to which the organisational architecture (such as structure, systems, human resources, technology and processes) are aligned with the strategy. It also considers whether planning at lower levels of management in the organisation is broadly aligned with strategy. In this view of strategic management, strategising can be seen as the efforts of strategists to ensure consistency on all three levels of management and within the boundaries of the strategic goals of the organisation. Strategising will require strategic decisions to be made, and this is the focus of the next section.



**Figure 2.3** Successful strategic management: striving for consistency

LO 4: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.

## 2.4 Strategic decisions

Strategic decisions that strategists need to make are influenced by two factors, cognitive and rational aspects, as well as political processes. These are explained below.

- Cognitive and rational aspects. The term ‘cognitive functioning’ refers to an individual’s ability to perform various mental activities associated with learning, problem-solving and decision-making. Strategists, as important problem-solvers and decision-makers in an organisation, should adopt a logical approach and try to be as objective as possible when they are solving problems and making decisions. When making decisions, strategists could consider two primary decision-making models, namely the rational and the bounded-rationality model. In the case of the rational model, the strategist should select the best possible solution to the problem - known as optimising. However, while the rational view is strongly emphasised in the prevailing views of strategy, it has been recognised that managers are generally restricted by their own information- processing capabilities, which brings us to the second decision-making model, namely ‘bounded rationality’. This refers to a situation in which strategists use satisficing and select the first possible solution to a problem that meets the minimal criteria. Strategists should know which model to use and when. They should optimise - apply the rational model - when making high-risk decisions in conditions of uncertainty. When they are making low-risk decisions, they should select the first option that meets the minimal criteria.<sup>14</sup>

- 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. This is known as political behaviour in organisations. Strategists are ultimately, like all human beings, social and political beings, influenced by their backgrounds (eg education, culture and religion) and personalities in their quest for status and power. It is, therefore, almost impossible to expect strategic decisions to be entirely objective and rational.

In environments where fast strategic decision-making is required, the following guidelines can aid strategists in their decision-making processes:<sup>15</sup>

- Developing more than one alternative course of action or solution to a problem. This will help minimise the influence of politicking. Strategy simulations can be used to improve the strategists' abilities to generate and evaluate alternatives more quickly.
- Getting real-time information. Instead of waiting for formal reports, fast decision makers obtain the information they need from operational data and by informal discussions with other managers and members of the organisation.
- Relying on experience and trusted advisers. This entails not depending on junior managers and consultants for analyses, but developing a network of trusted and proven advisors.
- Trying to reach consensus, but not at all costs. There will be occasions when there is simply not enough time to establish consensus, and the majority should, at some point, make a decision.

In strategic decision-making, it is sometimes important to remember that it is ‘better to be vaguely right than exactly wrong’,<sup>16</sup> meaning that the time and cost associated with more accurate information will not always be of equal benefit in the decisionmaking process. In the next section, we will consider the question of how the success of strategy can be measured.

LO 5: Explain how the success of strategy can be measured.

## 2.5 How do we measure the success of strategy?

Competitive advantage and sustainability are often mentioned in the same context. However, the measure of strategic success is not always a simple matter. On the one hand, there are proponents of shareholder capitalism, who suggest that the creation of shareholder wealth through profitability is and should remain the only measure of strategic success. However, shareholder capitalism and the drive for ‘profit at all cost’ were heavily implicated as a leading cause of the 2008-2009 global economic crisis, with detractors suggesting that an excessive focus on profits (and especially shortterm profits) was not sustainable.

On the other hand, the *stakeholder approach* (explained in Chapter 1, Section 1.7) requires a focus on balancing the often-conflicting needs of multiple stakeholders such as employees, shareholders, the environment and local communities. While we increasingly see large corporations embracing the concept and reporting, not only on their financial results, but also on their social and environmental contributions (so-called ‘triple-bottom line’ reporting), the stakeholder approach is criticised for vastly increasing the complexity of strategic decision-making and diluting the strategic goals of the organisation.

Michael Jensen proposes that the two approaches should meet somewhere in the middle, and that ultimately enlightened shareholder value maximisation is exactly the same as enlightened stakeholder theory.<sup>17</sup>

LO 6: Discuss a contemporary strategic management framework.

## 2.6 A contemporary strategic management framework

Although we acknowledge the contribution of traditional strategic management perspectives to our understanding of this important field, we also acknowledge that we need to incorporate newer thinking in our perspective of strategic management. To this end, we have devised the contemporary framework of strategic management (Figure 2.4) which serves as the framework for this book. This model, and the outline of the book are discussed in more detail below.

In Section 2.2, we identified various universal principles of strategic management. One of these principles was that strategy is both deliberate and emergent (as indicated in Section 2.2.5). From a deliberate strategy perspective, strategy drives organisational architecture and it is the job of managers responsible for implementing strategy to ensure that the elements of organisational architecture (such as structure and culture) are aligned with the chosen strategy. From an emergent strategy perspective, we argue that organisational architecture is so influential that it affects strategy formation profoundly. In our view, there is constant tension between strategy formation and organisational architecture, and this is depicted in Figure 2.4. We can think of this as a tug of war between strategy formation and organisational architecture. Sometimes, the strategy formation process is going to dominate and the architecture is going to follow. For example, Discovery’s decision to invest in retail banking, requires them to make the necessary changes to ensure that their organisational architecture is aligned with the new direction of the organisation. At other times, the organisational architecture might lead and the strategy might follow. In the case of the South African Post Office, for example (see the practising strategy box below), we could argue that their existing national branch infrastructure, capabilities, and especially the tenacious efforts of CEO Mark Barnes, have a lot more to do with their bid to take on the Sassa business than it being a deliberate predetermined strategy.

## Practising strategy: Sassa and Post Office secure social grants deal<sup>18</sup>

The South African Social Security Agency (Sassa) and the South African Post Office (Sapo) have reached a 'landmark' agreement to ensure social grant beneficiaries continue to receive their payments after Sassa's contract with Cash Paymaster Services (CPS) ends on 31 March 2018, Minister in the Presidency Jeff Radebe announced on Sunday morning.

In a setback to the ambitions of Sapo CEO Mark Barnes, who had hoped Sapo's Postbank would be the sole service provider, it is to be just one of four payment channels available to social grant recipients. The hybrid model the parties agreed to will also enable beneficiaries to receive their monthly payments via bank accounts at commercial banks, merchants in large retail shops, and a 'second tier' of merchants that includes village banks, general dealers, small retail outlets, and spaza shops. The hybrid model will be phased in over five years.

Sapo would provide cash disbursements through its branch network, particularly in locations close enough to replace existing cash pay points, he said. At present 2.9 million, a little less than a third (29%) of all grant beneficiaries, receive cash payments.

### 2.6.1 Strategy formation

In this book, we use the term strategy formation deliberately. Most textbooks refer to the formal process of developing a strategy as strategy formulation. However, as we take both the formal and informal elements of strategy development into account, strategy formation is a more accurate term. Strategy formation consists of three elements, namely, process, context and content.

- **Process.** In the first place, there are a number of processes that can be both formal and informal, involved in the development of develop strategy. They relate to the question 'how' strategy develops in the organisation, and is the focus of Chapter 3. We also examine strategists and strategising in more detail in this section (and Chapter 4), as the practices and communication of strategists at all levels ('strategising') influence how strategy is formed. Strategising can contribute towards both strategy formation and the shaping of organisational architecture. For example, middle managers, in their interactions with customers, may realise that there is an opportunity to expand the product range of the organisation and canvas top managers to affect it. Or, regional managers may realise that there is a problem with the structure of the organisation and how it supports the strategy, and may influence role-players to make the required changes.

- **Context.** Strategy is always context-bound. In other words, it takes place in a certain internal and external context, and this provides us with the ‘why’ of strategy. For example, a business in Botswana has to contend with the global context, the continental context, regional issues, country issues, the industry it is competing in, and with what is happening within the organisation. This external context and the risks it presents will be explored in more depth in Chapter 5, while the internal context and the strategic resources and capabilities of the organisation will be the focus of Chapter 6.
- **Content.** The content of strategy refers to the actual development of strategies (the ‘what’, in other words) to compete in industries and to create shareholder value, and we will examine this aspect in more depth in Chapter 7.

### 2.6.2 Strategy implementation

Strategy implementation consists of three important elements, namely change management, organisational learning, and resource allocation.

- **Change management.** The alignment of organisational architecture with strategy formation does not happen naturally, and the organisation has to put in place formal processes to manage the large-scale change associated with strategy. This aspect is explored in Chapter 8.
- **Organisational learning.** This relates to the less formal processes of organisational learning to recognise and respond to the need for change is discussed in Chapter 9.
- **Resource allocation.** The allocation of resources to portfolio, programmes, projects and organisational structures responsible for giving effect to strategy is the topic of Chapter 10.

### 2.6.3 Strategic control

Continuous environmental scanning (both formal and informal) helps to ensure monitoring and control processes. On the one hand, environmental scanning and control need to ensure that the planned strategy is on track and to alert key decisionmakers if interventions are required. This is represented by the arrow from left to right. On the other hand, leaders, strategists and other role-players in the organisation (eg market intelligence experts) may pick up signals from the environment that could affect the strategy formation process. This is represented by the arrow from right to left. This aspect is examined in more depth in Chapter 14.

### 2.6.4 Organisational architecture

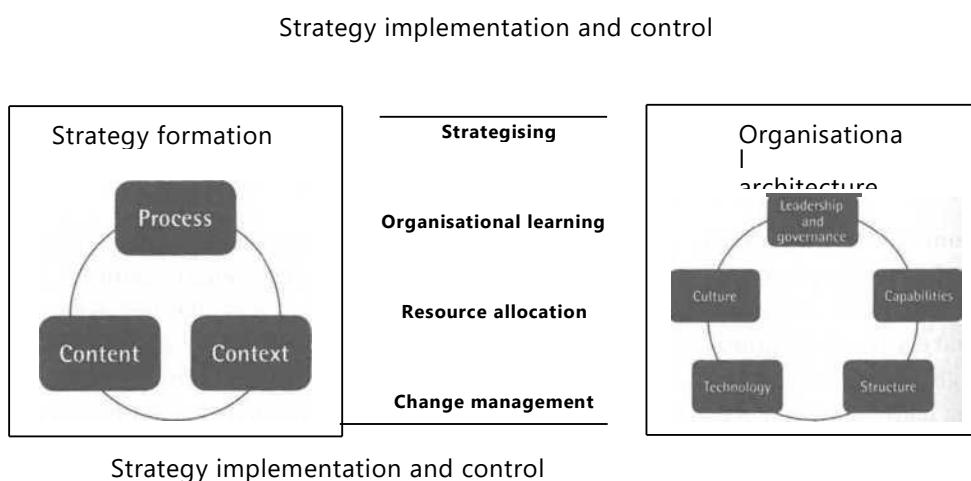
Organisational architecture is a management tool that is used to describe the workings of an organisation, especially with regard to the alignment of strategy and the organisation.<sup>19</sup> It is a model of the organisation that can be shared by everyone involved in managing change and aligning strategy with structure. There are many

different perspectives on organisational architecture and what it comprises, but for purposes of this book, we have focused on the four main elements, namely culture, leadership and governance, structure, and resources and capabilities.

- Culture. Peter Drucker once said that ‘culture eats strategy for breakfast’.<sup>20</sup> This observation suggests that culture is so powerful that no plan will work if it is counter to the culture of the organisation. In Chapter 11, we focus on organisational culture and its vital role in aligning strategy and organisational architecture.
- Leadership and governance. Chapter 12 deals with the closely related issue of leadership and its role in strategy implementation and governance.
- Structure. The structure of the organisation refers to the physical manifestation of the organisation in terms of geographical distribution, positions, reporting and communication lines, and so on. The role of structure in the alignment of structure and strategy is the topic of Chapter 13.

### Resources and capabilities

The success of organisations is dependent on them possessing unique strategic resources and valuable capabilities that form the foundation upon which the organisations are built and can grow. The role of resources and capabilities in the alignment of structure and strategy is the topic of Chapter 5.



**Figure 2.4** An integrated framework of strategic management<sup>21</sup>

## The big picture

In this chapter, we proposed that strategy is generally a messier process with more participants than conventional perspectives of strategy, as a formal process, would suggest. In developing our perspective, we suggested that a variety of strategists contribute, through their strategising activities, to ensure that the organisation is continually aligned (through its strategic choices) with its external and internal environment. In examining strategy, we also adopted the perspective that the context of Africa is a critical influence on strategising and strategy, and suggested that organisational sustainability (the ability to sustain resources and the uses thereof) is a key goal of any organisation. Table 2.2 is a summary comparison of the conventional approach to strategic management and our approach in this book.

## Summary of learning outcomes

**LO 1: Explain the origins of strategic management.**

In Section 2.1, we discussed the evolution of strategy as a military concept to the notion of strategic management as a concept utilised by modern businesses in the pursuit of competitive advantage.

**LO 2: Identify and explain the universal principles of strategic management**

While there may be many different perspectives of what strategy is, Section 2.2 introduces seven principles of strategic management that most academics and practitioners of strategic management agree on.

**LO 3: Define strategy and explain its importance to the organisation.**

In Sections 2.3.1 through 2.3.4, we explain what it means to be strategic, and develop definitions for ‘strategy’ and ‘strategic management’. We also explore the importance of strategy and the organisation’s strategic management.

**LO 4: Identify the characteristics of strategic decision-making, and provide guidelines to strategic decision-makers to aid them in making better strategic decisions.**

Strategic decisions are complex and there are no clear ‘right’ answers. In Section 2.4, we outline the rational and cognitive aspects, as well as the political aspects of strategic decisions, and provide guidelines for ‘good’ strategic decision-making.

**LO 5: Explain how the success of strategy can be measured.**

The business world is filled with examples of the negative effects of pursuing shortterm profits above all else. In Section 2.5, we explain that strategy should always be <sup>a</sup> bout the long term and creating value for stakeholders (ie sustainability), rather than about short-term profits.

LO 6: Discuss a contemporary strategic management framework.

In Section 2.6, we introduce the idea of an integrated framework for strategic management, which also serves as an outline for this book. The framework suggests that strategic management is ultimately about finding a balance between the processes of strategy formation and organisational architecture.

**Table 2.2** A comparison of a conventional approach to strategic management and our approach

	Conventional strategic management	Our approach
Central focus	Understanding how organisations develop and maintain competitive advantage	Understanding what strategists do to achieve and maintain competitive advantage
View of strategy	Abstract - a characteristic of the organisation	The strategic acts, talk and documents that strategists produce
Responsibility	Top management formulates, middle management implements	A wide range of strategists is involved and influence the process
Process	Logical and rational	Messy, experimental and iterative
Process flow	Thinking before doing	No clear separation between thinking and doing
Key influences	Cognition, micro-economic	Cognition and politics, micro-economics and sociology
Goal	Competitive advantage and sustainability	Competitive advantage and sustainability

## Discussion questions

1. Explain the origins of strategic management.
2. Identify and explain the universal principles of strategic management.
3. Explain the difference between ‘strategy’ and ‘strategic management’.
4. Describe what ‘strategic’ means.
5. List the characteristics of strategic decisions.
6. What guidelines would you give to strategic decision-makers to improve strategic decision-making in their organisations?
7. Explain what success means in strategic terms.
8. Differentiate between corporate and business level strategy.

8. Explain what is meant by internal consistency, external consistency and dynamic consistency.
9. Would you describe the decision by Discovery to open Discovery Bank as a strategic decision? Substantiate your answer. (See <https://mybroadband.co.za/news/banking/200968-new-discovery-bank-on-track.html> for more information on the decision.)
10. Explain the contemporary framework of strategic management to your colleagues (or fellow students) with the help of practical examples.

## Learning activities

1. Interview a manager in your organisation, or any organisation of your choice. Determine whether the organisation follows a deliberate approach to strategic management or an emergent approach (or perhaps a little bit of both).
2. Visit the website <http://www.managementexchange.com/blog/gary-hamel-are-you-really-serious-about-innovation> and watch the video 'Are you really serious about innovation?' by Gary Hamel. After watching it, what is your view on the role of innovation in strategic management?

## Endnotes

- <sup>1</sup> 'Low volume' in this case means high prices, and low sales volumes (such as the very expensive Tesla S).
- <sup>2</sup> For more background on the Hyperloop train concept, see <https://www.youtube.com/watch?v=7A7GsAPR3J0>.
- <sup>3</sup> *The Art of War* by Sun Tzu (written about 500bc) is widely regarded as one of the first known works on strategy.
- <sup>4</sup> Porter, M. 1998. *Competitive advantage: creating and sustaining superior performance*. New York, NY: The Free Press.
- <sup>5</sup> Grant, R.M. 2013. *Contemporary strategy analysis*, 8th ed. West Sussex: Blackwell.
- <sup>6</sup> For more background, see MyBroadband (online). 2 March 2017. *New Discovery Bank on track*. Available at: <https://mybroadband.co.za/news/banking/200968-new-discovery-bank-on-track.html> (accessed 19 July 2017).
- <sup>7</sup> Ibid.
- <sup>8</sup> Grant (2013: 17-18).
- <sup>9</sup> Mintzberg, H., Lampel, J., Quinn, J.B. & Ghoshal, S. 2003. *The strategy process*, global 4th ed. Upper Saddle River, N.J.: Prentice Hall.
- <sup>10</sup> Johnson, G., Whittington, R. & Scholes, K. 2011. *Exploring strategy: text and cases*, 9th ed. Essex: Pearson Education, p. 517.
- <sup>11</sup> Compiled from information available on <https://www.bidvest.co.za/about.php>.
- <sup>12</sup> Brevis, I. & Vrba M.J. 2014. *Contemporary management principles*. Cape Town: Juta, p. 266.
- <sup>13</sup> Mintzberg et al. (2003).
- <sup>14</sup> Porter (1998).
- <sup>15</sup> Adapted from Eisenhardt, K.M. 1990. 'Speed and strategic choice: how managers accelerate decision making'. *California Management Review*, 32(3): 39-54.

- <sup>16</sup> A quote by British philosopher Carveth Read, often wrongly attributed to economist John Maynard Keynes.
- <sup>17</sup> Grant (2013: 37).
- <sup>18</sup> Adapted from: Tamar Kahn. SASSA and Post Office secure social grants deal. Business Day Live (online). Available at: <https://www.businesslive.co.za/bd/national/2017-12-10-sassa-and-post-office-secure-social-grants-deal/> (accessed 13 February 2018).
- <sup>19</sup> Lee, G.J, Venter, R. & Bates, B. 2004: 'Enterprise-based HIV/AIDS Strategies: Integration through Organisational Architecture.' *South African Journal of Business Management*, 35(3): 13-22.
- <sup>20</sup> This famous quotation is generally attributed to the late business management guru Peter Drucker.
- <sup>21</sup> Adapted from a framework developed by Prof Peet Venter for the module 'Managing Strategic Change, a core module of the Masters of Business Leadership (MBL)' at UNISA.

# 3

# A process perspective of strategic management

Annemarie Davis

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- LO1: Explain the process perspective of strategic management.
- LO 2: Criticise the process perspective of strategic management.
- LO 3: Identify and explain the management levels involved in strategic management.
- LO 4: Explain strategy strategic planning and recognise the strategic direction and environmental analysis in organisations.
- LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.
- LO 6: Explain strategy review and control and identify the main strategic control mechanisms in organisations.

## KEY WORDS

- **Process perspective of strategic management**
- **Management levels**
- **Strategic management**
- **Vision (or vision statement)**
- **Mission (or**
- **Strategy planning**
- **Strategy implementation**
- **Strategic control**
- **Balanced Scorecard**
- **Strategic goals**

## CHAPTER ORIENTATION

In Chapter 2, we explained that the aim of strategic management is to ensure that an organisation achieves competitive advantage, and sustains its competitive advantage over competitors. Strategic management helps organisations to achieve superior performance and sustainability over the long term. Although there are many different approaches to strategic management, the ultimate aim of any strategic management activity is survival and long-term goal achievement in a changing environment. However, strategic

management is not only aimed at improving the long-term survival of profit-oriented organisations, but it also adds value to non-profit organisations, public organisations, governments, sport societies and schools. In fact, the principles of strategic management are such that it can help and guide any organisation, institution and individual towards achieving their goals despite changes in the environment.

The case study describes Capitec's success in the banking industry. The basis of Capitec's success is its commitment to its medium- and long-term strategy. The case study also highlights the fact that a clear understanding of the needs of the market informed Capitec's efforts to offer simplified and affordable banking products. The Capitec strategies are formulated through a deliberate process to evaluate strategic options in terms of the business context in which it finds itself, which is the focus of this chapter.

The process to formulate strategies can take many forms and involves the entire organisation on various levels. Table 2.1 in Chapter 2 depicted the levels of strategic decision-making and indicated the three levels of strategy (corporate level, business level and functional level). For the most part, all organisations will have strategies on each level and the implementation of these strategies cascades throughout. Yet, the approach followed is unique to each organisation and there may be vast differences between, for example, Capitec's approach and that of the Absa Banking Group. In addition, the approach followed by a small business may be entirely different from the approach followed by a large business which has clearly defined business levels and business units. What is, however, found to be common among the different approaches to formulating strategies is the involvement of senior management, a focus on the long term and a commitment to the entire organisation (and not only a business unit, department or section within). It is necessary to note here that the process of formulating strategies entails much more than strategic breakaways and glossy integrated reports. It is also entirely possible that some organisations have all their strategies written down and documented while others have a less formal approach. The process of formulating strategies leads to actions to implement the strategies and deliberate attempts to monitor their progress.

Strategic management and the processes associated with strategising are not new concepts. Strategic management has been part of every organisation, albeit in a deliberate and formal approach, or an emergent adaption to survive in a changing environment. The original approaches to strategic management were grounded in business policies and planning approaches. Strategic **management** then evolved into a process consisting of definite stages or phases. Later, and most recently, strategic management is considered from a practice

This chapter focuses on the process perspective of strategic management, which can be described as a formal, rational approach to developing deliberate strategies for achieving strategic competitiveness and competitive advantage. It is part of strategy formation, as illustrated in Figure 3.1, focusing on the *content* part of strategy formation. The discussions in this chapter will commence with an explanation of the process perspective of strategic management, followed by an explanation of the new competitive realities and criticisms of the process perspective. The management levels involved in strategic management will then be addressed. Thereafter, each of the phases in the process perspective of strategic management will be explained with practical examples illustrating these phases.

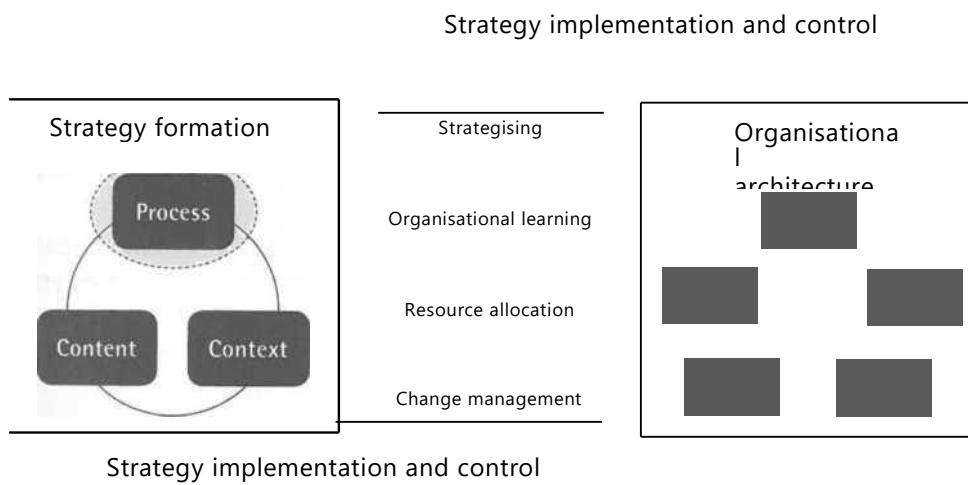


Figure 3.1 *Strategic Management as a process*

## Case study

### Capitec - no longer just a *new kid on the block*

The four major South African banks, Standard Bank, Absa Bank, FirstRand Bank and Nedbank, share about 80 per cent of the market. The remainder of the market belongs to a combination of other role-players in the industry. According to the South African Banking Sector Overview, the SA banking industry consists of 17 registered banks, two mutual banks, 14 local branches of foreign banks, two co-operative banks and 43 foreign banks with approved local representative offices.<sup>1</sup> When one looks at the latest full-year data from the retail banks, the battle to be the biggest is fierce between FirstRand and Standard Bank. What is exciting to see is the growth of Capitec. Out of nowhere in 2001, Capitec emerged with a dream to provide low-cost financial services to low-income groups. From a humble beginning, Capitec moved in and, 15 years later, celebrated an increase in headline earnings of 18 per cent to R3.8 billion for the 2016 financial year. These earnings represented a record growth of 1.3 million with 8.6 million active clients.<sup>2</sup> During March 2017, Capitec revealed that it was adding 120,000 new banking clients each month!<sup>3</sup> In terms of the customer base, Capitec secured more than 15 per cent of the customers in the South African banking sector.

What is the secret to Capitec's success? How did it move from being the new kid on the block to becoming a noticeable presence and a real threat to the big four banks in South Africa?

According to the 2016 South African Customer Satisfaction Index (Saci) report, Capitec outcompeted all the other banks in terms of customer satisfaction - for three years in a row.<sup>4</sup> Capitec changed the game of banking by offering a simplified and affordable product - built on set fees and a single account over the often-complex calculations and bundled product offerings from competing groups.<sup>5</sup>

Capitec is led by its CEO, Gerrie Fourie, who confirms that the bank will continue its focus on the fundamentals of delivering simplified banking that is affordable and easy to access through personal service.

*This resonates with most South Africans and is what sets us apart, especially in the current tough economic climate, giving clients a sense of value and allowing them to feel in control of their money. Through strong marketing communications, a focus on client service and positive word of mouth, the Capitec brand has grown in stature, with South Africans from all walks of life accepting Capitec as their first choice bank.<sup>6</sup>*

Overall, Capitec is committed to sustainable profit. This is achieved through the right strategy, focused leadership, a healthy corporate culture based on strong values and responding to stakeholders' needs. Capitec's strategies are built on providing a unique service, enhancing the product offering, growing the client numbers, increasing transaction income, managing costs of credit to clients, and responsible risk management. These strategies are crafted over the short to medium term (one to five years) without losing focus on the long term (more than five years). The long-term view is to become

a preferred global retail bank enabled through virtual banking. The foundation of Capitec's success includes its competitive culture and its ability to achieve results through operational excellence and teamwork. These are key ingredients in Capitec's growth and its success in executing an innovative strategy.

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LO 1: Explain the process perspective of strategic management.

---

### **3.1 A process perspective of strategic management**

The traditional view of strategic management is that it is a process with distinct stages or phases. The approach adopted in this book is that strategic management is a complex and dynamic discipline and that a static, linear process does not consider the complexity or the environment in which the organisation operates (refer to the contemporary strategic management framework provided in Chapter 2, Figure 2.4). However, an understanding of the process perspective of strategic management is a valuable starting point and offers a sound theoretical foundation from which to work. The three stages of the process perspective are depicted in Figure 3.2.

This is the first stage of the strategic management process. This stage is a conceptual process that consists of environmental analyses and the development of strategies.

1

#### **Strategic implementation**

This is the second stage of the strategic management process and is referred to as the action phase. All staff in the organisation are tasked with implementing the strategies.

2

#### **Strategic control**

This is the third stage of the strategic management process and is also referred to as the review or monitoring phase. The strategy review phase is aimed at monitoring progress and providing feedback.

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Figure 3.2 *The process perspective of strategic management*

The strategy planning stage is often also referred to as strategy crafting. The strategy implementation stage is also referred to as strategy execution and strategic control is also referred to as the strategy review stage or strategy review and control stage.

It is important to realise that strategic management is a continuous activity and information obtained through the strategic review or control stage feeds back into strategic planning and strategy implementation. The following section offers a more detailed explanation of each of these stages.

### 3.1.1 Strategic planning

The strategic planning stage is the starting point of the strategic management process. The process perspective to strategic management is often also referred to as the traditional perspective. Traditionally, it was accepted that the roles between the different levels of management were clearly defined and that the top managers were the key strategists in the organisation, while the middle and lower level of managers were mostly involved in implementing the strategies developed by the top management team. Strategic planning, according to the process perspective, is the stage in which the top management team (the strategists) decide on the strategic direction of the organisation as a whole. Typically, this stage mostly involves senior management who conduct various analyses of the organisation itself, as well as of the environment in which it operates. Part of this phase is the setting of strategic direction, in other words, deciding on the future of the organisation and setting the overarching goals of the organisation. For example, when looking at the case study about Capitec, the founder, Michiel le Roux, had a vision for a low-cost bank for low-income customers. The vision formed the centre of the founding, listing and operations of the bank. The vision set the strategic planning process in motion. During this stage, the top management team devised a vision or dream for such a bank; analysed the environment and competitors, and then devised strategies to achieve its dream. The practising strategy box below provides comments from Michiel le Roux (founder) and Gerrie Fourie (current CEO) and show how the overarching goal is still guiding Capitec's activities - 15 years down the line. The practising strategy box also includes the company slogan which exclaims that Capitec offers simple banking - aligned to the original vision of offering a simple and low-cost banking solution.

## Practising strategy: Capitec

Bruce Whitfield's interview with Capitec founder, Michiel le Roux, 20 July 2016<sup>7</sup>

Twitter comments:

'I originally had a very basic bank in mind.'<sup>8</sup>

'I told our shareholders we'll either be a big success or a small failure. Not in my wildest dreams could I foresee the success we've had.'

'We'll keep it simple. In 10 years it'll still be recognisable as the bank you see today.'<sup>9</sup>

Comments from new Capitec CEO, Gerrie Fourie:

When asked what the future strategy for Capitec will hold, Gerrie Fourie stated that 'more of the same, but, my tenure will have an increased focus on what is in the client's best interest. ... I need to build on this platform and drive the organisation to deliver even more value for each client. This will further differentiate us from other banks, offering greater convenience and attracting more primary bank clients'.<sup>10</sup>

It's banking, just simpler.

From one banking solution and innovative tech to Sunday and paperless banking, everything we do is to make your life easier and empower you to take control of your money.<sup>11</sup>

In addition to a company slogan, a range of management tools can be used to set strategic direction, such as a vision statement, a purpose or mission statement, or a statement of strategic intent. Some organisations also include a value statement. Looking at Capitec again, their slogan can be translated into a mission and values statement that provides more detail about their product and service offerings, their markets, the technologies they use to make banking simpler, and their commitment to their stakeholders.

During the strategic planning stage, various analyses take place and the senior managers gather information about the operations, resources and capabilities of the organisation. The senior management team also scans the environment to identify potential opportunities and threats, as well as evaluating the market or industry in which the organisation operates and collecting information on competitors. This is referred to as an external environmental analysis. The senior management team also scans the internal environment, in other words, the organisation itself, with the purpose of identifying its own strengths and weaknesses. Once all the information from the external and internal environments has been collected and analysed, the senior management team then considers the various strategic options and chooses those strategies where the fit between what the organisation can do with the opportunities is the strongest. In addition, the senior management team formulates the strategic goals for the organisation. For example, FlySafair entered the low-cost airline industry with a vision to open the skies to many who had never flown before.<sup>12</sup> Their strategy is premised on their commitment to make prices sustainable and to keep them low. FlySafair aims to keep costs per seat as low as possible. Part of its actions included changing the seats on its aircraft to make it lighter and thinner, thereby reducing fuel costs.<sup>13</sup> Linked to its mission to provide low-fare, hassle-free and on-time travel experiences, one of FlySafair's strategic goals may, for example, be that FlySafair will achieve a 95 per cent on-time performance while offering seats at 5 per cent less than competitors will. This deliberate decision to focus on low-cost air travel is a result of an external environmental analysis that identified the opportunities in these markets.

An analysis of the organisation's internal environment identified various strengths of the organisation that enable them to make use of the opportunities identified in the external environmental analysis. Once the strategies to take the organisation towards the achievement of its objectives have been selected, the next stage of the strategic management process starts, namely strategy implementation.

### 3.1.2 Strategy implementation

The second stage of the strategic management process is referred to as the strategy implementation stage and is considered the most challenging stage in any strategic management process. As we explained earlier, the process perspective to strategic management offers a traditional approach in which the top management team, or senior management team, was responsible for the strategy formation and the middle and lower-level managers were seen as the implementers of the strategies devised by the senior managers.

Once the senior management team has selected the strategies of the organisation, they need to be put into action. This requires the involvement of everyone in the organisation. The corporate strategies, and the senior management team's rationale for selecting them, need to be communicated to all parties. Not only should the organisation members be told what the strategies and overarching objectives of the organisation are, but the senior management team also need to ensure that there is understanding and buy-in because the wider the organisational support, the greater the chances of successful implementation. Members must be motivated and energised towards achieving these goals on business, functional levels and even individual levels.

Operationalising strategies are an important aspect of strategy implementation. They entail translating the overarching and strategic objectives into specific programmes, projects, tasks and activities. The middle and lower management levels in the organisation are responsible for this, as well as for overseeing it, so they must be empowered to do so. By translating the strategic goals or long-term objectives into shorter term goals and activities, the organisation members become aware of their roles in the strategic success of the organisation (refer to Figure 1.1 in Chapter 1 that depicts the hierarchy of organisational plans).

At its most basic level, strategy implementation is the action ('doing') stage of the process perspective of strategic management. Actions to successfully implement strategies are ensured through certain drivers such as leadership, management, and culture. Organisational culture is commonly referred to as 'the way we do things around here' and how things are done will impact on success. For example, if the organisational culture is negative and there is little support for the strategies, then the strategy implementation process becomes more challenging and can actually fail. But when the organisational culture is positive and there is wide buy-in, the efforts to implement the strategies are more co-ordinated and have a greater chance of success. Organisational culture and strategy are discussed in detail in Chapter 11.

The middle and lower levels of managers can use rewards to drive strategy implementation. By rewarding the actions, tasks and behaviour that contribute towards successful implementation of strategies, managers enhance the chances of strategy success. Managers should thus devise reward strategies and systems that are aligned to the overall strategic direction of the organisation.

The way that the organisation is structured also impacts on the strategy implementation process. If the strategy requires quick decision-making, then a bureaucratic structure that entails time-consuming red tape may hamper efforts. The organisational structure not only indicates the lines of authority and reporting, but also the process and lines for strategy implementation. Coupled with the structure of the organisation are the inherent systems and policies inside the organisation. Organisational systems, processes and policies are used to direct the execution efforts. Again, the systems, processes and policies should be aligned with the overall strategic direction of the organisation.

Finally, leaders and managers in the organisation need to empower and enable the employees and organisation members to carry out the tasks to implement the strategies. This requires the appropriate allocation of financial, human, physical and informational resources. If the resources are lacking, the implementation efforts will surely fail.

Although monitoring the implementation of the strategies takes place continuously, in terms of the process perspective on strategic management, it is regarded as the third stage.

### 3.1.3 Strategy review and control

Strategy review and control involves monitoring the progress of strategy implementation, measuring actual or realised performance, comparing actual performance with planned performance, identifying problems and instituting any necessary corrective actions. Although described as the third and final stage in the strategic management process, it is a continuous process. As strategies are implemented, the strategy review takes place.

Different methods of strategy review exist. One such method is continuous environmental scanning, which can be considered a review method as it provides feedback on changes in the environment that may impact on strategic choices and their execution. Another form of strategy review is implementation control. Similar to operational control, this is where deviations from the plans are identified and addressed as they occur. This implies that corrective measures are taken during the strategy implementation process to ensure that the strategic management process continues successfully.

It is mostly senior and middle managers who are involved in the strategy review process. Most important is the feedback from the review that needs to serve <sup>a<></sup> input in the amendment of existing strategies and goals, or the possible total reconsideration of the strategies and goals. Continuous feedback forms the foundation of the strategic management process.

LO 2: Criticise the process perspective of strategic management.

### **3.2 The new competitive realities - criticising the process perspective of strategic management**

The biggest critique of the process perspective of strategic management is that, in being a linear process, the complexity of the environment is not considered and dealt with sufficiently. Also, the process perspective supports the notion that it is mainly the top management team or senior managers who craft or formulate strategies while other levels of management merely implement those strategies.

In practice, strategic management is much more complex and dynamic than is portrayed in the process perspective. Strategy is not something that an organisation *has*, but is rather something that an organisation, and the people in the organisation, *does*. The reality of strategic management in the contemporary business environment is that it is a messy and complex process, influenced by many different aspects. Strategy, in reality, is crafted through a process of conversation and input from all levels in the organisation and inputs from various stakeholders (as discussed in Chapter 1, Section 1.7).

In Chapter 4, we take a closer look at *who* does strategy in organisations.

LO 3: Identify and explain the various management levels involved in strategic management.

### **3.3 The management levels involved in strategic management**

In a medium to large-sized organisation, there are usually three levels of management, namely top management, middle management and lower-level management. Top management comprises the CEO, the board of directors and senior managers. As described above, the top management team (or senior management team) will play a major role in setting the organisation's strategic direction and in analysing the environment. The information they gather will then be used to formulate the strategies.

It is mostly the middle and lower-level managers who are responsible for the execution of the strategies through the managing of employees. The top managers rely on the middle managers to ensure that their planned strategies are implemented. Top management then becomes more involved once again during the strategy review process. Chapter 4 offers a more detailed discussion of strategists.

LO 4: Explain strategic planning and recognise the strategic direction and environmental analysis in organisations.

### 3.4 Strategic planning

The following section discusses in more detail the process of strategic planning. The practising strategy box offers some background on Katlego Global Logistics and includes the vision and mission statement to serve as an example.

## Practising strategy: Katlego Global Logistics<sup>14</sup>

Katlego Global Logistics (Pty) Ltd was founded in 1998 by Moses Maboi and borne out of his drive and enthusiasm for attaining efficient and dependable service in the freight logistics industry. From the onset, Moses was motivated by his passion for his country and his dream to contribute to South Africa's economic potential by partnering with stakeholders to contribute to the development and value add for black-owned and -managed companies. Given his years of experience in the industry, Moses set out, not only to render quality and professional services in all freight- and trade-related services, but also to develop skills of employees through training and exposure.

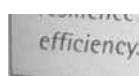
Katlego Global Logistics offers solutions in the areas of clearing and forwarding, air freighting and car-going, supply chain and inventory management, logistics, customs broking and project shipments.

Katlego Global Logistics adds the value of time and place utility as it offers integrated services and tailored, customer-focused solutions for managing and transporting documents, goods and information. This involves the integration of information, transportation, inventory, warehousing, material handling and packaging, and occasionally, security.

The company has become recognised as a freight and courier industry expert, supply-chain innovator and a business partner. It does not use contractors within the boundaries of South Africa, assuring customers that it is tracking and keeping their precious cargo safe. With a dedicated national fleet of vehicles ranging from small, utility one-ton vans to larger eight-ton trucks, Katlego Global Logistics is well represented nationally.

The vision of Katlego Global Logistics is to be the preferred supplier in the freight logistics industry known for excellent service delivery. Their mission is:

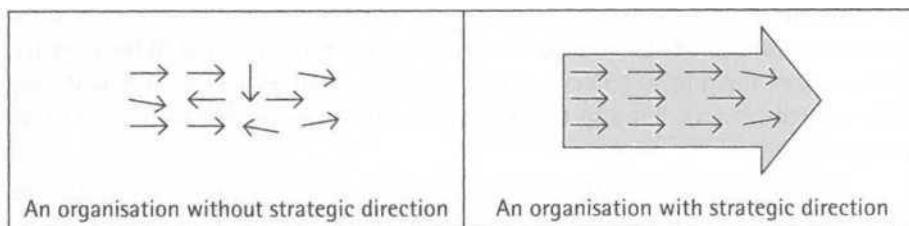
*To lead with insight and innovation, constantly strengthening the company's rpsihmn\* onj ensuring fhQt our customers' needs are addressed with the utmost*



### 3.4.1 The strategic direction of the organisation

The organisation's management and employees need to know the reasons for the organisation's existence. The strategic direction clarifies the overarching purpose and goals of the organisation, as well as indicating to external stakeholders what the organisation is about. Several management tools are used to set the strategic direction. As an example, the practising strategy box on Katlego Global Logistics provides its vision and mission statements that offer a clear message on its purpose. The following section explains how the vision statement, the mission statement and the strategic goals are used to direct the actions and strategic efforts of the organisation over the long term.

Not only does the strategic direction provide the organisation and its members with a primary direction, but it also helps bind the organisation members as a cohesive unit. Figure 3.3 depicts the benefit of strategic direction. The diagram below indicates the multiple different directions in which the organisation and its members are working. The other one shows how the overall stated strategic direction (represented by the blue arrow) aligns the efforts of the entire organisation and its members in one direction.



**Figure 3.3** *The benefits of strategic direction*

Having sound strategic direction is a powerful contributor to strategic success as it forms the starting point for a carefully planned and implemented strategy. It also provides focus and directs all actions towards achieving the same goal.

Some organisations do not have separate vision and mission statements, while others have only mission statements. Organisations are diverse and varied, just like the people who work in them, and this creates room for a range of different practices. The strategic direction can be expressed through a vision, a mission or both. What is crucial is that the entire organisation and its members know where they are going and what they are working towards.

Table 3.1 offers a summary of the advantages of having clear strategic direction, expressed through the vision and mission statements of organisations.

*Table 3.1 Advantages of having clear strategic direction*

- |   |                |
|---|----------------|
| 1. It provides direction and a clear indication of what the organisation              | is aiming for. |
| 2. It ensures that all the organisational efforts and all the organisation            | members are    |
| working towards the same goals.   |                |
| 3. It offers a clear message to internal and external stakeholders on what the        |                |
| organisation wants to achieve over the long term.                                     |                |
| 4. It guides problem-solving and decision-making as the end goal is clear to all.     |                |
| 5. It provides the organisation with a unique identity.                               |                |
| 6. It contributes to synergy among all managers and other employees and stakeholders. |                |

### *The vision statement*

The vision statement is often referred to as the dream of the organisation. It is used as an indicator of the desired future position of the organisation. It is often not realistic in literal terms. For example, the vision of Katlego Global Logistics (see the practising strategy box provided earlier) is to be ‘the preferred supplier in the freight logistics industry known for excellent service delivery’. This may seem overly ambitious, but it is a powerful statement designed to motivate the entire organisation. Another example is that of the freight division of Grindrod Limited. Their vision is ‘to be a dominant and profitable freight services provider focusing on infrastructural development on the African continent’. The delineation of ‘African continent’ clarifies their playing field. A good vision statement should identify the direction and future of the organisation. As the entire organisation and its members need to work towards reaching this future destination, it should be persuasive and credible, and easily understood.

There is no standard format for a vision statement. Some organisations may opt for short and punchy vision statements, while others may opt for more descriptive versions. However, there are certain guidelines for what a vision statement should be, namely:

- It should present a clear picture of a desirable future, something to which the organisation and its stakeholders can aspire.
- It should guide decision-making, yet be flexible enough to allow the organisation to respond to changes in the environment.
- It should be easy to communicate, to explain and to understand.

Ultimately, the vision is not just a statement on a piece of paper, but rather galvanises and directs people in the organisation.

### *The mission statement*

The mission statement is also called the purpose statement of the organisation. In its most simplistic form, the mission statement provides an indication of what the organisation does and why it exists. The mission statement builds on the vision

statement. The mission statement is not only used internally within the organisation, but often used in external communication and the media. The mission is as much an internal statement as it is an external statement. The three core components of a mission statement are *product and/or service, market and technology*:

- The product and/or service: A mission statement should indicate the product or service that the organisation offers and should answer the question ‘what are our primary products and/or services that we offer?’
- The market: A mission statement should indicate the market that it hopes to serve and should answer the question ‘who is our primary target market?’
- Technology: Lastly, a mission statement should indicate the method (technology) used to deliver this product or service to the market and should answer the question ‘what technology will be used to provide the products and services to our market/s?’

In addition, a well-formulated mission statement could also contain the following:

- Often organisations give an indication of their commitment to stakeholders by including how important their customers are, or how the organisation invests in its employees or builds relationships with business partners (see Chapter 1 for an explanation of stakeholders). A good example is City Lodge Hotels:<sup>15</sup>

*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 is often expressed through stating their commitment to economic objectives. For example, ADvTECH, a placement, private education and training provider listed on the JSE, specifically refers to their aim to build, grow and achieve:

*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.<sup>16</sup>*

- Organisational values are principles that the organisation stands by; these values are held in high regard within the organisation and sets the standard of how the organisation wants to do business. An example of a mission statement that includes the organisation's values is Virgin Money, a financial services brand that entered the South African market with an aim of simplifying banking:

*Our mission is to give you: 1. A great deal, 2. Straightforward financial products, 3. Brilliant service.<sup>17</sup>*

- The organisational philosophy offers an indication of how the organisation plans to do business. The organisational philosophy is often linked to ethical standards; for example, Premier Hotels and Resorts, a hospitality service provider with hotels and resorts in South Africa has the following philosophy:

*I/Ve 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.<sup>18</sup>*

The value of setting clear strategic direction, whether through a vision or mission statement or both, is an important contributor to organisational success.

### The process of formulating a mission statement

Strategic direction is long term and ought to remain unchanged for an extended period. Organisations that change their strategic direction on an annual basis send a message that they are not sure where they are going. As the vision and mission statements are an expression of the strategic direction, these should also remain largely unchanged except, perhaps, for minor amendments to the wording.

Although there is no one agreed method for drafting a mission statement, most agree that it should involve as many people as possible because this contributes towards acceptance. External consultants may also be called in, but it is very important that the strategic direction be created internally.

One way to craft a mission statement is as follows:

- Orient those involved as to what constitutes a well-formulated mission statement.
- Do a brainstorming exercise to generate as many creative ideas as possible.

- Collate all the draft ideas and distribute them for comment.
- Continue this process until there is agreement on what the mission should be.

In the case of a start-up business, it is easier for a management team to compile the strategic direction. For established and multi-business organisations, however, the management team will need to maintain the business operations while the process to amend or redesign the strategic direction is underway.

### *Strategic goals*

Flowing directly from the mission statement is the need to translate the overarching direction of the organisation into strategic goals. The strategic goals have a shorter time frame than the vision and mission statements (five to ten years as a rule of thumb) because they are determined by the nature and the level of complexity and rate of change in an organisation and within its industry.

To be of value, strategic goals need to be measurable in terms of time, money and units.

Table 3.2 compares well-formulated and poorly formulated strategic goals.

**Table 3.2** A comparison of well and poorly formulated strategic goals

<b>Poorly formulated strategic goals</b>	<b>Well-formulated strategic goals</b>
Our goal is to increase our market share.	Our goal is to increase our market share by 3% by the end of 2021.
The goal for 2021 is to expand our product range.	The goal for 2021 is to expand our product range by introducing two new products in the baby clothing division.
By 2023, we will open new stores.	By 2023, we will open one new store in Mahikeng, in the North West Province and one new store in Kimberley, Northern Cape.

The SMART principles can be used to formulate good strategic goals:

S - specific M -

measurable A -

achievable R -

realistic T -

time

Goals should be specific and measurable so that people know exactly what it is that will be expected of them. Goals must be considered attainable by those who need to work towards achieving them (if, on the one hand, they seem impossible to reach, people will see no point in even trying or will quickly become discouraged).

The goals should be realistic, yet aimed at a level that will motivate people (on the other hand, if they are too easy to reach, people will not be inspired to work harder). Finally, a well-formulated goal is linked to a specific time period so people have a deadline to work towards (an open-ended goal will carry no sense of urgency and could take years to complete).

Over and above meeting the SMART principles, strategic goals should also be congruent with the mission statement components, the overall strategic direction of the organisation and should 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). Also, goals should be acceptable - people tend to pursue goals that are consistent with their preferences and perceptions. Lastly, strategic goals should be flexible. Organisations function in a turbulent business environment, which makes it necessary to allow for goals to be modified due to changing circumstances.

### Using the balanced scorecard to set strategic goals

The balanced scorecard (BSC) is a strategic management tool that was developed by Kaplan and Norton.<sup>19</sup> When used in the strategic planning stage, it guides the organisation and management team to translate the strategic direction into strategic goals. One of the benefits of the BSC is that it offers a balanced approach to setting strategic goals. The ‘balance’ is grounded in its four perspectives: financial, customer, learning and growth, and business processes. At the centre of these, is the strategic direction, which will include the vision, mission and other statements.

For each perspective of the BSC, strategic goals need to be formulated that will contribute to the achievement of the strategic direction. Each perspective offers a view on what needs to be done with a focus on two internal measures (internal business processes and learning and growth) and two external measures (customers and finance). The balance between the internal and external perspectives ensure that the strategic goals are aligned with the strategic direction. The four perspectives of the BSC are explained below:

- The financial perspective, with a focus on the financial performance of the organisation. The financial perspective is linked to the expectations and needs of the shareholders, as well as to the financial performance or stewardship of the organisation.
- The customer perspective, with a focus on how the organisation’s customers perceive it. The customer perspective works towards a focus on satisfying customer needs and a consideration of how customers see the organisation.
- The learning and growth perspective, with a focus on sustainable growth, value creation and innovation. This perspective is also called organisational capacity and is aimed at the employees (human capital) and the capacity to achieve its goals.
- The business process perspective, with a focus on the core capabilities at which the organisation must excel in order to be competitive. This perspective is linked to quality and efficiency in all that the organisation does.

Each of these four perspectives is linked to a specific question which guides the setting of the strategic goals. Given the foci of each of these perspectives, the BSC is a handy tool that is used to translate the strategic direction into goals and targets. These targets can be seen as the shorter term aims at the business level, which guides the activities or actions needed on the functional level. Figure 3.4 provides guiding questions for each perspective. These four questions are used to select the most important strategic goals on corporate level (refer to Table 2.1 in Chapter 2, where a distinction was made between the various levels of strategy). A successful application of the BSC may include two to five goals in each perspective and each goal should be joined by a performance target that indicates whether the goal is achieved, as part of the review process.

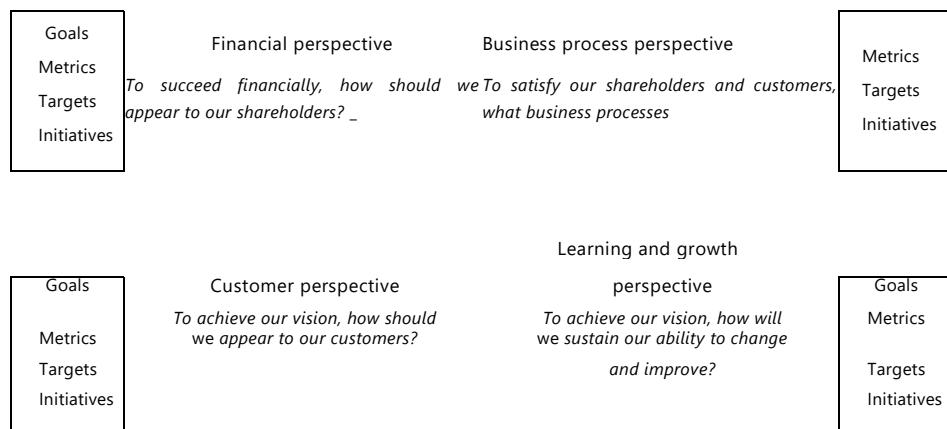


Figure 3.4 *The balanced scorecard*<sup>20</sup>

The scorecard is balanced in that it includes strategic goals and measures for all four perspectives. The purpose is to ‘balance’ the strategic goals by ensuring that one business area (such as finance) does not dominate the strategic direction of the organisation, while, at the same time, ensuring a focus on a few key metrics that could serve as a ‘scorecard’ for the whole organisation.

Table 3.3 provides examples of goals, metrics, targets and initiatives for each of the four perspectives.

Table 3.3 *Examples of goals, metrics, targets and initiatives for a balanced scorecard*

Perspective	Goal	Metric	Target	Initiative
Financial	Consistently achieving above-average returns on shareholders' investment	Return on equity (ROE)	25% ROE per annum for the next five years	Reduce the cost of inputs to achieve higher productivity levels

Perspective	Goal	Metric	Target	Initiative
Business process	More innovative product development	New product revenue as a percentage of total revenue	Increase new product revenue to 30% of total revenue by 2022	Introduce a new product development process
Customer	Retaining valuable customers	Customer retention rate	Improve customer retention rate by 20% over the next five years	Implement a loyalty programme
Learning and growth	Reducing waste in the manufacturing process	Waste as a percentage of total manufacturing cost	Reduce waste by 50% over the next five years	Introduce a total quality management programme

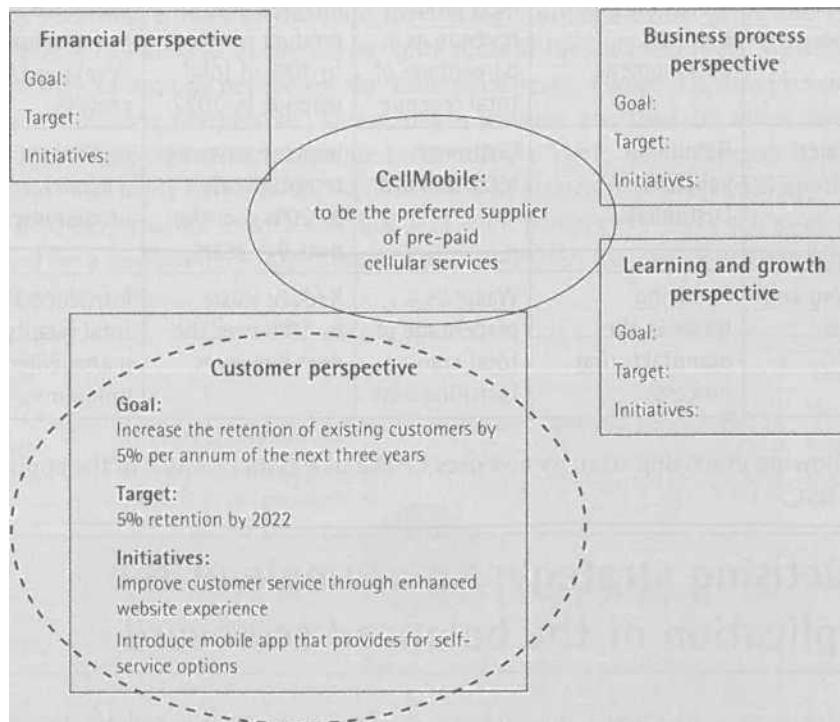
The following practising strategy box uses CellMobile as an example of the application of the BSC.

## Practising strategy: An example of the application of the balanced scorecard

CellMobile is a (fictitious) organisation in the South African cellular telephone industry. Their vision is to be the preferred supplier of pre-paid cellular services. Their growth strategy is aimed at developing their market by targeting customers in rural areas where other cellular services are unreliable and often interrupted.

If CellMobile uses the balanced scorecard, their starting point will be the vision and strategy which is aimed at growth. In each of the perspectives, they will set objectives, measures, targets and initiatives that contribute to being the preferred supplier and growing their market. For example, in terms of the customer perspective, a goal might be to increase the retention of existing customers by 5 per cent per annum for the next three years. The targets to be achieved, then, would be 'five per cent retention' and 'within a three-year period'. The initiatives to achieve this could now be devised, such as improving customer service by enhancing the CellMobile website services, or by making pre-paid vouchers more readily available. In terms of the business process perspective, CellMobile could set a goal to expand the cellular phone towers to ensure better service delivery and thereby be in a position to recruit more customers and thus grow their business. The goal could be to expand by two new towers every three months over the next two years. For this goal, the targets would be 'two towers', 'every three months' and 'over the next two years', and the initiatives could then be formulated.

The diagram below depicts the customer perspective within CellMobile.



The balanced scorecard offers a valuable framework for setting strategic goals.

Once the strategic goals have been formulated, the strategy selection process starts. This is discussed in Chapter 7. In Sections 3.5 and 3.6, we provided a brief overview of the strategy implementation and strategy review processes.

### 3.4.2 The role of environmental analysis in the strategic management process

Continuous scanning of the external and internal environments of an organisation supports the strategic management process. The purpose of scanning the external environment is to identify opportunities that may be exploited, or threats that may prevent the organisation from attaining its strategic objectives.

Internal analysis is done for the purpose of understanding the organisation's key strengths and key weaknesses, so that it can build on key strengths and counter or mitigate key weaknesses. The role of resources and capabilities is discussed in Chapter 6.

While many organisations do environmental scanning periodically (for example, at an annual strategic planning workshop) it should really be an ongoing process that forms part of strategic evaluation and control (see Chapter 14).

- LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.

### **3.5 Strategy implementation**

The purpose of strategy implementation is to align the internal and external environments with the chosen strategy. Strategy implementation is often seen as the most challenging stage in the strategic management process. Scholars such as Jooste and Fourie,<sup>21</sup> Candido and Santos,<sup>22</sup> and Speculand<sup>23</sup> documented some of the challenges linked to strategy implementation. In addition to the recognition in the scholarly community, examples of strategy implementation failures often reach news headlines. Numerous studies have been conducted on strategy implementation and there is agreement amongst scholars and practitioners that strategy implementation is challenging, and it is where most strategy initiatives fail.

#### **3.5.1 Strategic programmes and projects**

Figure 1.1 in Chapter 1, depicts the hierarchy of organisational plans, which indicates that strategic plans and initiatives should be managed as special programmes and projects with a view to eventually becoming part of the day-to-day operations of the organisation.

#### **3.5.2 Key drivers for implementing strategy**

Once a strategy has been selected, it needs to be communicated to the entire organisation and those who are tasked with implementing it, need to know exactly what is required. Effective leadership and management are vital to the success of any strategy. The managers and leaders in the organisation are responsible, not only for communicating the strategy, but also for guiding the actions required to execute it. Simply informing staff and other stakeholders is not enough. A general understanding of the rationale behind the strategy and the alleviation of any uncertainties are both vital to ensure agreement and support among all who are responsible for strategy implementation.

Strategy execution and renewal is a continuous process with specific targets to be reached at specific points in time, and organisational management and leadership are responsible for keeping employees motivated. Because change goes hand-in-hand with uncertainty and resistance, leaders will need to help members come to terms with the change and empower them to guide others to do the same. Behaviour, actions and tactics will need to be adapted. Involving people in the change process and ensuring that they understand the reasons for the change will ease the transition. There should be a fine balance between driving the change and giving people time to adjust.

Strategy implementation deals with the ‘doing’ part of the strategy, and organisational culture plays an important role in the success or failure of an organisation. An unhealthy and negative culture can cause undue resistance to change which

seriously hampers progress. This is something management and leadership will have to tackle as it can undermine the entire strategic management process. Organisational culture can help or hinder the strategy execution process. Chapters 11 and 12 deal with organisational culture and the role of strategic leaders respectively in more detail.

Resource allocation is another important driver of strategy implementation. Resources comprise human resources, physical resources, information resources and time. Coupled with the allocation of resources, is the need for structure. Organisational structure indicates the lines of authority and responsibilities in the organisation. It forms the backbone of the organisation and helps to direct the various actions required to implement the strategies. The organisational structure needs to support the implementation of the strategies. A more detailed discussion of organisational structure is included in Chapter 13.

Finally, the last driver of strategy implementation is organisational learning, which is covered in Chapter 9. Organisational learning is a process in response to change and provides for change, creating new knowledge and practices and, ultimately, the transferring of knowledge.

### 3.5.3 Operationalising strategy

Below is a brief explanation of the functional tactics (ie short-term goals) to explain how strategy is translated into operationalised actions. We remind you of Table 2.1 in Chapter 2 where the levels of strategic decision-making are described. This section deals with operationalising strategic goals on the business and functional levels.

It is important that the entire workforce knows, not only the overall direction of the organisation, but also what needs to be done on a daily, weekly and monthly basis in order to achieve the strategic goals. The middle management cadre will take the lead in this process by translating the strategic goals into specific, measurable, achievable, realistic goals to be achieved within a year or less. Although the strategic goals are specific and measurable, their focus is on the long term. In order to ensure that these strategic goals are operationalised, they need to be translated and adapted for the medium term. The same criteria required for setting strategic goals is important here. When the middle managers (such as the section heads, departmental leaders and site managers) involve the supervisory level in this process, the acceptance of these medium-term goals is ensured. Medium-term goals are typically set for the functional areas in the organisation, such as the marketing, operations, human resources, finance and purchasing departments. The balanced scorecard also assists in this process. As we have explained earlier, the balanced scorecard has four perspectives and the organisation's vision and strategy form the starting point. Within each perspective, the balanced scorecard is used to specify the goals, measures, targets and initiatives. Each business unit and department in the organisation will have its own focused and specifically balanced scorecard.

In addition to the medium-term goals, functional tactics also need to be developed. Functional tactics provide even more detail to ensure the daily operationalisation of the organisation's strategies. A functional tactic is developed in support of the short-term goals. Functional tactics are even more specific and

require wider participation. The focus of the functional tactics is the tasks and activities required to operationalise the strategy and indicate what needs to be done immediately and on a daily basis.

Finally, the organisational actions to operationalise the strategy are guided by the organisational policies. Policies are often referred to as 'red tape' but form an important part of the fair and justified actions of the organisation and its workers. Policies provide detailed and specific guidelines and rules that direct the organisational activities - the framework and specific 'do's and don'ts'. Policies are often referred to as standard operating procedures. It is important that the organisational policies be documented and recorded in written format and made available to all the organisational members. In line with fair business practices, the policies should also be made available to the customers and other stakeholders. Policies guide the organisational managers in the control and co-ordination of organisational activities.

- L06: Explain strategy review and control and identify the main strategic control mechanisms in organisations.

### **3.6 Strategy review and control**

This chapter started with an explanation of the strategic management process. We indicated earlier that the process begins with the development of the organisation's strategies, followed by their implementation. The third phase is the review and control phase. In this phase, the management uses a range of different measures and processes to check on the progress of the implementation process and monitors the need for changes to some of the previously developed strategies and goals. As organisations operate in changing environments, the need for regular and continuous monitoring and review is important. Different methods to review the strategy implementation process exist and although the focus of each methodology is different, the aims remain the same: review and control.

Our focus is on the four main strategic control mechanisms, namely, premise control, strategic surveillance, special alert control and implementation/execution control. Typically, all four of these methodologies will be employed, but at different stages of the implementation process. When the strategies are devised, a number of assumptions or premises are made. Premise control is aimed at reviewing these assumptions in a focused way. If any of the assumptions are no longer valid, a change in the strategy is required. This type of control is very specific. With its exclusive focus, it is possible that other factors, that may also bear an impact on the success of the strategy, are overlooked. Hence the need for the strategic surveillance type of control.

Strategic surveillance is also referred to as environmental scanning and is not focused, but rather opens the opportunity for managers to consider a whole range of internal and external environmental factors. As organisations operate in a changing

environment, some changes may occur that were not predicted. Despite the proactive nature of the strategic management process, it is impossible to predict and plan for all changes, especially unexpected changes that lead to a total reconsideration of the strategies. This type of control is often referred to as implementation control or execution control. It takes place during the strategy execution process and comprises four steps: setting the standard, measuring the actual, identifying deviations and taking corrective measures. The functional managers are responsible for this type of control, with inputs from the supervisory level. Special alert control is linked to a largely unpredicted and unexpected event that warrants a total review of the strategy. Chapter 14 provides a detailed discussion of the different types of strategic review and control methodologies.

## The big picture

The process perspective of strategic management advocates that strategic management comprise three stages, namely, strategic planning, strategy implementation and strategy review and control. The process perspective supports a linear approach to managing organisations strategically and is also referred to as the traditional approach. Yet, as organisations and management thinking evolve, new perspectives and approaches to strategic management have emerged. These perspectives do not replace the traditional perspective, but rather open opportunities for managing organisations in new competitive realities.

The focus of this chapter was to introduce different perspectives and to provide specific details on the process perspective of strategic management.

## Summary of learning outcomes

L01: Explain the process perspective of strategic management.

The process perspective is a traditional approach to strategic management that follows a mostly linear process that is driven by the top management team and divided into three distinct stages or phases.

LO 2: Criticise the process perspective of strategic management.

The process perspective is a linear process that does not consider the complexity or the environment in which the organisation operates. The process perspective also sees strategy as a top-down function - with strategic decisions made by top management and middle managers tasked with implementing it.

**LO 3: Identify and explain the management levels involved in strategic management.**

The different management levels involved in strategic management fall within three main categories: top management, middle management and lower-level management. For the most part, top management is responsible for setting the strategic direction and middle and lower-level managers are responsible for the execution of the strategies.

**LO 4: Explain strategy strategic planning and recognise the strategic direction and environmental analysis in organisations.**

With the process perspective of strategic management, the first stage is strategic planning that starts with the setting of the strategic direction. By having strategic direction, organisations and its members form a cohesive unit. Strategic direction is expressed through a vision and mission statement. Organisations operate as open systems in changing environments which require environmental analysis. Environmental analysis includes and analysis of both the internal and the external environment. The purpose of scanning the external environment is to identify opportunities that may be exploited, or threats that may prevent the organisation from attaining its strategic objectives. Internal analysis is done for the purpose of understanding the organisation's key strengths and key weaknesses, so that it can build on key strengths and counter or mitigate key weaknesses.

**LO 5: Explain strategy implementation and recognise strategic programmes, projects, the various drivers of strategy implementation and the operationalising of strategy in organisations.**

The purpose of strategy implementation is to align the internal and external environments with the chosen strategy. Strategy implementation is often seen as the most challenging stage in the strategic management process. A number of drivers exist for strategy implementation. These include leadership, organisational culture, resource allocation, organisational structure and organisational learning.

**LO 6: Explain strategy review and control and identify the main strategic control mechanisms in organisations.**

Strategy review and control develop during this stage of the strategic management process. In this phase, the management uses a range of different measures and processes to check on the progress of the implementation process and monitors the need for changes to some of the previously developed strategies and goals. The four main strategic control mechanisms are premise control, strategic surveillance, special alert control and implementation/execution control.

## Discussion questions

1. Depict the process perspective of strategic management diagrammatically.
2. Explain what vision, mission, and value statements entail.
3. Critique the process perspective of strategic management.
4. Explain the role of environmental analysis in strategic management.
5. Explain strategic programmes and projects.
6. Identify and explain key drivers of strategy implementation and identify these in organisations.
7. Explain strategy review and control and recognise various control mechanisms in organisations.

## Learning activities

1. Interview two managers in any two organisations of your choice about their perception of the value of the strategic management process. What did you learn about strategic management from these interviews?
2. Visit the website of strategist Tony Manning and read the blog at <http://www.tonymanning.com/stratblog/>. What are the implications of this perspective for strategic management as a process?
3. Read some of the work by scenario planner Clem Sunter (or visit the website <http://www.clemsunter.co.za/>). What role does scenario planning and environmental scanning play in the development of strategies?

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- <sup>3</sup> [https://businessstech.co.za/news/banking/161\\_573/capitec-is-adding-120000-new-customers-each-month/](https://businessstech.co.za/news/banking/161_573/capitec-is-adding-120000-new-customers-each-month/).
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# 4

# Strategising and strategists

Annemarie Davis

## LEARNING OUTCOMES

After reading this chapter, you should be able to do the following:

LO 1: Differentiate between the process and practice perspectives of strategic management.

LO 2: Explain the term 'strategising'.

LO 3: Differentiate between deliberate and emergent strategising. LO

4: Explain the roles and responsibilities of strategists.

## KEY WORDS

<b>Deliberate strategy</b>	<b>Strategising/strategy making</b>
<b>Emergent strategy</b>	<b>Strategy</b>
<b>Middle management</b>	<b>practices/tools of strategy</b>
<b>Practitioner/strategist / strategy</b>	<b>Strategy</b>
<b>practitioner/ strategy actor</b>	<b>practices/tools of strategy</b>
<b>Praxis</b>	<b>Strategy-as-practice perspective</b>
<b>Process perspective of strategic management</b>	<b>Strategy-as-process perspective</b>

## CHAPTER ORIENTATION

Chapter 3 explained the process perspective of strategic management. It also described the three stages in the strategic management process. In this chapter, we focus on strategising - the actions of strategists that influence the strategy of the organisation in much less formal, structured and interactive ways. It is important to note that organisations typically have (and should have) a formal strategic management process and our argument here is not that these processes are wrong. However, organisations should realise that strategic management is influenced by much more than just their formal processes. They should find ways of tapping into the more informal strategising activities within the organisation and using it to their advantage. The chapter will also discuss the strategic actors commonly found in organisations, and how they shape strategy (the

The case study describes Aspen Holdings' history and strategy that was formulated by the CEO, Stephen Saad and his team of managers. The opening case also describes Aspen's deliberate strategy to invest in capital projects, as well as their emergent strategy to enter the Australian market. This case proves that formulating strategies can be deliberate or emergent. In other words, organisations can have formal processes in which they think about and decide what their strategy should be (deliberate strategy), while in other instances, the actions of strategists will lead to strategies emerging from the pattern of decisions (emergent strategy). The purpose of Chapter 4 is to describe the people involved in strategy formulation, implementation and review. In short, this chapter will look at who the strategists are and how they strategise - specifically, the roles and responsibilities of the various strategists. There is a range of actors that participate and influence the strategic activities in the organisation. The traditional approach to strategic management assigned specific roles to specific actors, but more contemporary approaches indicate that the roles are not as clear cut as traditionally proclaimed. For this chapter, we start off with a differentiation between a process and practice perspective of strategic management, followed by an explanation of the term 'strategising'. Then, we will differentiate between deliberate and emergent strategising. The chapter concludes with a discussion of the various roles and responsibilities of strategists. Finally, the chapter offers concluding comments on the activity of strategising and who does it.

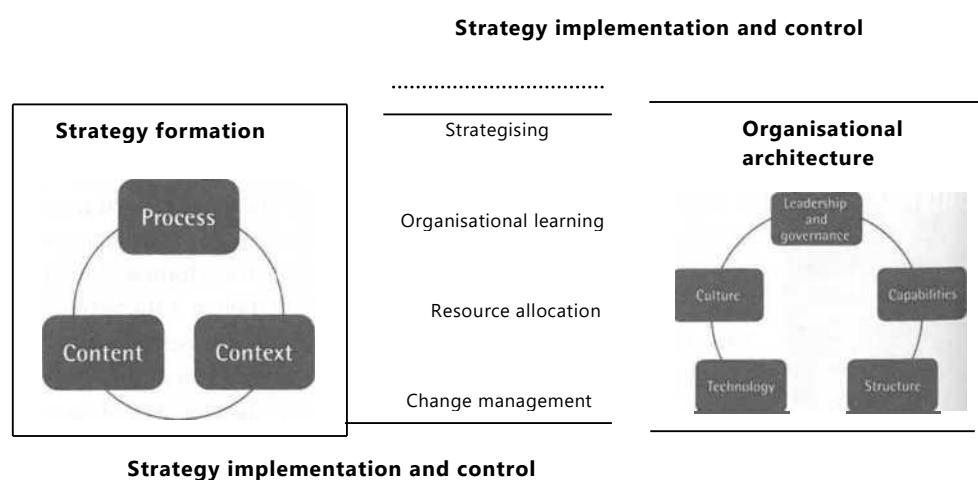


Figure 4.1 Strategising in the context of this book

## Case study

### **Aspen - Strategising over 160 years**

The organisation known today as Aspen Pharmacare has a rich history that stretches over 160 years. Berry Grey Lennon, a chemist from Ireland, settled in the Cape, South Africa, and opened a chemist and druggist in Port Elizabeth in 1850. Not only did he establish a household brand, but he also served as chief strategist to grow a company that has proven its ability to survive and thrive in a changing business environment. By 1858, Lennon advertised his products in the local press and they featured on the cover page of the first issue of the South African Medical Journal in 1884. From here on, the wholesale chemist expanded and incorporated as a public company in 1898 under the name Lennon Ltd. Today this is the Aspen Pharmacare Trading Company and continues to carry the 1898 registration number. By 1911, Lennon Ltd had 21 pharmacies across South Africa. During the years that followed, Lennon Ltd continued to grow and by 1930, it had established itself as the largest pharmaceutical company in the southern hemisphere. In 1968, the South African Druggist group, which included Lennon Ltd, listed on the Johannesburg Stock Exchange. During the 1970s, Lennon Ltd capitalised on the birth of the generic industry and focused on providing equivalent products on the expiry of patents. The establishment of the Lennon Ltd Research and Development department in 1975, led to the registration of a wide range of generic products. Through the 1980s and 1990s, Lennon Ltd became an undisputed leader in the generics field.

During 1997, from a converted house in Durban, Aspen Healthcare was founded by among others, Stephen Saad and Gus Attridge. Aspen was listed on the JSE through reverse listing into Medhold Ltd and by 1999, had acquired the South African Druggist group (which included Lennon Ltd). At that time, the South African Druggist group was the oldest pharmaceutical business in South Africa.

Moving from strength to strength is what Aspen is known for - from establishing Aspen Australia in 2001, to taking the lead in a broad-based economic empowerment deal in 2002, to launching the first generic anti-retroviral drug in 2003, to constructing a state-of-the-art facility in Port Elizabeth in 2004 (with two new facilities added in Port Elizabeth in 2016 and 2018 and subsequent investments in manufacturing infrastructure currently taking place, to acquiring Fine Chemicals in Cape Town in 2004 ... the list continues.

In 2002, Aspen Pharmacare launched its new corporate identity which has grown to accommodate nearly 50 business units across the world. Aspen remains one of South Africa's success stories and one of the top 40 companies listed on the JSE. Aspen is established as a global player and a leading speciality and branded multi-national pharmaceutical company that provides treatment for a broad spectrum of acute and chronic health conditions experienced through all stages of life.

In 2006, Aspen Holdings reported gross revenue of R3,4 billion - in 2018, the gross revenue was more than 10 times that, namely R42,6 billion, as released on 30 June 2018.

The success of Lennon Ltd and the Aspen Group can arguably be ascribed to the vision and guidance of its leaders. Moreover, the deliberate attempts to stay ahead of the game has proven to be successful. Aspen and its leaders are committed to sustaining life and promoting healthcare through increasing access to its high-quality, affordable medicines and products.

*Stephen Saad - the strategist*

As a strategist, co-founder and Group Chief Executive of Aspen, Saad is widely recognised for his astute leadership, passion, commitment and focus. There are many stories that testify to his out-of-the-box thinking while managing to stay focused on the end goal: continuous improvement of efficiencies and performance. One example of his strategising activities is from 2001, when Aspen expanded its operations to Australia with only two people and two laptops. Saad and his team followed a simple strategy to enter the Australian market: Aspen hired doctors, who had been forced to retire at ages 60 to 65, as sales representatives. They obtained access to practising doctors more readily than ordinary sales representatives did. They were rejuvenated and highly motivated.

Aspen, under the leadership of Saad and his senior management team, continues to increase the number of lives benefiting from their products, reaching more than 150 countries across the world. Aspen supplies products to more than 150 countries, has 23 manufacturing facilities at 15 sites on six continents and employs approximately 10 000 people.

In South Africa, Aspen was a driving force in the development of the Public Health Enhancement Fund, a three-year partnership between the public and private health sector in South Africa, which invests millions of funds in assisting government to address a number of public healthcare priorities identified by the Department of Health.

Saad's philosophy on strategising is evident in his commitment to the company's employees. 'There's a basic value system we drive in the business. We give ownership and trust to our people and let them make many of the decisions. That's the biggest aspect to Aspen's success.' Saad also confirms that the company invests heavily in capital projects, which provide an important strategic advantage to the group by enabling it to add value to its expanding portfolio of products that require complex manufacturing processes.

When asked about the ingredients of leadership, Saad stated 'Always understand where you come from and stay true to your roots. Remember how you treated clients with humility at the beginning and continue to show them the same respect that we have become known for.'

Saad and his team are constantly on the lookout for opportunities, challenges and competitor actions and build their strategies on a clear understanding of the past, which informs the future: 'Don't look back except to learn.' Saad also explains that perseverance has been the single most important contributor to what Aspen has achieved. He explains that another critical factor to his success as a strategist is a thorough understanding of the detail - having a thorough understanding of the environment, the operating conditions and all role-players.'

On strategising, Saad confirmed that it is extremely important to have both a clear vision and a plan. He explains that it can change at any point but it must be both simple and understandable to all. 'Make sure you really understand the details of your business - the critical detail, then list five or six priorities and ensure that you and your team focus on those priorities.'

He also advises surrounding yourself with people who are more competent than you are in the areas they specialise in and that you should not be threatened by competence. 'I believe that one of the critical factors for ensuring success is to trust those you have appointed to lead your businesses'

Aspen offers shareholders a proven record of accomplishment. The company is widely recognised as being a responsible corporate citizen. Aspen remains globally competitive through its centralised regulatory, supply chain and procurement resources that provide a competitive advantage to the group. The ongoing focus on the continuous improvement of efficiencies and performance sets a strong foundation from which to operate.

LO 1: Differentiate between the process and practice perspectives of strategic management.

## **4.1 The process and practice perspectives of strategic management**

The traditional perspective of strategic management as a formal and rational process has attracted considerable criticism for various reasons. One of these is that the process perspective is limited and out of touch with the complexities of strategy as it happens in reality. On the one hand, it tends to regard strategies as being formulated through relatively formal structures and systems, with not much attention being given to the effects of interpersonal relations and political processes.<sup>1</sup> Practice research and a practice-oriented perspective of strategic management, on the other hand, takes interpersonal relations and political processes into account and aims to understand the messy realities of how strategies are formed.

The process perspective of strategic management has its origins in the 1980s and processes are considered as sequences of individual and collective events, actions and activities developed over time. Although the process perspective initially gained support from many scholars, it was later criticised as being an approach that did not go far enough in attending to the actual micro-practices (the acts of strategists) and everyday routines of strategy crafting. Scholars and practitioners around the world called for a perspective on strategy that was more in touch with reality and acknowledged the various strategic actors, which are not limited to top managers only. While the process research took important steps forward humanising strategy research and generating more dynamic theories, the practice perspective takes it further. The practice approach is seen as necessary for researching the fundamental details of strategy making.

The practice perspective in strategic management is known as the strategy-as-practice perspective. The key insight of strategy-as-practice studies is that strategy work (strategising) relies on organisational and other practices that significantly affect both the process and the outcome of resulting strategies. Thus, the scope of the strategy-as-practice perspective is wider than just the strategy formulation process itself. The practice perspective focuses on social practices as the basis for explaining strategy emergence. It seeks to identify the strategic activities reiterated in time by the diverse actors interacting in an organisational context.<sup>2</sup> The strategy-as-practice perspective is concerned with the detailed aspects of strategising - how strategists think, talk, reflect, act, interact, emote, embellish, politicise, which tools and technologies they use, and the implications of different forms of strategising for strategy as an organisational activity. The practice perspective is also concerned with what people do less often during board meetings, strategy breakaways and other occurrences. Strategy-as-practice researchers recognise the complexity of the process and the potential influence of organisational members, not only through formal organisational processes, but also in everyday activities.<sup>3</sup> The strategy-as-practice research field is not only focused on the microactivities, but also on the context within which these micro-activities take place.

The strategy-as-practice perspective supports and builds on the strategy process perspective and views strategy as a situated, socially accomplished activity - meaning that it is done by people and influenced by their background and context. It refers to activities that are connected with particular practices such as strategic planning, annual reviews, strategy workshops and their associated discussions.

The strategy-as-practice perspective distinguishes between strategy praxis (the work), strategy practitioners (the workers) and strategy practices (the tools). Figure 4.2 depicts the conceptual framework that forms the foundation of the strategy-as-practice perspective.

The three elements of praxis, practices and practitioners, depicted in Figure 4.2, are discrete but interrelated social phenomena. It is thus not possible to study one without also drawing on aspects of the others.

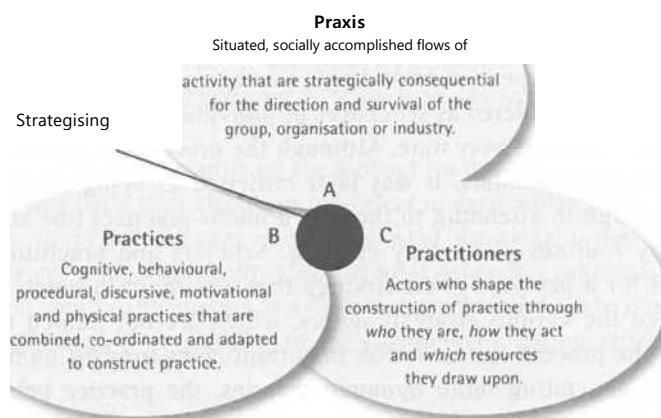


Figure 4.2 *A conceptual framework of the strategy-as-practice perspective*<sup>4</sup>

Strategising occurs at the nexus between praxis, practices and practitioners. A, B and C represent stronger foci on one of these interconnections depending on the research problem to be addressed. What this means in practical terms is that the act of strategising (or strategy making) happens when practitioners (such as the CEO, the business consultant or the board of directors) use strategy tools and processes (such as the SWOT analysis or the balanced scorecard) during, for example, a strategy workshop. But, the practice perspective also takes this deliberate strategising further: the act of strategising is not always situated in a formal setting - often strategising emerges as the organisation and its managers cope with changes in the environment and occurring as individuals or groups act in ways that influence the organisation in profound ways.

- Praxis is linked to human action and encompasses ‘all the various activities involved in the deliberate formulation and implementation of strategy’.<sup>5</sup> In everyday terms, praxis refers to the flow of activities such as meeting, consulting, talking, calculating, writing, presenting, communicating, completing documents, and so on, that are employed to constitute strategies.<sup>6</sup>
- Practices are the social, symbolic and material tools through which strategy work is done. These tools are combined, co-ordinated and adapted to construct strategy practice, and include theoretically and practically derived tools such as Porter’s five forces of competition, a SWOT analysis, resource-based view analysis and value chains, as well as material artefacts and technologies such as PowerPoint, flipcharts, and spreadsheets.<sup>7</sup> Because of the unique characteristics of organisations, their managers and employees and the underlying organisational culture, practices are diverse and variable, which means that no single approach to strategy formulation and implementation is correct for all organisations. Organisations customise their strategising practices to suit their circumstances.
- Practitioners, or strategists, are the actors - the individuals who draw upon practices to act. In this book, we prefer to use the term ‘strategists’. Practitioners/ strategists are interrelated with practices and praxis. They derive agency through their use of the practices, namely, ways of behaving, thinking, emoting, knowing and acting prevalent within their society, combining, co-ordinating and adapting the practices to suit their needs in order to act within and influence that society.<sup>8</sup>

As alluded to earlier, we accept that strategy is not only a deliberate, top-down process. Middle managers and operational-level employees are also important strategic actors or strategists. While their actions and influence on strategy may be unintended on an organisation level, middle managers and operational-level employees are significant for organisational survival and competitive advantage. In this book, we identify and discuss a wider range of actors as strategists, going beyond top managers to include other levels of employees, as well as the board of directors and consultants.

LO 2: Explain the term 'strategising'.

## 4.2 Strategising

Strategising is essentially what strategists do, and can be described as devising or influencing strategies. Through their actions, strategists influence the allocation of the organisation's resources and control or influence key actions. The terms 'strategising' and 'strategy-making' are often used interchangeably and include strategising activities. Strategising not only involves those inside the organisation, but also consulting firms, business schools, business media, academic journals, professional societies, enterprises and management in a joint endeavour that all recognise as somehow strategic.<sup>9</sup> For example, when we look at the case study, Stephen Saad, CEO of Aspen, clearly influences key actions of the organisation. But he does not do this on his own: he specifically refers to those who are appointed to lead the business, that is, the managers. The case also describes Aspen's deliberate strategy as a growth strategy that led the organisation into new markets and product ranges. The next level of strategies may be more emergent in nature as an organisation's strategy is partly proactive and partly reactive. The following section describes strategising from a deliberate strategy and emergent strategy perspective.

LO 3: Differentiate between deliberate and emergent strategising.

## 4.3 Deliberate and emergent strategising

As explained in earlier chapters, strategy deals with what the organisation plans to do and achieve in the future. Strategic thinking entails an analytic and logical approach to establishing the future direction of the organisation and the action plans to achieve it. In Chapter 3, we explained that the process of strategic management comprises three distinct stages: planning, implementation and review. This implies that before a strategy can be implemented, it needs to be crafted. However, often, organisations find themselves in a situation in which so much change has taken place between formulating and implementation, that the strategy needs reconsideration and/or alteration. Despite basing strategic decisions on a range of assumptions that were logically and conceptually developed, change can render the strategies obsolete, or force organisations to formulate strategies during the implementation process.

*Deliberate strategies* are implemented and realised as intended. In order for this to happen, three conditions need to be satisfied:

1. The management team must know precisely what they wish to achieve and what they intend for the future of the organisation before any actions are taken.
2. Organisation means collective action. All members of the organisation must believe in the strategy and work towards it.

3. The strategy must be realised exactly as intended, with no external interference.<sup>10</sup>  
This is difficult given the pace of change in the contemporary business environment.

For a strategy to be emergent, it may develop outside the original intentions of the original strategic plan. This does not mean that an organisation intentionally ignores the original strategic plan - rather, it is a rethinking of strategy that is necessitated by immediate circumstances. Thus, strategy may suddenly be rationalised to mean something very different from what was originally intended.<sup>11</sup> *Emergent strategies* are actions taken by middle managers and other strategists within the organisation outside of the formal and deliberate strategic management processes. Middle managers are more involved with the operations of the organisation and are able to make changes to the strategies when required. This means that some strategic initiatives may arise initially without the awareness of the senior management team. Emergent strategy implies learning what works - taking one action at a time in search of that viable pattern or consistency. It is also frequently the means by which deliberate strategies change. This does not mean that the senior management team loses control, but rather that strategies are open, flexible and responsive to allow the organisation to learn and adapt to its environment. Emergent strategising enables management to act before everything is fully understood. It enables the senior management team, who cannot be close enough to a situation or who cannot know enough about the varied activities of its organisation, to surrender control to those middle-level managers who have enough current and detailed information to shape realistic strategies. Whereas the more deliberate strategies tend to emphasise central direction and hierarchy, the more emergent strategies open the way for collective action and convergent behaviour. The approach of this book is that strategic and strategising decisions are not only a way of making sense of an emergent pattern of activity, but also a way of creating sense in the absence of any such patterns, as a response to the anxieties of the human condition or to the uncertainties with which managers are characteristically faced.<sup>12</sup> Strategic decisions cannot always await consensus, commitment or visible action. When existing strategies are no longer convincing, the decision complexes associated with them cease to be effective carriers of meaning, and new rationalisations of the world in the form of new decisions, however provisional, must be constructed in their place.

All management levels and employees have specific roles to fulfil in ensuring successful strategising. Often, a disconnect exists between the perspectives of the various role-players. For example, the senior management team of the organisation decides, after a strategic review, to launch a new strategy. This new strategy involves a range of commitments, most of which have already been made, either in anticipation of the decision or in reactive response to market pressures (deliberate strategising). Many of the commitments agreed upon are modified along the way (emergent strategy) and at least one major part of the strategy is never implemented <sup>at</sup> all (unrealised strategy). Accordingly, the strategy of the organisation changes and the change is reflected both in management thinking and in the organisation's <sup>d</sup>actions and behaviours. The next section focuses on the roles and responsibilities of strategists or strategy practitioners.

LO 4: Explain the roles and responsibilities of strategists.

## 4.4 Strategists

A strategist is the ‘doer’ of the strategy. Whereas top managers have traditionally been regarded as the custodians of strategy, the idea that other people and even objects (artefacts) can also be strategists is gaining ground. Any individual or group in the organisation that controls key or precedent-setting actions<sup>13</sup> (for example, middle managers and strategy consultants) can be regarded as strategists. Since objects can also control or influence key actions, we can extend this definition to include presentations, written documents, information systems, and so on.

By accepting that strategists are not only from the top management echelons - or even appointed as strategists, we then also need to look at the different categories of strategists. For example, within the middle management level, individuals may exist that offer a range of skills that make them strategists and enable them to *do* strategy. Hodgkinson and Clarke<sup>14</sup> found that individual strategists will, cognitively speaking, fall into one of four broad types: detail-conscious, big-picture conscious, non-discerning and cognitively versatile. Bear in mind that the complexity of the environment, the size of the organisation, the experience levels of the managers and workers all influence the skills needed by strategists. Often strategists who fall within a combination of these categories are best suited to the unique circumstances in which the organisation finds itself. These categories of strategists are described in Table 4.1.

Table 4.1 *Category of strategists*

Strategists	Description
Detail-conscious strategy workers	P-actioners who are detail-conscious are highly analytic and driven by the minutiae of available data, with little or no regard for intuition. They have a tendency to approach problems in a step-by-step, systematic fashion.
Big picture-conscious strategy workers	Practitioners who are big-picture conscious can become preoccupied with gaining an overview of the problem at the expense of the details. They are highly intuitive in orientation, with little or no regard for analytic approaches to problemsolving and decision-making.
Non-discerning strategy workers	Non-discerning practitioners deploy minimal cognitive resources in order to derive strategic insight, being disinclined to process the detail or to extract a bigger picture from such detail. They rely on opinion and wisdom received from others and thereby relieve themselves of the burdens of analytic and intuitive processing altogether.

<b>Strategists</b>	<b>Description</b>
Cognitively versatile strategy workers	These practitioners possess in equal abundance the inclination to attend to analytical detail and cut through that detail, as and when required. This type of practitioner is able to switch more readily between analytic and intuitive processing strategies.

Various strategists, both internal and external, that influence organisational performance and strategic success are discussed below.

#### 4.4.1 Top managers as strategists

The role of the top management team is to set the overall strategic direction of the organisation by formulating' the strategy, allocating the resources and reviewing the strategic success. They are responsible for gathering information from both the internal and external environment, and choosing strategies and actions to help the organisation gain a sustainable competitive advantage. They communicate this to middle-level management, explaining the rationale behind their strategic choices so that middle managers can link the strategies and strategic goals to implementation efforts.

The top managers are also responsible for the review of strategies. They reflect upon their decisions and actions and this may lead to changes or new decisions and actions. Sensing or sense-making may also lead to new insights or realisations and may affect current or future decisions. The case study showed that the Aspen CEO, Stephen Saad, regularly looked towards what happened in the past in order to learn from it. He also explained that organisational plans can change at any point and how important it is to understand the details of the business. Saad confirmed the importance of a thorough understanding of the environment, the operating conditions and all role-players.

A strategist who is responsible for guiding the strategic planning in an organisation is often referred to as a 'strategic planning champion' (SPC)<sup>15</sup>. An SPC is an expert in strategic thinking with specific analytical and technical skills, including the ability and knowledge to apply strategic management concepts to the organisation and use management tools and planning models for strategic practices. There are three roles that SPCs must perform to work effectively - some strategists may be stronger in a specific role while others may offer a combination of these roles or have these roles fulfilled by members of their management team. Listed below are the three roles that SPCs must perform:

- The social craftsperson integrates different expectations from groups and individuals to ensure buy-in into the overall strategic direction, creating a positive and common ground from which to plan the strategic future of the organisation. He or she deals with tensions and conflicts, and changes a volatile situation into a positive one.

- The artful interpreter adjusts general strategic planning practices to align them with the local routines and norms. He or she contextualises the strategy so that others can identify their own roles in it.
- The known stranger ensures a balance between distance and closeness in the interaction between strategists and other parties to maintain objectivity while at the same time cultivating trust.

The senior or top management team needs to have sufficient detail of the organisation to ensure that the strategising is sound and to be able to allocate scarce resources to put the strategies in place. The practising strategy box below, illustrates the strategising abilities of one of South Africa's top business leaders, Sizwe Nxasana.

## Practising strategy: Sizwe Nxasana, FirstRand group

Sizwe Nxasana has an illustrious career and served in three different industries where he made a marked difference.

He started by establishing Sizwe 8t Co, the first black-owned audit practice in Kwazulu-Natal. In 1996, he became the founding partner of NkonkiSizweNtsaluba, the first black-owned national firm of accountants, where he remained until March 1998. The firm is now the fifth largest audit firm in South Africa. He left to join Telkom SA as Chief Executive Officer in 1998.<sup>16</sup> He turned Telkom around in the seven years that he served as CEO - changing it from a struggling state-owned enterprise to a formidable ICT company.

He joined the FirstRand Group and led the group to record highs. Under his leadership, FNB has implemented affordable methods that people can use to do their banking in the convenience of their homes. For instance, he said, looking at cellphone banking, there are solutions for all people across the board.<sup>17</sup>

### 4.4.2 Board of directors as strategists

Boards of directors of companies, being the focal point and custodians for corporate governance, influence strategising in organisations. Although strategic decisionmaking is done by senior management, the board of directors influences the overall direction and monitors the relationship between management and other stakeholders to ensure that the organisation is sustainable in the long term (refer to Chapter 1, Section 1.6, where we distinguished between the terms 'shareholder' and stakeholder'). Historically, boards of directors focused on strategy once annually, often at a one-to- two-day off-site workshop or *lekgotla*. New trends indicate a change in this practice where board meetings become a discussion on strategy to ensure that appropriate progress is being made and that new competition or technology is being assessed in a fast-changing business environment.

In South Africa, the King III Report on Corporate Governance and the King IV report on Corporate Governance for South Africa<sup>18</sup> offer principles to oversee the functions and role of the board of directors. One of these principles requires the board to ensure that strategy be aligned with the purpose of the organisation. The board is also responsible for the appointment of a chief executive officer. It provides leadership by endorsing the chief executive officer to lead the process of strategy crafting. The role of the board is more aligned to monitoring and reviewing strategies than crafting them. However, the consulting firm, McKinsey, surveyed board members to learn where they would most like to spend additional time and 66 per cent of the board members surveyed indicated they want to spend more time on strategy, and less time on compliance-related topics.<sup>19</sup> The practising strategy box below, illustrates the roles of the Board of Directors at Woolworths Holdings Limited.

## Practising strategy: Woolworths Holdings Limited (WHL)<sup>20</sup>

The board process at Woolworths Holdings Limited is managed by the company secretary. The board and board committees meet on a quarterly basis and the board engages with management on performance against the strategy on a quarterly basis.

Woolworths has three operating subsidiaries - Country Road Group, Woolworths and David Jones. Woolworths acquired the Australian department chain store, David Jones in 2014. The other Australian retail chain in the Woolworths portfolio is Country Road that contributed 16 per cent to its revenue in 2017.<sup>21</sup>

The executive committees of Woolworths, David Jones and the Country Road Group oversee operational governance and meet monthly. Each business unit has a leadership team that reviews the strategic objectives and capital initiatives and assesses the risks and opportunities within their unit.

The various board committees report back to the board on how they carried out their responsibilities. The committees assess their mandates annually as documented in their respective terms of reference and undertake internal reviews of their effectiveness. WHL board meetings are held on a regular basis in Australia to ensure that directors receive adequate exposure to the Australian retail market and the dynamics within which the WHL Group operates.

### Board role and function

The WHL board is guided by a charter that is reviewed annually. The charter includes a delegation of authority, which sets out the delegation of matters by the board to its committees and the Chief Executive Officer. There are a number of governance policies that complement the delegation of authority. These policies are reviewed annually, and the board approves all amendments.

#### 4.4.3 Middle managers as strategists

Traditionally, the role of middle managers was seen to be limited to implementation. However, in the flattened organisational structure, middle management is now much closer to the strategic apex and makes a variety of contributions. Consequently, the new model of the middle manager is one that has a more strategic focus.

Four strategic roles of middle managers have been identified. These include:<sup>22</sup>

1. Implementing deliberate strategy. This role is aligned to the traditional view of strategic management, but remains valid in the contemporary business organisation, especially in relation to deliberate strategies. It deals with managerial interventions, actions and tasks to align the organisational action with the strategic intentions of top management. Middle managers' abilities to understand, anticipate and manage the processes needed to secure positive and pervasive commitment to strategy is a critical general management implementation skill. Middle managers implement strategy by translating corporate strategy into action plans and individual objectives.
2. Synthesising information. This refers to the interpretation and evaluation of information. How middle managers understand and share information influences the success or failure of organisational strategies. Not only do middle managers provide information concerning internal and external events to top managers, but they are also responsible for passing information down to subordinates, which can reduce uncertainty and resistance to change. This flow of information forms a valuable foundation for management decision-making. Middle managers combine strategic macro-information and hands-on micro-information.
3. Reshaping the strategic thinking of top management by selling to them strategic initiatives that diverge from their current conception of strategy. This role links with emergent strategising. Middle managers frequently become organisational champions for initiatives developed at the operating level. This role is distinct from product championing as it centres on influencing corporate management to adjust their current concept of strategy. It is defined as the persistent and persuasive communication of strategic options to top management.<sup>23</sup> By proposing and defining issues for top managers, middle managers provide important contributions to an organisation's strategic direction and thereby influence organisational effectiveness.<sup>24</sup>
4. Managing change and facilitating adaptability. Middle managers have downward influence and need to support, guide and alleviate the concerns and fears of subordinates. Formulating and implementing strategies go hand in hand with change, and middle managers play an important role in managing these change processes by adapting and amending work practices to align them to the changing environment. Middle managers are also required to deal with conflict. Within their areas of responsibility, middle managers have the authority and responsibility to facilitate change.

Middle managers contribute in various ways to strategising. Middle managers should be clear thinkers and be good at identifying what needs to be done and then guiding their subordinates to get it done.

#### 4.4.4 Consultants as strategists

The management consulting industry is considered to be one of the most powerful forces shaping organisational strategy. Management consultants are practitioners who are considered knowledgeable about the business environment and organisations. They have a wealth of industry contacts and good reputations based on experience. The practising strategy box below describes Deloitte Consulting's philosophy in helping organisations craft and execute strategies.

Guidance from outside the organisation is often sought, especially when managers inside the organisation lack expertise in a specific area, or when decisionmaking has come to a standstill. Furthermore, when an organisation experiences short- to medium-term staffing issues, consultants can fill the role of full-time employees. Most importantly, management consulting firms pool their resources, knowledge and experiences across industries and are authoritative forces in advising on best practices.

## Practising strategy: Deloitte Consulting

Helping organisations innovate, transform, and lead

'As the world's largest management consulting business, Deloitte is distinct in its ability to help clients solve their most complex problems, from strategy to implementation. We are differentiated by our capability to execute the advice we provide to help clients in the markets where they operate today and where they want to be in the future. Delivering this kind of value requires the skills to integrate a broad range of talent and skills - across human capital, strategy and operations, and technology - aligned to the unique needs of our clients' industry sectors, businesses, and organizations'.<sup>25</sup>

'That is where Monitor Deloitte excels. Our strategy practice takes a 21st- century approach to strategy that, combined with our deep industry experience, positions us to collaborate with you to create executable strategies. Unlike our competitors, we can see strategy through to implementation and, as a result, increase our impact. It is an approach that can help organizations move more quickly and pragmatically to take advantage of new opportunities while helping to mitigate risks along the way. And it can work for your business'.<sup>26</sup>

#### 4.4.5 Individuals as strategists

From the strategy-as-practice perspective strategising activities are operationalised at different levels from the organisational to the individual. Strategising happens in a dynamic space through interactions between workers on different levels. From the preceding sections, it should be clear that we not only consider the top managers to be the strategists, but confirm that the doers of strategy are found on all levels of the organisation. In fact, there may be strategists on the lowest level of the organisation as the immediate environment calls for swift reaction to changes in the business environment. It may be argued that the nature of the strategic work on the lower levels of management is mostly emergent and more operational in nature. When we break down strategy work on an individual level, we appreciate the micro-level strategising. Yet, the work of these individuals ought to be recognised in shaping the overall strategy.

Strategic success is enhanced by the collective efforts of all the strategists. Success is enhanced, or limited, by the quality of the strategists and the degree to which they work together in sharing information, debating ways to make strategic and operating improvements, and joining forces to solve problems. Strategists differ in their management styles, skills, values, attitudes, willingness to take risks, perception of success, concern for social responsibility, short-term versus long-term orientation and ethics.

### The big picture

In this chapter, we get a glimpse of the complexity of strategy formation. On the one hand, there is the process perspective of strategic management that considers strategy formation as a formal process with specific management roles and tasks assigned to each stage in the process. On the other hand, the practice perspective offers a broader view of strategic management that not only considers a wider range of strategists (such as the board of directors, top managers, middle managers and consultants), but also allows for the messy realities of doing strategy in practice. Both approaches are present in most organisations.

Within the strategy-as-practice perspective, strategising is the result of the interaction between strategy praxis, strategy practices and strategists. Formulating and implementing strategies should be proactive in nature, but due to the changing business environment, some strategies are reactive. Deliberate and emergent strategising is influenced by the business environment and the strategy practices and strategists. Deliberate strategies tend to emphasise central direction and hierarchy, while the more emergent ones open the way for collective action and convergent behaviour.

## **Summary of learning outcomes**

### **LO 1: Differentiate between a process and a practice perspective of strategic management.**

The process perspective is a traditional approach to strategic management that follows a mostly linear process that is driven by the top management team and divided into three distinct stages or phases.

The practice perspective of strategic management recognises the complexities of strategic management in reality and recognises that strategic management is not a linear process. The perspective is concerned with the detailed aspects of strategising by looking at how and why strategy is done and by whom.

### **LO 2: Explain the term 'strategising'.**

Strategising is the act of making strategy and happens when practitioners use strategy tools and processes to develop, implement, review and *do* strategy.

### **LO 3: Differentiate between deliberate and emergent strategising.**

The difference between deliberate and emergent strategising lies in the formality, the people involved, the duration and the central direction. Emergent strategising takes place outside the formal strategic planning sessions and is deemed open, flexible and responsive to the environment. Deliberate strategising is more formal and originate from specific interventions and hierarchy.

### **LO 4: Explain the roles and responsibilities of strategists.**

Strategists are found throughout the organisation, as well as outside of them. Different levels of managers, the board of directors, external consultants and individuals on micro-level form part of the group of strategists in an organisation. The involvement and responsibilities may differ between these strategists, but ultimately each has a role in the doing of strategy.

## **Discussion questions**

1. Differentiate between the process and practice perspective of strategic management.
2. Explain the term 'strategising'.
3. Differentiate between deliberate and emergent strategies.
- 4- Identify the different kinds of strategists and explain their role in strategising.

## Learning activities

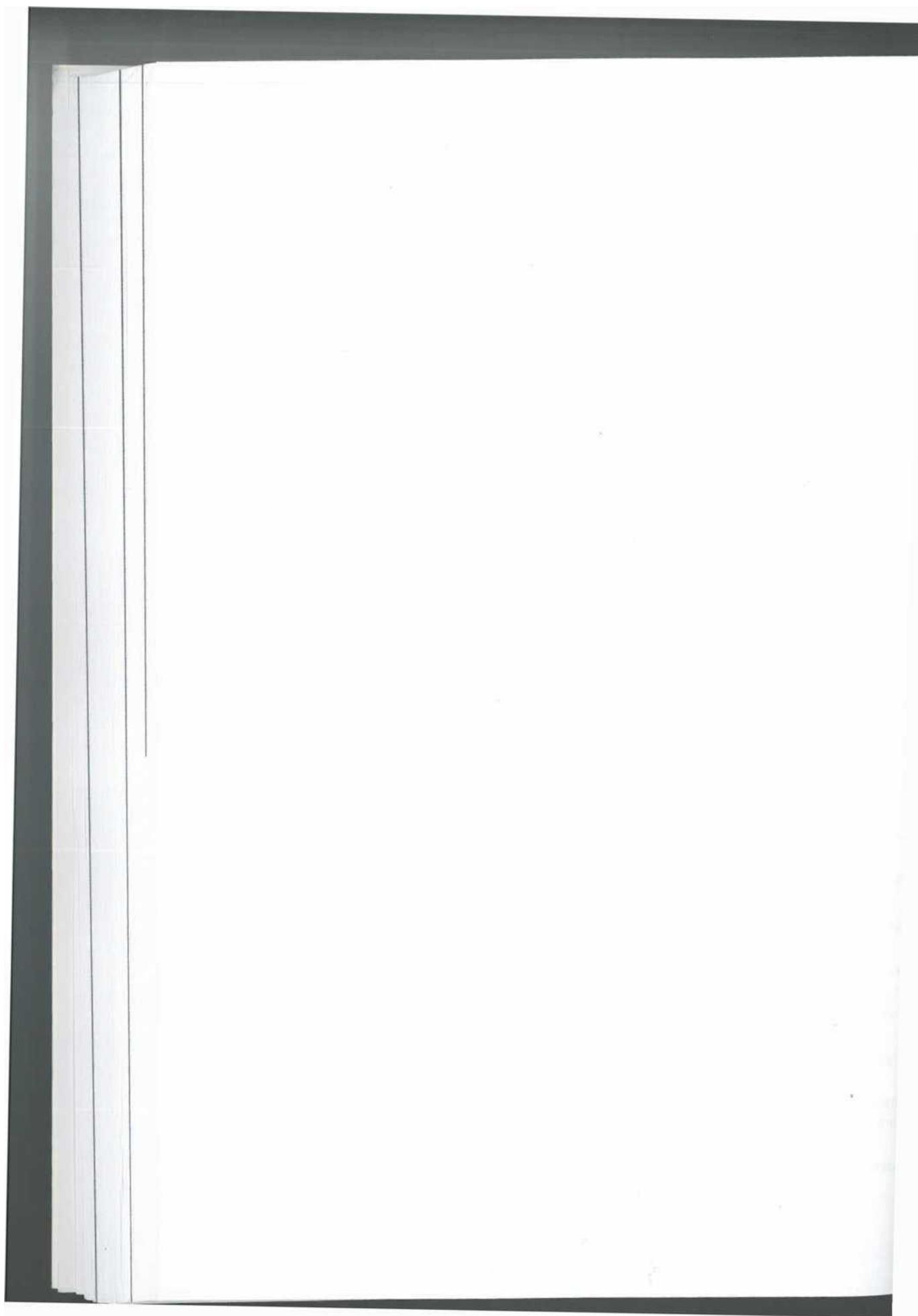
Interview a middle manager in your organisation, or any organisation of your choice, and do the following:

1. Ask him or her to describe how strategising is done in the organisation. Evaluate the descriptions against the definitions of deliberate and emergent strategy that were discussed in this chapter.
2. Ask the manager to explain his or her role in the development and execution of strategy. Use the information in Table 4.1 to determine what type of strategist you have interviewed. Substantiate your answer.
3. Read the CEO report that forms part of the integrated report of the organisation and identify the deliberate strategising activities described in the document.

## Endnotes

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- <sup>17</sup> [http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/king\\_iv/King\\_IV\\_Report/IoDSA\\_King\\_IV\\_Report\\_-\\_WebVe.pdf](http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/king_iv/King_IV_Report/IoDSA_King_IV_Report_-_WebVe.pdf) (accessed 16 April 2017).
- <sup>18</sup> <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/tapping-the-strategic-potential-of-boards> (accessed 16 April 2017).
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# 5

# The external context of strategy

Clifton Singh

## LEARNING OUTCOMES

- After studying this chapter, you should be able to:
- LO 1: Explain the external environment in the context of strategic management.
  - LO 2: Explain the importance of strategic context in strategic planning and decision making.
  - LO 3: Analyse the remote environment to identify opportunities and threats facing an organisation.
  - LO 4: Analyse the market environment to identify threats and opportunities facing an organisation.
  - LO 5: Discuss strategic responses to changes in the external environment.

## KEY WORDS

- **Economic environment**
- **External (or macro-) environment**
- **External Factor Evaluation Matrix**
- **Global environment**
- **Industry**
- **Legal environment**
- **Market environment**
- **Opportunity Political environment**
- **Social-cultural environment**
- **Strategic agility**
- **Strength ambidexterity**
- **Technological environment Threat**
- **Weakness**

## CHAPTER ORIENTATION

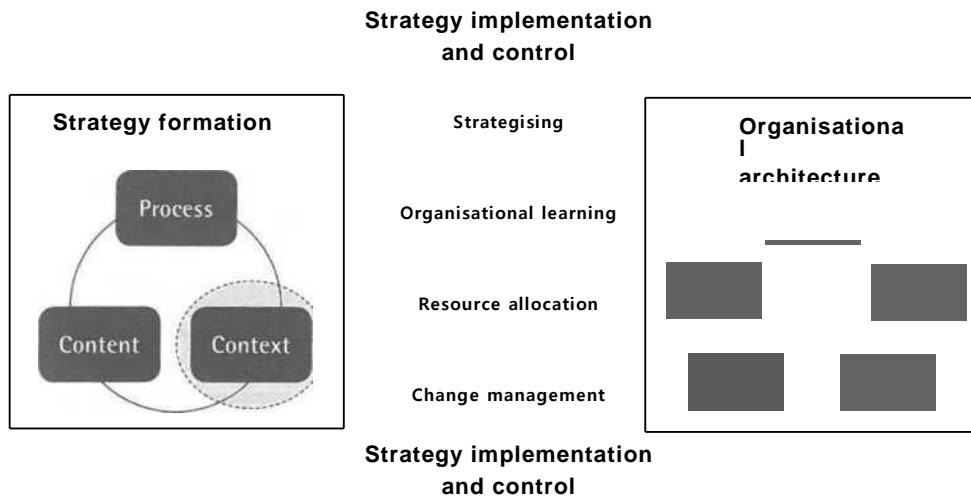
The environment is what gives organisations their means of survival. In Chapter 1 (Section 1.6) we indicated that organisations source inputs from the environment, transform that into outputs, which is then given back to the environment. The success of an organisation as a system is largely determined by its successful interactions with the environment. Structurally, the management environment can be divided into the micro-, market and remote environments. This chapter focus on the market and remote environments.

Our case study 'Uber comes to Africa', paints a picture of the traditional metered taxi industry that faces new competition since Uber entered the market. The world of business is characterised by competition and unpredictability, and it is essential for strategists, organisations and industries to adapt and be responsive to changes in its environment and not to depend on their successes of the past. A dependence of successes of the past will be devastating with far-reaching implications.

The effect of the environment on organisations and their strategic choices should not be underestimated or considered lightly. Instead, organisations and industries must be able to respond quickly to changing circumstances posing as threats and opportunities, and alter their strategies accordingly as they strive for a strategic fit between their organisation and the environment.

Strategy is thus context-specific and while each organisation has unique internal and external contexts, the primary focus of this chapter will be on the external context, in other words, the environment outside the boundaries of the organisation, called the external (or macro-) environment. The external environment comprises two sub-environments, namely, the market and remote environments, which were explained in Chapter 1 (Section 1.6). Understanding these environments and their strategic context is vital to making strategic choices that will guide and direct the organisation. While the previous chapters focused more on how strategy is crafted, this chapter provides important tools that strategists can use to gain insight into the strategic context of their organisations and develop a strategic perspective of the organisation and its environment. Figure 5.1 depicts the focus of this chapter in relation to the broader strategic management process.

In this chapter, we will first explain the external environment in the context of strategic management. Second, an explanation will be provided for the importance of strategic context in strategic planning and decision-making. Third, an analysis of the remote environment for the purposes of identifying the opportunities and threats facing an organisation will be addressed. Then, attention will be given to the analysis of the market environment, in order to identify opportunities and threats to an organisation. Lastly, strategic responses to a changing external environment will be explained.



**Figure 5.1** The external context of strategy

## Case study

### Uber comes to South Africa

There was a time, in the early days of motorised transport, when cars were not allowed to drive faster than 6.4km per hour and commercial motor vehicles were not allowed on public roads unless someone carrying a red flag walked in front of it. These were among a series of draconian laws enacted in Britain and parts of the USA from the mid-1860s, reportedly backed by railroad barons who were scared of the competition posed by the new founded 'road locomotives'.<sup>1</sup>

Some 120 years later, a similar battle is playing itself out on the streets of cities in South Africa. This time, the disruptor is the ride-hailing smartphone application, Uber, and the part of the rail barons is being played by the traditional metered-taxi industry.<sup>2</sup> Uber launched in South Africa in 2012 and has since redefined the traditional industry model for taxi operators. The Table 5.1 lists various consumer and competitor dimensions of the taxi industry and compares the traditional metered taxi and the Uber taxi in terms of these dimensions.

**Table 5.1** Traditional metered taxis versus Uber taxis

<b>Consumer and competitor dimensions of the taxi industry</b>	<b>Traditional metered South African taxis</b>	<b>Uber taxis</b>
Reserving a taxi	Customers wander the streets looking for a cab or wait at a depot or call a central office and wait.	Customers connect to the Uber application on smartphones and reserve a taxi.
The taxi ride	The main aim of the taxi driver is to get the customer to his or her destination.	Taxi drivers perform their best since they are aware that services are rated and poor service rendered will influence future business.
Payment method	The taxi meter or the route travelled, determines the price charged by the metered taxi. Customers pay metered taxi drivers in cash.	The cost of using Uber is debited from the customer's bank account and no cash payments are necessary. Uber calculates the price by taking the following into account: <sup>3</sup> (i) base fare: the price for pick up; (ii) time: from start to the end of the trip; (iii) distance: kilometres of the route travelled; (iv) surge price (if applicable); and (v) tolls and other fees (if applicable). The base fare, time and distance rates will differ depending on the vehicle option chosen by the customer and the city.
After the taxi ride	Services rendered are not rated.	The customer rates the driver and the driver can improve his or her reputation for future customers.

Uber (a software development organisation) has experienced explosive growth around the world since it was founded in San Francisco in the USA in 2009 with just a single car. A valuation of Uber in February 2018 estimated it at a staggering US\$72 billion (approximately R850 billion at the average US\$/Rand exchange rate of R11.80 at the time of the valuation).

### **Hostility to Uber**

Mention the word *Uber* and it is bound to set off a range of comments. Despite consumer willingness to try out and adopt Uber, it has run into obstacles in a number of its markets, both in developed and developing countries. The South African metered taxi companies and taxi operators are fighting back, co-ordinating protest marches and calling on the government to clamp down on Uber, which they accuse of flouting the laws that regulate

public transport. Uber drivers are also intimidated by other metered taxi drivers claiming that Uber is stealing their business and operating illegally. However, more often than not, people who make use of Uber did not previously use metered cab taxis<sup>4</sup> and Uber flourishes globally.

LO 1: Explain the external environment in the context of strategic management.

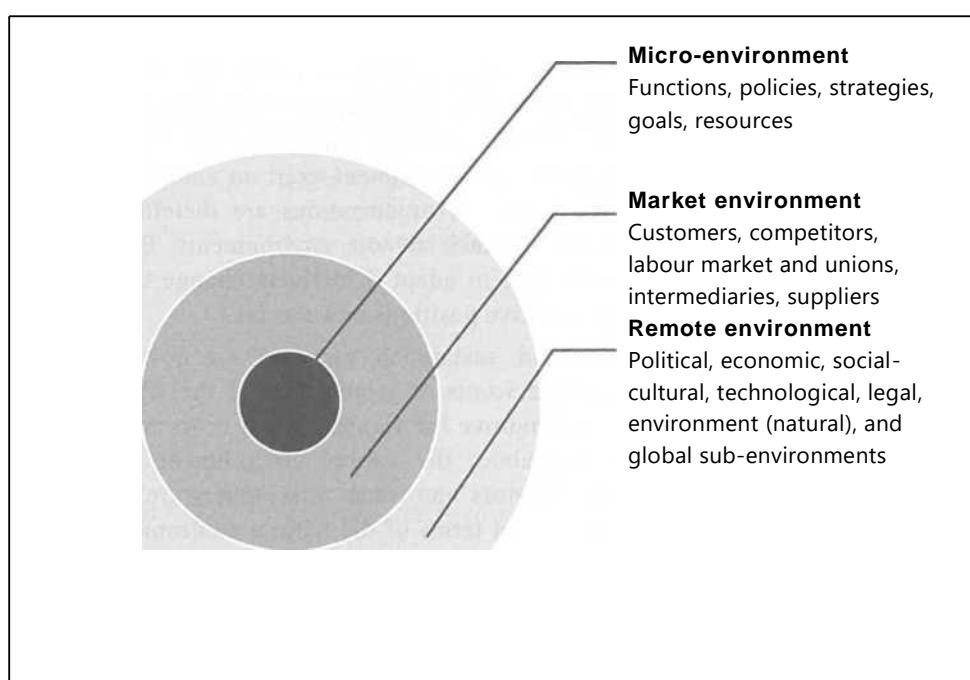
## 5.1 The external environment in the context of strategic management

No organisation exists within a vacuum, and organisations should always be viewed as open systems - influenced by changes in its environment. For example, new trends in technology, nature and society are slowly revolutionising the business environment on a global and unprecedented scale<sup>5</sup> - no organisation can escape these changes as was also illustrated in the case study. This 'globality' is characterised by greater interconnectedness and interdependencies between countries and organisations. These forces emanating from the external environment exert an enormous amount of influence on organisations. Strategists in organisations are therefore required to respond appropriately to changes in their remote environments. Furthermore, as industry players, they should be able to adapt or actively change their market environments to enhance their competitive positions and survive.<sup>6</sup>

'Going green', 'eco-friendly' and 'sustainable practices' are now commonly accepted and are more than just buzz words or jargon. One of the aims of Uber, as discussed in the case study, is to improve the transportation ecosystem, proving itself as an organisation concerned about the natural environment. A growing number of customers, employees, investors and other stakeholders are demanding that organisations behave 'responsibly' in terms of the natural environment (where the natural environment is only one of the variables in the external environment). As such, a new compact between business and society is being advocated where 'business as usual' is no longer an option. The term 'compact' refers to an *agreement between various parties*. The agreement is the decision, approval and acceptance of a new arrangement/relationship (whether formal or informal) which is being advocated between business and society in general. The United Nations Global Compact (UNGC), for example, is a call to organisations around the world to align their strategies and operations with ten universal principles. These principles are human rights, labour, the environment and anti-corruption. Three specific principles were formulated for the environment theme, where the 'environment' refers to the physical or natural environment (as a variable in the remote environment of organisations). First, organisations should support a precautionary approach to environmental challenges. Second, organisations should undertake initiatives to promote greater environmental responsibility. Lastly, organisations should encourage the development and diffusion of environmentally friendly technologies.<sup>7</sup>

Historically, the business world has primarily always considered internal stakeholders (such as business owners, investors, employees and management) in developing strategy. Business is now increasingly under pressure to deal comprehensively with external stakeholders (such as the community, government, activist groups, competitors, the media, and so on) as well (you may refer back to the explanation of the classification of stakeholders in Chapter 1, Section 1.7). Therefore, a profound understanding of the external environment gained through knowledge of the interests and influence of key external stakeholders is paramount to strategic decision-making and planning, and is recognised as a source of strategic value.<sup>8</sup>

The context within which organisations exist is defined by their markets and remote environments. Figure 5.2 depicts the organisation and its environment, consisting of the micro-environment (over which management has control) and its market- and remote environments (over which management has no control).



**Figure 5.2** The organisation and its environment

Two levels of the analysis of the macro-/external environment, that will influence the organisation's strategic direction and strategic actions, can be identified, namely:

1. Analysis of the remote environment. This analysis focuses on the identification and forecasting of trends pertaining to political, economic, socio-cultural, technological, legal, environmental (or natural) and global variables.

2. Analysis of the market environment. This analysis focuses on the key role-players in this environment (such as customers, competitors, the labour market and unions, intermediaries and suppliers), along with the factors and conditions influencing an industry's profit potential.

Although these analyses will be discussed separately in this chapter, performance is likely to improve when the organisation integrates the results of both analyses.<sup>9</sup> The analysis of the remote and market environments will be explained in more detail in Sections 5.3 and 5.4 of this chapter.

LO 2: Explain the importance of strategic context in strategic planning and decision-making.

## **5.2 The importance of strategic context in strategic planning and decision-making**

The boundaries and interfaces that exist between organisations and the external environment are relatively fluid and cannot be defined easily or clearly. As a result, unexpected changes in the external environment may occur from time to time, and strategists need to be prepared to react to these changes. Under such conditions, timely and accurate information about the environment is critical for strategic decision-making and planning. For example, if organisations know very little about the preferences of their customers and their future trends, they will have difficulty designing new products and/or services, setting up a production schedule, or developing strategic and marketing plans.

However, the reality is that strategists often do not have enough information about the external environment readily available. They are operating in turbulent industries and can be challenged even further when they have to operate under conditions of rapid change and uncertainty. Strategists are not only constrained by a lack of information about the environment, but also by a limited ability to understand and predict the future.

Ideally, for strategic decision-making and planning to be effective, strategists must not only understand the context of their current management environments, but also the context of their future management environments.

An organisation's success is, to a certain extent, determined by the characteristics of the industry in which it exists and the market for which it competes. Furthermore, different industries are characterised by different competitive conditions and dynamics. Hence, when viewed in relation to competitors, as well as to competitive *threats* and *opportunities* existing in the external environment, all organisations have inherent *strengths* and *weaknesses* and are exposed to external *threats* and *opportunities*.<sup>10</sup>

- Strengths are internal organisational resources and capabilities that can lead to a competitive advantage (Chapter 1, Section 1.8 provides an explanation of competitive advantage).
- Weaknesses are internal resources and capabilities that an organisation may not possess yet but are necessary, resulting in competitive disadvantage until the organisation acquires them.
- Opportunities are conditions in the external environment that allow an organisation to take advantage of organisational strengths, overcome weaknesses, and/or neutralise environmental threats.
- Threats are conditions in the external environment that may stand in the way of organisational competitiveness or the achievement of stakeholder satisfaction.

If strategists do not understand the strategic context, in other words, how the external environment affects their organisations, their ability to make decisions, formulate and execute plans will be severely limited.<sup>11</sup> When studying the organisation in relation to its external environment and key role-players in this environment, strategists should:

- take advantage of inherent or internal strengths and the identified opportunities arising from the external environment
- overcome inherent weaknesses, or neutralise identified threats found in the external environment in order to ensure the strategic ‘fit’ or consistency between the opportunities and threats in the external environment and the strengths and weaknesses in the internal environment.

Strategic direction is an outcome of melding the desires and expectations of key organisational stakeholders with environmental realities.<sup>12</sup> Therefore, a profound understanding of the external environment, coupled with an understanding of its key role-players, is paramount to charting an organisation’s road to success. Understanding the external strategic context should lead to the identification of strategic alternatives and provide a basis for crafting strategies, as well as providing the organisation with a foundation for all other tasks of strategic management. The next section focuses on the remote environment, as a sub-environment of the external (or macro-) environment.

LO 3: Analyse the remote environment to identify opportunities and threats facing an organisation.

### 5.3 Analysing the remote environment

To a large extent, organisations can only respond to the fundamental forces arising from the remote environment. While individual organisations can exert some influence over their market environments, they can rarely influence the remote environment (except, for example, through radical technological innovation, as in the case of organisations such as Intel or Microsoft in the microprocessor, microcomputer and software industries).

In the discussion that follows, we will first identify the remote environmental forces, and will then discuss the remote environment in an African and regional context. Lastly, we will address the evaluation of an organisation's strategic response to factors in the remote environment.

### 5.3.1 The identification of remote environmental forces

The most important elements of the remote environment can be identified using the traditional PEST framework. They comprise the following factors:<sup>13</sup> *political (P)*, *economic (E)*, *socio-cultural (S)* and *technological (T) factors*. The traditional PEST model can be extended to include a consideration of *legal (L)*, *environmental (E)* and *global (G)* factors, (where (E) refers to the natural environment) to yield the acronym PESTLE/G. You may also refer to Chapter 1 (Section 1.6) in which the management environment is explained.

Analysing the environmental forces and trends at a global, a regional and a domestic level, respectively, is important because it can have an impact on an organisation and its internal/micro- and market environments. Below are just a few examples of the implications that external environmental forces hold for markets and organisations:<sup>14</sup>

- Political factors. Political factors include aspects such as the government and its political policy and economic interventions and policies. The government of a country is a major role player in the remote environment of all organisations. An example of political forces in South Africa is the change of leadership in the ruling party, namely the African National Congress (ANC). On 14 February 2018, the former president Jacob Zuma resigned and was replaced by President Cyril Ramaphosa. This had an enormous effect on various indicators, for example, the value of the country's currency and business confidence. Business confidence can be measured in terms of the Business Confidence Index, which is the weighted mean of five sectoral indices, namely, that of manufacturers, building contractors, retailers, wholesalers and new vehicle dealers. Business confidence can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 indicates neutrality and 100 indicates extreme confidence.<sup>15</sup> Index Points in South Africa increased to 45 Index Points in the first quarter of 2018 from 34 Index Points in the fourth quarter of 2017 - an increase of 11 points.<sup>16</sup> As a result of these influences, business organisations are also affected. For example, an increase in business confidence may result in organisations investing more in new machinery, equipment or buildings in order to increase their productive capacity in lieu of an expected increase in the demand for their products. Also, consumers will spend more, and foreign investors will be more willing to invest in South African organisations due to higher business confidence levels. South Africa has seen many key economic policy changes by government, especially for the period 1994 to 2013. The Reconstruction and Development Programme (RDP), as part of the election platform of the ANC

in the 1994 elections, was chosen as the primary socio-economic programme with the aim to establish a more equal society through reconstruction and development, as well as strengthening democracy for all South Africans. Due to various constraints, the government replaces this policy in 1996 by a new macro-economic policy framework called the Growth, Employment and Redistribution (GEAR) strategy, with the aim to stimulate faster economic growth, which was required to provide resources to meet social investment needs. In 2005, GEAR was replaced by the Accelerated and Shared Growth Initiative for South Africa (ASGISA) as further development on the first two developmental strategies. ASGISA had the following aims: to reduce poverty by 2010, and to halve unemployment by 2014 from the 28 per cent in 2004 to 14 per cent by 2012. It also recognised that the policies implemented to address these issues needed to be at the forefront of economic policy decision-making. ASGISA was replaced in 2010 with the New Growth Path (NGP), envisioned to accelerate growth in the South African economy, and to do so in ways that rapidly reduces poverty, unemployment and inequality. In 2013, government introduced the National Development Plan (NDP) 2030 as South Africa's socio-economic development roadmap. This policy was adopted as the blueprint for a future economic and socio-economic development strategy for the country. The NDP is viewed as a policy blueprint for eliminating poverty and reducing inequality in South Africa by 2030. In order to address the country's socio-economic imbalances, the NDP identifies the key constraints to faster growth, among other things, and presents a roadmap to a more inclusive economy.<sup>17</sup>

- Economic factors. These include factors such as the economic growth rate, the inflation rate, interest rates and exchange rates. Economic forces influence the demand for products and services, so it is important for strategists to monitor and forecast events in the domestic and global economies. Economic forces are often interdependent with socio-cultural forces. For instance, an ageing population can influence unemployment figures and salaries of a younger workforce significantly.
- Socio-cultural factors. These include factors such as social values, culture, lifestyles and demographics. Stakeholder groups are products of society. Their values, morals, beliefs and subsequent behaviours and lifestyles are therefore influenced by society at large. Developing social trends may also offer organisations various opportunities. For example, health and fitness lifestyle trends have created opportunities in the home fitness, nutritional supplement, low carbohydrate food and even bicycle industries. Organisations therefore stand to gain if strategists can identify and assess the effects and opportunities presented by socio-cultural forces, as well as manage and sustain their relations and reputation with stakeholder groups.

- 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. They also have the power to transform society and revolutionise the way business is conducted. This is evidenced by the rise of the internet, as well as by the communication and computing industries. Innovation and technology can spill over from one industry to another, especially if they are closely related. The opening case study indicated that technology is responsible for changes in the metered taxi industry. Uber became a major role-player in this industry, which reinforces the statement that organisations should also monitor developments in innovation and technology in neighbouring, related and even unrelated industries. Strategists need to evaluate the consequences for their own products and services, creating strategies that could take advantage of these changes.
- Legal factors. These include factors such as regulations and laws with which organisations must comply. No organisation is fully exempt from government legislation and regulations. However, not all laws and regulations apply equally to all organisations. Some (such as smoking laws) pertain to specific industries, whereas other legislation (such as occupational health and safety, labour relations, and employment equity in South Africa) cuts across entire industries. In our case study, it was indicated that the South African government finds it difficult to regulate the new industry created by Uber. Once regulated, it will have an influence on Uber, as well as on the metered taxi industry.
- Environmental factors. These include ecological and environmental forces of nature such as weather, climate, climate change and associated factors such as water shortages. The Western Cape water crises in 2017/2018, as a result of prolonged drought, is affecting all industries in South Africa, especially the agricultural, hospitality and tourism industries. Even households and individuals are affected. For example, in 2018 Cape Town households were faced with water and sanitation tariff increases of approximately 27 per cent. An increase in these tariffs will have a negative effect on consumer behaviour and spending patterns, influencing all industries. The principles of the UNGC, alluded to earlier in Section 5.1, calls on organisations to align their strategies to their environmental principles.
- Global factors. Organisations are operating in an increasingly global economy. Examples of global trends<sup>18</sup> which have the potential to significantly affect and challenge strategists and leaders in the next 30 years are briefly discussed in Table 5.2.

Table 5.2 *Global trends*

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Increasing population</b>	The world's population is increasing fast from 7.6 billion in June 2018 to an expected 9.7 billion by 2050. <sup>19</sup> The South African population, as on 4 June 2018, based on the latest United Nations estimates, is 57,348,015 <sup>20</sup> and is expected to grow to 72,754,583 by 2050. <sup>21</sup>	The need for basic necessities, such as food, water and housing, will increase as the population increases, while, at the same time, water and food sources will come increasingly under pressure due to diminishing farmland and pollution.
<b>Increasing urbanisation</b>	Megacities with 10 million or more inhabitants will become commonplace. In South Africa, Johannesburg is set to be classified as a megacity by 2030, with its population exceeding 10 million people <sup>22</sup> , while Lagos, Cairo and Kinshasa will each have to cater for over 20 million people. <sup>23</sup>	Due to the high urbanisation rate, the need for various products and services (such as the need for education, water, electricity, housing and medical services) to mention only a few, increases.
<b>The spread of infectious disease</b>	Migration and cross-border flow of labour and goods are increasing, causing the likelihood of epidemics and the spread of infectious diseases such as hepatitis A, typhoid fever, and malaria. An outbreak of listeriosis (a serious foodborne disease) has been ongoing in South Africa since the start of 2017. There were 978 laboratory-confirmed cases and 183 fatalities reported over the period 1 January 2017 to 14 March 2018.	Infectious diseases (such as malaria and meningitis) cause a growing demand for preventative measures (such as insect repellents and inoculations) and treatment options. Outbreaks of foodborne diseases may require strategists to place more emphasis on preventative quality controls, and to act quickly in the case of an outbreak. The food processing company and three of its retailers export to 15 countries in the African region. All of the affected countries had to recall the implicated products. <sup>24</sup>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Natural resource crises</b>	<p>The global natural resource crises are worse than its financial crises. The 2016 Living Planet Report<sup>25</sup> calculates that humans are using 30 per cent more natural resources than the Earth can replenish each year, which is leading to deforestation, degraded soils, polluted air and water, and dramatic declines in the number of fish and other species. The problem is also getting worse as populations and consumption keep growing faster than technology can find new ways of expanding what can be produced from the natural environment. This has led to the prediction that by 2030, if nothing changes, humankind will need two planets to sustain its lifestyle.<sup>26</sup> In Africa and South Africa specifically, the need for and conflict over water resources are prominent.<sup>27</sup> Since 2014, the City of Cape Town has been experiencing a record drought for three consecutive years (the worst in more than a century). The drought, exacerbated by climate change and population growth, has sparked a water crisis in Cape Town. In March 2018, municipal leaders warned that residents are increasingly likely to face a 'Day Zero' scenario. Day zero is defined as the day when the supplying dams are depleted, and residents are expected to live on less than 25 litres per day. If the city is unable to deal with the crisis, then four million people may have to stand in line surrounded by armed guards to collect rations for drinking water.<sup>28</sup></p>	<p>Organisations will increasingly be required to operate in ways that are environmentally sustainable by reducing their carbon footprint, reducing waste and reducing their water usage.</p>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Environmental degradation</b>	<p>Biodiversity is often used as an indicator of the state of the natural environment since it refers to the diversity of micro-organisms, plants and animal species, as well as to the ecosystems within which they interact and live. The 2016 Living Planet Report indicates the Living Planet Index (LPI), which measures biodiversity by gathering population data of various vertebrate species and calculating an average change in abundance over time. The LPI can therefore be regarded as an important indicator of the planet's ecological conditions. From 1970 to 2012, the LPI shows a 58 per cent overall decline in vertebrate species (mammals, birds, fishes, amphibians and reptiles). The most common threat to declining populations is the loss and degradation of habitat. This refers to the modification of the environment where species lives, by either complete removal, fragmentation or reduction in quality of key habitat characteristics. Common causes are unsustainable agriculture, logging, transportation, residential or commercial development, energy production and mining. For freshwater habitats, fragmentation of rivers and streams and abstraction of water are common threats. Species overexploitation, pollution, invasive species, disease and climate change are further threats and contribute to environmental degradation.<sup>29</sup> The decline in species populations is inextricably linked to the state of the ecosystems that sustain them. Destruction of these ecosystems represents a risk, not just to plants and animals, but to humans as well - ecosystems provide us with food, fresh water, clean air, energy, medicine and recreation. Human life depends upon healthy and diverse natural systems for the regulation and purification of water and air, climate conditions.</p>	<p>Organisations will increasingly have to understand the impact that its current and future operations will have on biodiversity and the ecological systems that they operate in. This is already becoming part of the legal environment. For example, in South Africa Environmental Management Inspectors (also known as the 'Green Scorpions') specifically police for transgressions of environmental laws and regulations.</p>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Economic integration</b>	<p>Economic integration refers to an agreement between countries in a geographic region to reduce and ultimately remove, tariff and non-tariff barriers to the free flow of products or services and factors of production among each other.<sup>30</sup> Economic integration is a phenomenon of the second half of the 20th century that has been experienced on a varying scale and intensity throughout the world. Countries from all continents seem eager to join economic alliances that range from customs unions to areas of full economic integration, such as the European Union. Strong and weak economies participate in such groups, aiming at stability and growth.</p>	<p>Inevitably, participating in these alliances conveys important changes in the domestic business environments of organisations. For example, the competition in the market environment of organisations may change completely as a result of economic integration. Changes in the quantity and quality of demand may also appear, requiring strategists to reconsider and change organisational strategies based on these changes. South African President Cyril Ramaphosa on 20 March 2018 punted the idea of a single currency for African countries in a bid to attract infrastructure investment and enable intra-African trade, a decision that will have an influence on all participating countries and organisations within these countries.</p>
<b>Advances in technology and information technology</b>	<p>Advances in technology create new processes, systems, material, equipment and components. New technology enables organisations to develop new and innovative products and/or services. Advanced information systems can disseminate essential, timely and accurate information faster and more efficiently. New processes can increase the productivity of organisations. New technology and information technology results in increased competition and forces organisations to use the latest technology to sustain their competitive advantage.</p>	<p>Organisations need to be aware of technological changes and how they affect their businesses. While organisations can use technology to improve their own efficiency, they can also be the victims of technology. There is the obvious threat of hacking, which means that organisations have to pay very close attention to cybersecurity. On a more fundamental level, technology can enable new breeds of competitors and change the business landscape, as we saw in the Uber case study earlier in this chapter.</p>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Biotechnology</b>	<p>Biotechnology is defined as the use of biological processes, organisms, or systems to manufacture products intended to improve the quality of human life. The earliest biotechnologists were farmers who developed improved species of plants and animals by cross-pollination or cross-breeding. In recent years, biotechnology has expanded in sophistication, scope and applicability. The science of biotechnology can be broken down into subdisciplines called red, white, green, and blue.</p> <p>Red biotechnology involves medical processes such as getting organisms to produce new drugs or using stem cells to regenerate damaged human tissues and perhaps re-grow entire organs. White (also called grey) biotechnology involves industrial processes such as the production of new chemicals or the development of new fuels for vehicles. Green biotechnology applies to agriculture and involves processes such as the development of pest- resistant grains or the accelerated evolution of disease-resistant animals. Blue biotechnology, rarely mentioned, encompasses processes in marine and aquatic environments, such as controlling the proliferation of noxious water-borne organisms.<sup>31</sup> Many organisations have begun investigating the application possibilities of biotechnology in their industries. Companies such as Motorola have begun investigating the potential of genetic engineering in computing as a first step toward a DNA-based computer.</p>	<p>While biotechnology offers many potential opportunities to organisations to increase their production and reduce their carbon footprint (for example, by using biofuel), it also has created heated debates around issues such as genetic manipulation of food, the use of stem cells from embryos in providing health services, and cloning. Biotechnology is an area in which organisations need to be very aware of the ethical risks they face.</p>

<b>Global trends</b>	<b>Explanation</b>	<b>Examples of implications for strategists</b>
<b>Governance</b>	<p>The business dictionary defines <i>governance</i> as the establishment of policies, and the continuous monitoring of their proper implementation, by the members of the governing body of an organisation. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organisation.<sup>32</sup></p> <p><i>Corporate governance</i> is defined as the framework of rules and practices by which boards of directors ensures accountability, fairness and transparency in an organisation's relationship with all stakeholders,<sup>33</sup> in order to improve the accountability of an organisation and to prevent massive disasters before they occur.</p>	<p>Corporate governance is an inevitable topic of discussion in corporate boardrooms, academic roundtables and among policymakers worldwide. Several events are responsible for this. First, corporate implosions over the last ten years and the subsequent increased demand for continuous improvement and transparency in the boardroom have heightened the pace of change for boards worldwide. Second, the wave of financial crises in Russia, Asia and Brazil in 1998, affected their entire economies and deficiencies in corporate governance endangered the stability of the global financial system. Third, corporate governance failures in the United States and Europe caused some of the largest insolvencies in history. In the aftermath of these events, economists, the corporate sector and the policymakers worldwide recognised the potential longterm consequences of weak corporate governance systems.</p> <p>In the wake of more recent corporate scandals relating to KPMG and Steinhoff, for example, it is likely that we will see an increased focus on corporate governance, and an increasing focus on the role of supposed 'watchdogs' such as auditing firms.</p>

The implications of these global trends for strategists and their organisations are far-reaching. They have the potential to change individual organisations, entire industries or even entire economies. In this context, the change can be drastic or a radical re-organisation caused by trigger events and processes requiring change in

order to improve the situation. As an example, environmental degradation caused by motor vehicle carbon dioxide (CO<sub>2</sub>) emissions (above a certain threshold) has seen the introduction of an environmental levy on new motor vehicles manufactured or imported into South Africa. The objective of the levy is to ensure that the composition of South Africa's motor vehicle fleet becomes more energy-efficient and environmentally friendly. However, the implication is greater for motor vehicle manufacturing industries and local automotive clusters or economic hubs (existing in countries such as Mexico and Thailand). The industry is expected, not only to reconfigure fuel consumption in motor vehicle design, but is also mandated to show CO<sub>2</sub> emission standards as part of vehicle certification.

The preceding example intends to illustrate how a global factor such as environmental degradation (caused by global warming due to the production of a greenhouse gas from motor vehicle CO<sub>2</sub> emissions) affects, not only driving behaviour, but also all motor vehicle manufacturers in all countries. Organisations attuned to similar challenges, which prepare for them and respond appropriately, will likely thrive; those that ignore them, will do so at their own peril.

The practising strategy box below, provides an example of another change in regulation that has a huge impact on all South African business organisations, namely Black Economic Empowerment.

## Practising strategy: Black Economic Empowerment

The South African government launched the Black Economic Empowerment (BEE) programme as a racially selective programme to address the inequalities of apartheid. The programme gives Black, Coloured and Indian South African citizens economic privileges that were previously not available to them. In 2003, a strategy for BEE was released which defined the programme as:

- 'an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities.'
- Thus, the BEE process will include elements of human resource development, employment equity, enterprise development, preferential procurement, as well as investment, ownership and the control of enterprises and economic assets.'<sup>34</sup>

The initial programme was criticised for benefiting only a few of the previously disadvantaged groups, which led to the development of the modified programme in 2007, called the Broad-based Black Economic Empowerment or B-BBEE. In this year, the new Codes of Good Practice of the B-BBEE and sector scorecards were gazetted by the government. In 2008, Chinese people were also added to the programme. In 2013, the Codes of Good Practice was again updated and gazetted by government. The new codes provided organisations with elements that it needed to prioritise, namely, ownership, skills development and enterprise development. In the context of strategic management, these elements should then become strategic priorities for South African organisations to be BEE-certified. A points allocation system, that accompanies the Codes of Good Practice, includes sub-minimum target thresholds of 40 per cent for these priority elements. Failing to achieve these thresholds results in penalties whereby an organisation's compliance level could be dropped.

The B-BBEE programme has a significant impact on the strategic priorities of all South African business organisations. Business organisations are encouraged to procure the products and/or services they need from other businesses that are B-BBEE-compliant. Organisations that are not BEE-certified will therefore find it difficult to retain their positions in the marketplace.

The next section focuses on the analysis of the remote environment in an African context.

### 5.3.2 The remote environment in an African context<sup>35</sup>

The ‘sleeping giant’ called Africa awakens - with great, but unrealised emerging power. While the continent presents significant business opportunities, the need to become a region with strong technological and innovative competitiveness is yet to be realised. Strategists, however, should be mindful of the following strategic issues plaguing Africa as a whole, and sub-Saharan Africa, in particular:<sup>36</sup>

- Lack of infrastructure. The lack of roads, harbours, electricity, ICT networks and railroads may, for example, seriously affect an organisation’s supply chain and distribution system or even its ability to implement a cross- border strategy.
- 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.
- 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 and volatility in markets, and making strategic decisions riskier.

- High levels of poverty. In most developing Southern African countries (South Africa, Botswana, Namibia, Zambia and Lesotho), as well as the Comoros and the Central African Republic, there is a wide income inequality gap between rich and the poor.<sup>37</sup> 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 per cent of all SADC citizens were living in abject poverty.<sup>38</sup> The high levels of poverty and living conditions of the poor make high-quality nutrition, education and healthcare inaccessible and unaffordable.
- 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.<sup>39</sup> 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 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 of 32. With the potential to generate anger and destabilise societies, the cumulative effect of corruption on organisations and economies could be massive.
- An inefficient public sector. Sluggish and even negative economic growth that contributes to failure in alleviating poverty in sub-Saharan Africa is at least partly attributed to an inefficient and unproductive public sector.<sup>40</sup> 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.<sup>41</sup> South African studies have shown that progress has remained slow and limited because of political interference, unaccountable civil servants, non-compliance to reforms and the overall decline in governance.<sup>42</sup>
- 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.<sup>43</sup> Key findings of the World Economic Forum Report on the Future of Jobs and Skills in Africa 2017 indicates that 9 per cent 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 per cent of core skills required across occupations will be wholly different by 2020.<sup>44</sup>

On the positive side, there are many African countries (such as Cote d'Ivoire, Ethiopia, Kenya, Mali, Rwanda, Senegal, and Tanzania) with stable economies and political dispensations. These countries promote economic growth, and realised annual gross domestic product growth rates above 5.4 per cent from 2015 to 2017.<sup>45</sup> Within the African context, organisations are encouraged and often required to work together with governments to achieve strategic objectives and attain competitiveness at national, regional and Pan-African levels.<sup>46</sup>

### 5.3.3 The remote environment in a regional context<sup>47</sup>

Of particular interest to South African strategists and decision-makers is an understanding of the remote environment in a regional context. This comprises the sub-Saharan region and specifically, the Southern African Development Community (SADC) group of countries. The SADC comprises 15 member states, namely Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.<sup>48</sup> The main objectives of the SADC are 'to achieve development, peace, security, and economic growth, to alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through regional integration, built on democratic principles and equitable and sustainable development'.<sup>49</sup>

While it is certain that Africa and the sub-Saharan region are developing strategies for its own future, organisations need to consider not only the challenges, but also the opportunities for organisations outside its region, to conduct business in Africa. Strategists should accommodate the continental strategic approach and factor a country's disposition in terms of its local conditions and customer preferences. Strategic decision-making should also acknowledge the role that government, as an economic enabler, plays in strategy development. Africa presents an opportunity for addressing the needs of the majority poor at the 'Bottom of the Pyramid' (BOP) market.<sup>50</sup> Broadly stated, the BOP is a socio-economic concept that allows us to categorise the poorest socio-economic group in a country or society. This segment of people represents an invisible and unserved market confronted by challenging barriers that prevent them from realising potential benefits for them, their families and society.<sup>51</sup>

Members of the BOP are those households who live with an annual disposable income of less than US\$2 500. This group is excluded from the modernity of our globalised societies and has no access to organised financial services. The three largest BOP markets (Nigeria, Kenya, and South Africa) are home to over 16 million households.<sup>52</sup> Given the high percentage of the population living on less than US\$2 a day, organisations with an entrepreneurial mindset and a willingness to invest over the long term and contribute to Africa, are more inclined to be successful than those who invest in these countries with a short-term financial goal.

The practising strategy box below provides an example of the exploitation of an opportunity identified in the remote environment that could develop into a viable business idea and profitable organisation.

## Practising strategy: The *Lightie*<sup>53</sup>

Approximately 600 million people in Africa and 2 billion worldwide do not have access to electricity and are forced to use candles or paraffin lamps to provide light. The cumulative burden of these sources of energy in developing countries is enormous:

1. This costs 2 billion people in developing countries 25 per cent of their income for just one hour of light per night - amounting to a total of R380 billion per year.
2. Two million people in developing countries die annually from the use of these energy sources.
3. This 'dirty fuel' releases a total of 190 million tons of carbon dioxide (CO<sub>2</sub>) pollution into the atmosphere annually.

In response to this problem, 27-year-old Michael Suttner invented the *Lightie*, a solar-powered lamp that screws into the top of a standard two-litre soda bottle. It provides 12 times lighter than a paraffin lamp, and uses a long-life lithium battery that will last for four to five years.

At less than US\$10 per unit, the *Lightie* is a product that will provide an ideal energy solution for the BOP market.

In the bigger context, what is evidently clear is that with increasing globalisation and regionalisation, the interconnectedness and interdependencies between countries are increasing and global competition is intensifying. Two phenomena have already created seismic shifts in global economic activity:<sup>54</sup>

1. The centre of gravity of economic activity is shifting with global business growth originating from the developing world. The emergence of the BRIC countries (Brazil, Russia, India, and China) has already significantly changed global competition. These countries are all deemed to be at a similar stage of newly advanced economic development. It is estimated that China and India will, by 2050, become the world's dominant suppliers of manufactured goods and services, respectively. In addition, it is estimated that Brazil and Russia will become dominant suppliers of raw material. Due to lower labour and production costs in these countries (now including a fifth nation, South Africa), many organisations have cited BRICS as a source of foreign expansion opportunity, in other words, becoming promising economies in which to invest.<sup>55</sup> The MINT nations of Mexico, Indonesia, Nigeria and Turkey, share many of the characteristics of the BRICS countries, namely, strong economic growth and the potential to provide high returns for investors in these countries over the coming decade.<sup>56</sup>
2. The economic winners are not the organisations that control natural resources and physical capital, but rather those organisations that have mastered ideas and technology - resources that are not bound by ownership or geography, or governed by traditional rules of scarcity and scale economies.

'Globality' and regionalisation are creating opportunities as well as threats for developed-world multi-nationals and new champions from developing countries alike.

### 5.3.4 Evaluating an organisation's strategic response to factors in the remote environment

The list of factors that constitute a remote environment is almost endless. While changes in the remote environment may affect a cross-section of industries, some variables are more important than others as drivers of change in different industries. Factors are context-specific and vary from industry to industry, even from organisation to organisation, and can be operating at a national, regional or even a global level. Therefore, when analysing the remote environment, strategists are required to go beyond a mere description of change in the environment to an assessment of the forces driving it in order to prioritise these forces and thereby enable the organisation to focus its resources on the most strategically important issues. How organisations respond to these influences can have important competitive implications, as well as implications for their long-term survival and sustainability.<sup>57</sup>

An organisation can buffer itself against threats and take advantage of opportunities by firstly identifying and evaluating these influences. A useful tool for summarising and evaluating the strategic significance of PESTLE/G factors in the remote environment is the External Factor Evaluation (EFE) Matrix. This tool is illustrated in the practising strategy box below by making use of a holiday resort for illustrative purposes.

Practising strategy: External Factor Evaluation (EFE) Matrix for a holiday resort <sup>58</sup>				
Column A <b>Key opportunities and threats</b>	Column B <b>Weight</b>	Column C <b>Rating</b>	Column D <b>Weighted score</b>	Column E <b>Priority</b>
<b>Opportunities</b>				
1. New water park being developed within 4 km	<b>0.2</b>	<b>1</b>	<b>0.2</b>	<b>5</b>
2. Number of foreign tourists growing 8% annually	<b>0.1</b>	<b>3</b>	<b>0.3</b>	<b>4</b>
3. A major competitor in the province ceased operations	<b>0.3</b>	<b>3</b>	<b>0.9</b>	<b>1</b>

MU\*

Column A <b>Key opportunities and threats</b>	Column B	Column C	Column D <b>Weighted score</b>	Column E
<b>Threats</b>				
4. <i>New health and safety regulations</i>	0.1		0.4	
5. <i>Technology infrastructure</i>	0.1		<b>0.2</b>	
6. <i>Customer base changing (golf, deep-sea diving)</i>	0.2		<b>0.6</b>	
<b>Total</b>	1.0		2.5	

## Notes

1. Column A lists the most important opportunities and threats originating from the remote and market environments. The opportunities and threats are numerous and not all are equally important. Key opportunities and threats are those considered to be the most strategically relevant to the organisation.
2. The strategic significance of the key opportunities and threats to the organisation is based on priority as determined by the weighted score, indicated in Column B. The sum of the weights equals 1.0.
3. In the example of the holiday resort, the six identified opportunities and threats are prioritised, where the priorities are provided in Column E. Priority 1 (*major competitor in province ceased operations*) is the factor with the highest priority and priority 6 (*technology infrastructure*) is the factor with the lowest priority to the organisation. Therefore, the most strategically significant factors for the organisation would be *a major competitor in province ceasing operations*, *a changing customer base*, and *new health and safety regulations*. Accordingly, the least strategically significant factors would be the *number of foreign tourists growing 8% annually*, *the new water park developed within 4 km*, and *technology infrastructure*.
4. Column C provides a rating of each of the identified key opportunities and threats, indicating how effectively the organisation's current strategies are responding to the factors, where 1 = response is poor, 2 = response is average, 3 = response is above average, and 4 = the response is superior. Bear in mind that ratings are organisation-based whereas weights are market-based and that both threats and opportunities can attract a 1, 2, 3, or 4 rating.

Column D provides the weighted score, which is determined by multiplying the weight in Column B by the rating in Column C, in order to calculate a weighted score for each of the identified opportunities and threats. The sum of the weighted scores of all factors is calculated to determine the total weighted score for the organisation. Regardless of the number of key opportunities or threats, the highest possible total weighted score for an organisation is 4.0 and the lowest possible weighted score is 1.0. A total weighted score of 4 indicates that the company is responding in an outstanding way to the existing opportunities and threats. In the example of the holiday resort, the weighted score for the company is 2.5 indicating that the organisation's strategic response to the key environmental factors is average. The six key external factors in this example have been randomly selected for illustrative purposes and have not been subjected.

The EFE Matrix is useful in enabling strategists to visualise and prioritise the opportunities and threats that an organisation is facing, and in assessing organisation's strategic response to the identified factors in the environment and as a whole. It also reveals whether the organisation's current strategy is seizing external opportunities and minimising the potential effects of external threats. Such an analysis can inform strategists on how to devise alternate strategies.

While this section focused on the analysis of the remote environment, the next section focuses on the analysis of the market environment.

LO 4: Analyse the market environment to identify threats and opportunities facing an organisation.

## 5.4 Analysing the market environment

In seeking to devise a strategy, we have to progress from the remote environmental analysis to the analysis of the market environment and its constituent stakeholders with whom the organisation interacts regularly, as illustrated in Figure 5.2. A good point of departure in industry analysis is firstly to understand what an industry is and to differentiate between the terms 'sector', 'industry', and 'market'. We then move on from understanding the industry to developing an understanding of its attractiveness. Lastly, we conclude the chapter by investigating the drivers of change.

### 5-4.1 Defining an industry

A *sector* is a group of closely related industries. For example, the computer sector comprises the computer component industries (for example, the disk drive, semiconductor, and modem industries), the computer hardware industries (for example the personal computer, hand-held computer and mainframe computer industries), and

the computer software industries (for example, the word processing and spreadsheet industries). Industries within a specific sector may connect with one another in many different ways. For example, organisations in the computer software industry may provide important complements to the computer hardware industries.

An industry is not merely defined as a market or composed of organisations competing with one another. A distinction should be made between the *industry and organisations it belongs to* and a *market that it serves*.<sup>59</sup> A market is defined as a group of customers with similar needs. For example, an organisation could exist in the automobile industry, but may choose to compete in the commercial vehicle market. Another example is Uber (refer to the opening case study). As an organisation, Uber exists in the software development industry, but its target market is that of metered taxi operator. An industry is therefore defined as *a group of organisations offering products and services that are close substitutes for one another, ie products or services that satisfy the same basic customer needs.*<sup>60</sup> The basic customer needs that are served by a market define an industry's boundary. For instance, Coca-Cola long saw itself as part of the soda (carbonated soft drinks) industry, whereas it was actually part of the soft drinks industry (which includes non-carbonated soft drinks). In the mid-1990s, the rise of customer demand for bottled water and fruit drinks began to cut into the demand for sodas, which caught Coca-Cola by surprise. Coca-Cola moved quickly to respond to these threats by introducing its own brand of water and acquired orange juice maker Minute Maid. By defining its industry too narrowly, Coke almost missed the rapid rise of non-carbonated soft drinks within the soft drinks market.

#### 5.4.2 Analysing industry attractiveness<sup>61</sup>

According to Michael Porter, *customers, suppliers* and *competitors* are the primary determinants of industry competition. Competitors are comprised of *existing competitors* (incumbent rivals), *potential competitors* (new entrants to the industry) and *substitute providers* (providers of alternate products and services from other industries). This results in five forces that are primarily responsible for industry attractiveness (in terms of both the nature of competition in an industry and its profitability). These forces are listed below:

1. Customers
2. Suppliers
3. Existing competitors
4. Potential competitors
5. Substitute providers.

Porter argues that the greater the collective strength of these five forces, the less profitable and less attractive the industry is likely to be. Porter's model of industry stakeholders and competitive forces is depicted in Figure 5.3.

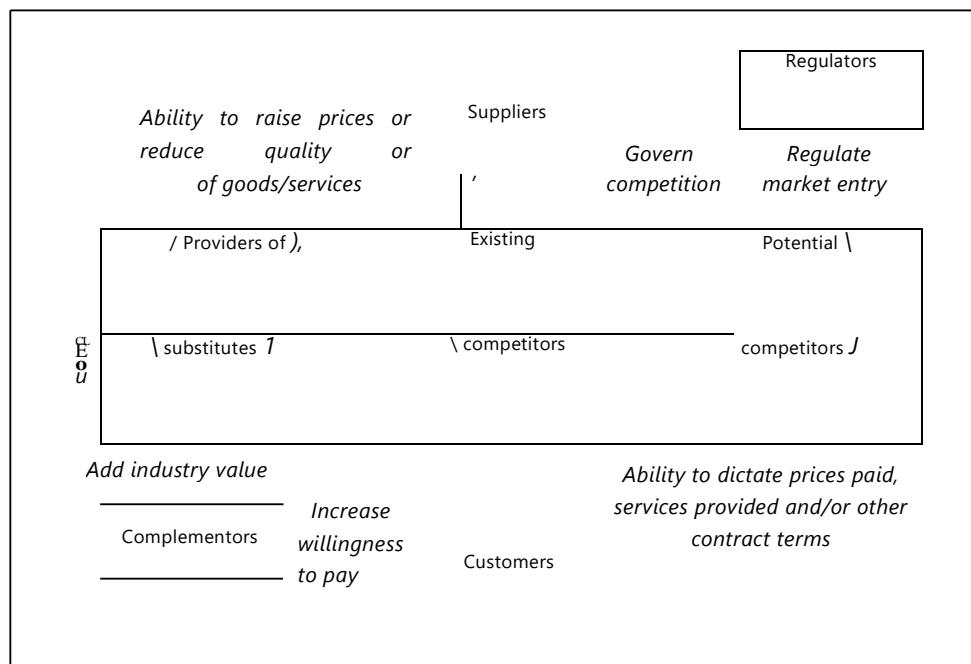


Figure 5.3 A model of industry stakeholders and competitive forces?<sup>2</sup>

A brief explanation of Porter's competitive forces is provided below.

1. Customers (power of buyers). Customers have the ability to dictate prices paid, services rendered and/or other contract terms. Some customers exert greater economic power than others and have a greater ability to dictate prices and other contract terms as they negotiate with sellers. As a result, powerful customers and buyers may actually reduce the profitability levels of industries from which they buy. The power of buyers is high under the following conditions: (a) buyers are few in number and/or have the ability to buy in bulk; (b) the product or service being offered is similar to others offered, making it easier to switch to alternative suppliers; (c) the value of the buyers' purchases is a significant portion of the sellers' total income; and (d) the buyers can move backwards into the value chain by acquiring or developing the ability to produce the products or services themselves.
2. Suppliers (power of suppliers). Since suppliers provide all the required inputs to the organisation, including materials, capital and labour, they have the power to influence pricing and profitability, reduce quality and/or the availability of products and services, thereby creating uncertainty in the buying industry. Supplier power is high under the following conditions: (a) there are only a few major suppliers and they are highly concentrated in relation to the industry they serve; (b) supplies to the industry are not similar, making it difficult for incumbents to switch to alternative suppliers; (c) few or no alternative or substitute products or services exist; (d) the suppliers can move forward into the

- value chain by acquiring the ability to use their products and/or services as inputs to the following product and/or service in the value chain; and (e) the value of the industry's purchases represents a small portion of the suppliers' total income (ie the suppliers' income is derived from serving other or multiple industries).
3. Existing competitors (rivalry among organisations). Competitive rivalry is characterised by strategic manoeuvring and retaliatory countermoves on the part of industry incumbents. This leads to increased competitive pressure, thereby affecting profitability. The degree of rivalry is dependent on the industry growth rate, as well as on the number of players, their relative size and competitive abilities. Competitive rivalry is high under the following conditions: (a) there are a large number of rivals who are relatively equal in size and power; (b) the industry is growing slower and incumbents are vying for the support of existing customers, rather than seeking new customers; (c) incumbents carry huge fixed costs; (d) rivals have excess capacity; and (e) existing players are unable to exit the industry, either due to the high costs associated with ceasing operations or high exit barriers.
  4. Potential competitors (threat of entry). Existing industry players want to retain their market share and positions and are wary of new entrants because they can increase the level of competition, leading to reduced profits. Organisations therefore create entry barriers, which are forces intent on keeping potential competitors out while offering protection to existing industry incumbents. There are six barriers to entry, namely:
    - i. *Capital required to enter the industry* - if capital requirements related to manufacturing facilities and equipment, working capital and other start-up costs are high, potential entrants will be deterred.
    - ii. *Access to distribution of products and/or services* - where difficulty in building a network of distributors and/or securing retail shelf space is experienced, potential entrants will be deterred.
    - iii. *Cost disadvantages not related to size* - where incumbents enjoy experience, relational, technological and learning-based cost advantages that are hard for newcomers to replicate and overcome, a barrier to entry will be created.
    - iv. *Economies of scale* - when the cost advantages derived by incumbents due to their scale of operations in production, distribution and advertising, afford them cost advantages over potential entrants, a barrier to entry will be created.
    - v. *Government legislation and regulation* - where restrictive regulatory policies limit or control new entrants by requiring licences and permits to operate in some markets such as telecommunications, cable TV and broadcasting, a barrier to entry will be created.
    - vi. *High switching costs* - where customers have a strong brand preference and a high degree of loyalty to established brands, making it harder for a newcomer to break into the marketplace, a barrier to entry will be created.

5. Substitute providers (of substitute products or services). Organisations providing products that serve as replacements for alternatives or substitutes to the products of an organisation in a specific industry could be regarded as indirect competitors. For example, sucralose contained in artificial sweeteners is a substitute for sucrose in cane sugar. Substitute goods and services pose enormous threats to most industries and often place a cap on a particular industry's pricing, thus affecting profitability. However, a large part of what constitutes a substitute is a matter of personal judgement. Strategists should be vigilant and closely monitor neighbouring sectors, industries and markets for any changes in technology or cost structures. From a strategic perspective, substitutes that show improvements in price-performance relative to industry averages should be closely scrutinised, especially if produced by substitute providers who have huge financial resources.
6. A sixth force?<sup>63</sup> Since the business environment is not static and continuously changes, it is easy to see why the five forces model has come under criticism in recent times. One of the most frequent suggestions is that industry regulation is growing and should be added as a sixth force, since it regulates market entry and governs competition. There is ample evidence that *regulators* or government intervention can have a significant impact on industry structure (see the practising strategy box on companies guilty of anti-competitive behaviour below). Another contender for the sixth force is that of *complementors*. Products and services are becoming increasingly more complex and a wider range of organisations are involved in making and delivering them. Organisations develop relationships, not just with suppliers and competitors, but with other organisations whose products enhance their own. For example, applications on a smart cellular telephone could be seen as a complementary product because customers value their device more with applications than without it. Complementors add industry value and also increase customer's willingness to pay for products and services.

The basic steps to follow when using the competitive forces model to analyse industry attractiveness are as follows:<sup>64</sup>

- For each of the identified forces, identify the different parties involved, and the specific factors that bring about competitive pressures.
- Evaluate how strong the pressures stemming from each of the forces are (strong, moderate to normal, or weak).
- Determine whether the collective strength of the competitive forces (overall), is conducive to earning attractive profits in the industry.

However, for the purposes of strategic analysis, the central challenge is not applying the model and assessing the strength of the forces, but in extracting the strategic implications for the organisation concerned. Strategists should not only consider the influence of the forces but should seek out ways of manipulating these forces to the advantage of the organisation. An example is demonstrated by the symbiotic relationship between McDonald's and Coca-Cola, both giants in their respective markets. McDonald's has exclusively stocked and sold Coca-Cola beverages since 1955 and is Coca-Cola's biggest single client. The two companies helped each other grow throughout the globe<sup>65</sup>. This illustrates that organisations may

alter the nature of competition in their market environment by creating partnerships with powerful stakeholders. Finally, the results of such analyses should not only guide organisations in making strategic decisions pertaining to industry (un)attractiveness and (un)profitability, but could also assist in identifying forces relevant to opportunities and threats.<sup>66</sup>

The practising strategy box below is a news extract that provides an example of competitive forces in the stolen-vehicle recovery industry in South Africa.

## Practising strategy: Tracking companies guilty of anti-competitive behaviour<sup>67</sup>

In 2010, the Competition Tribunal found three vehicle-tracking companies and the industry body guilty of anti-competitive behaviour. The tribunal found that Netstar, Matrix Vehicle Tracking, and Tracker Network (representing over 90 per cent of the industry) and the Vehicle Security Association of SA (Vesa) had contravened the Competition Act by setting standards which created barriers to entry. This prevented competitors from entering or expanding in the market and denied consumers the benefit of lower prices, greater choice, and technological development. The tribunal found the standards had an exclusionary effect and were self-serving and irrational.

This case was brought by both the Competition Commission and the complainant and intervenor in the matter, an organisation called Tracetec. Tracetec wanted to enter the stolen-vehicle recovery (SVR) market because it believed that radio transmitter technology could be successfully applied in the SVR market. However, based on the standards, Tracetec was prevented from being admitted to the SVR category.

Vesa was an industry association for organisations engaged in the vehicle security industry that, at that particular time, had a sub-committee that set standards for admission to membership of its SVR category. The tribunal concluded, based on evidence, that it was not possible for an organisation to expand in the SVR market at the time without having its product approved by Vesa in the SVR category. This was because all the major short-term insurance companies, represented through their industry association, would not approve a customer installing a system that did not have Vesa approval. The tribunal also noted, in its reasons, that the South African Insurance Industry Association (SAIA), representing all the large insurers and a large part of the rest of the industry, who had organised Vesa to set standards for the industry, did so, not because of concerns for the consumer, but for its own business interests.

The relief sought by both the commission and Tracetec was limited to a declaration that the conduct constituted a prohibited practice, ie that the conduct was anti-competitive. This declaration would enable a rival organisation to institute civil action for damages against the respondents.

### 5.4.3 Industry drivers of change<sup>68</sup>

All industries are affected by new developments and ongoing trends that alter industry conditions, some more speedily than others. Many of these changes are important enough to require a strategic response. Since the five competitive forces (with the added sixth force) have such significance for an industry's profit potential, strategists must remain alert to the changes most likely to affect the strength of these forces. It is important to focus on the most powerful agents of change - those with the biggest influence in reshaping the industry landscape and altering competitive conditions.

Some of the most common industry drivers of change listed below:

- Changes in the industry's long-term growth rate. This refers to a situation in which a fluctuation in industry growth (negative or positive) over an extended period affects the supply and demand of an industry's products or services. This change in growth will subsequently influence the potential entry of new competitors (if growth is positive), as well as the exit of existing competitors (if growth is negative). The resultant change in the number of industry incumbents ultimately influences the degree of competition and the industry's overall attractiveness.
- Changes in demand and customer preferences. In the opening case study, it was mentioned that research indicates that people that never made use of metered taxis before, are using Uber. Changes in terms of customer demand and customer preference may also occur. For example, cellphone addiction and electronic device dependency is a growing trend among students and the youth. Studies have highlighted, not only psychological and social health-related issues as concerns, but also the major distractions caused by this dependency, often leading to motor vehicle accidents and other related medical emergencies.<sup>69</sup>
- New business models. The opening case study illustrates a new business model that developed in the taxi industry, enabled by technology. Organisations need to be aware of new business models in their industries that affect the way in which they do business and which can actually 'displace' their existing industry entirely. Other examples are cellular technology, digital cameras and video-on-demand television in their respective industries.
- Product and marketing innovation. This refers to the implementation of new marketing methods involving significant changes in product design or packaging, the placement of products, product promotion or product pricing. New marketing methods can be applied to new and existing products, which will attract new customers, offer differentiation and new value, thereby altering the nature of competition, especially in technology-based industries. Nokia is an example of an organisation that defined the mobile telecommunications industry at one time. Although it was the world leader in the mobile phone market for many years, the launching of the iPhone 3G, with its innovative touchscreen and enhanced multi-media

capability, by Apple in 2007, displaced Nokia as the industry leader. Apple's competitive advantage over Nokia was its ability to develop new, innovative products that share the same operating system, software and applications. This innovation allowed for the speedy introduction of a stream of new products, enabling the organisation to stay ahead of its competitors.

- Entry or exit of major organisations. This refers to a situation in which new industry players enter the market, or in which a reduction of industry players allows for new competition. An example can be found in the South African textile and clothing industry. Trade liberalisation during 1995 and 2002 left this industry vulnerable to penetration by Chinese and Indian competitors. South African organisations were unable to compete against the surge of low-cost substitutes, resulting in steady job losses over the following 15 years to the point where government intervention was required.
- Changing social concerns of customers. The social concerns of customers may change over time. In South Africa, #FeesMustFall is a student-led protest movement that began on October 2015 at the University of the Witwatersrand in response to an increase in fees at South African universities. The protest soon spread to other South African universities as well and was repeated year after year, with various consequences for government and all universities.

Many more potential drivers of change can be added to the list above. However, the key questions are: (i) *what factors are driving industry change*; and (ii) *what impact will they have on the organisation*? The true analytical task is to evaluate the forces of industry and competitive change carefully enough to separate the major factors from the minor factors. Merely identifying the drivers of industry change is not sufficient for strategic management and planning; a more important step in dynamic industry analysis is to determine whether the prevailing change drivers, overall, are acting to make the industry environment more or less attractive.

It is important to remember that in practice, industry changes do not follow or mimic the pattern of product or service life cycles exactly. A product or service life cycle refers to the stages that it goes through from when it was first thought of until it is finally removed from the market. (These stages are introduction, growth, maturity and decline). Some industries are able to re-invent themselves, one such example is the music recording industry illustrated in the strategy practice box that follows.

## Practising strategy: How the music recording industry keeps re-inventing itself<sup>70</sup>

1877: First recording of the human voice. While experimenting with a new telegraph device, Thomas Edison noticed a speech-like noise as he accidentally ran indented tin foil under the telegraph stylus. He went on to invent the first working phonograph using a tinfoil cylinder that could both record and playback audio instantly.

1888: Invention of the gramophone. Emile Berliner invented the gramophone using a flat 7-inch disc as the recording medium that could hold up to 2 minutes of recorded sound.

1901: The '78 debuts. Named for its rotational speed of 78 rotations per minute (rpm), the '78 disc, along with the 'Victrola' (the best-selling record player of its time), signalled the end of cylinder playback technology. The '78 recording format survived well into the 1970s.

1948: 'Battle of the speeds'. Columbia Records introduced the first 12-inch, (33V<sub>3</sub> rpm) micro-groove long-playing vinyl called the LP, but RCA Records retaliated with its own format, a 7-inch disc called the 7-single that went on to become the standard for the popular jukebox.

1964: The cassette tape. Although the technology was already invented as early as 1930, the cassette tape could not penetrate the market because of the Great Depression and World War Two. The cassette tape, however, made a commercial breakthrough, when Philips introduced its own 30-minute format of the tape cartridge and allowed other manufacturers to duplicate the specifications. Piracy became an issue for the first time in the music recording industry.

1980: Death of vinyl. Philips and Sony co-operated to come up with a uniform standard for a compact disc (CD) in 1978. In 1988, the CD surpassed the LP in sales and the 80s became the most explosive boom period in recorded audio history as consumers replaced their vinyl collections.

1990: Birth of the MP3. Advances in computing technology during the 1980s introduced the combination of MP3 digital audio invention and the Internet. The MP3 compressed digital audio file size by a factor of 12, allowing digital transmission from computer to computer without compromising quality. Subsequently, in 1999, Napster introduced its online portal, marking the removal of geographical restriction on the publication and distribution of recorded music. Since there is no longer a tangible product separating production, publication and distribution, intellectual property ownership became the issue and still remains an issue in the industry.

2003: iTunes. Following tough negotiations with music record executives, Steve Jobs of Apple Computer subsequently launched iTunes that allows customers selective purchasing of the tracks they love. iTunes went on to become the most successful online music store to date. In its first year, Apple sold 70 million songs at US\$0.99 per song, creating nearly US\$70 million in legal Internet music sales, thus leading the way for online music and media e-commerce. New generation music recording includes music streaming platforms for cellular phones such as Apple Music and

The time span involved in industry change varies significantly from industry to industry. Furthermore, some industries, such as the motor vehicle industry, stay in the maturity phase if their products become basic necessities of life. Other industries skip the mature stage and go straight into decline. The real pay-off for strategising comes when strategists draw some conclusions about what strategy adjustments will be needed to deal with the impacts of the changes in industry conditions. Therefore, a dynamic industry perspective is not to be taken lightly. It has practical value and is fundamental to the task of identifying potential opportunities and threats, and thinking strategically about where the industry is headed and how to prepare for the changes ahead. The last section in this chapter focuses on strategic responses to changes in the external environment of organisations.

LO 5: Discuss strategic responses to changes in the external environment.

## 5.5 Strategic responses to changes in the external environment

It is essential for strategists and organisations operating in an unpredictable world to be able to respond quickly to changing circumstances and to alter their strategies accordingly. The dramatic rise of Google with its new business model is a good example.<sup>71</sup> Google's business model is based on revenues earned from advertising links associated with search results, the so-called pay-per-click (PPC) business model. PPC is also known as paid search, which refers to an Internet search result that provides links to content. If these links are clicked on, a cost is paid to the advertiser. In response to search requests, search engines display PPC ads in the space allocated to advertising on the page displaying the search results. When introduced, the impact was disruptive to the business models of other companies that made money from online advertising. Companies like Yahoo.com and Microsoft's MSN network with strong online advertising had to rapidly change their strategies to adapt to the threat Google posed. Few people had seen this development coming and therefore could not plan for it. Nevertheless, companies had to respond to it, and rapidly.

In the section that follows, the limitations of the process approach to strategic management will be explained, followed by a discussion of the concepts of strategic agility and ambidexterity as mechanisms for responding to changes from the external environment.

### 5.5.1 Limitations of the process perspective of strategic management

In Chapter 3, the process perspective of strategic management was explained as a traditional view that comprises distinct stages or phases (ie strategic planning, implementation and control), which incorporates a linear view. This perspective rests on an implicit assumption that an organisation's strategies need only be reviewed during the strategic planning exercise.<sup>72</sup> However, according to critics of formal planning systems, a flexible approach to strategy making is not possible within such a framework. The argument is that we live in a world in which small change events can have a large and unpredictable impact on outcomes. In such circumstances, even the most carefully thought out strategic plans are prone to being rendered useless by rapid unforeseen change. Therefore, today's successful organisations cannot afford to stand still and rest on previous accomplishments. If they do, they can easily become vulnerable to a competitor's new product, shifts in customer preferences or other changes in the environment. Instead, they should focus on building sustainable competitive advantage for the future by seeking out new ways to remain flexible, innovative, efficient and responsive. Strategic agility and strategic ambidexterity became more important than ever. These two concepts are explained below.

### 5.5.2 Strategic agility

Strategic agility can be defined as the ability of organisations to stay competitive in their industry and markets, by adjusting and adapting to new ideas and using these ideas to create new products and services, as well as new business models.<sup>73</sup> Organisations, like organisms, must be 'adept at adapting' or they will not survive.<sup>74</sup> While the formal processes and structures of organisations are designed to control people, resources, decisions and actions, successful agile organisations do not follow these rigid models. They are effective at managing change, continuously adapting their organisational bureaucracies, systems, products and cultures to survive the shocks and to prosper from the forces that often decimate the competition. *Agility* (quickness, responsiveness, the ability to adapt to changing demands) is therefore more vital than ever to an organisation's survival. Every organisation exists in an environment and interacts with it to some degree. Strategists and organisations have a number of options they can follow in order to respond to the external environment. These include:<sup>75</sup>

- Adapting to the environment. This refers to organisational change in response to a significant environmental factor or variable through a process of corresponding adaptation. There is usually a time lag involved, but if the organisation fails to adapt to the change in the environment, it will gradually become irrelevant or even extinct. The South African Post Office is an example of an organisation that failed to keep pace with the development and proliferation of the Internet and smartphone usage. As such, it could not offer its digital customers a digital post or email solution and therefore failed to stay relevant to its customers. An example of an organisation

that managed to adapt to the South African economic environment is First National Bank (FNB). It was estimated in 2017 that there were over 820,000 *stokvels* in the country with a combined membership of 11.4 million people, handling over R44 billion per annum.<sup>76</sup> FNB was the first to introduce a stokvel account aimed specifically at savings as a group.<sup>77</sup> Other banks such as Nedbank also entered the stokvel market after FNB.

- Influencing the environment. This refers to an organisation (as one of many competitive players in its respective market) that proactively changes the environment through the leveraging of technology or leveraging of its business model, creating new value for the market, thereby wrong-footing competitors and often making the opposition redundant. Organisations such as Uber (referred to in the opening case study to this chapter) and Napster (explained in the reinvention of the recording music industry practising strategy box) are examples of organisations that actively influence the dynamics and nature of competition in their market environments. While it is a very rare occurrence for organisations to influence even the remote environment, it is possible. Intel Corporation, for example, through research and development, invented the Intel 4004 micro-processor or computer chip in 1971. This revolutionary micro-processor (the size of a little fingernail and slimmer than human hair) delivered the same computing power as the first electronic computer built in 1946 (which filled an entire room).<sup>78</sup> Computer engineers could purchase this ‘building block’ and then customise it with software to perform different functions in a wide variety of electronic devices. This first general-purpose programmable processor is an example of a technological force stemming from the remote environment that ushered in the era of integrated electronics in all technology-based industries.
- Selecting a new environment. This refers to an organisation that decides to divest or exit a market because of industry unattractiveness due to high levels of competition and low-profit potential and/or that selects a different or new market that is more attractive with greater profit potential. Examples of South African companies for whom this response has worked are Woolworths and Mr Price. Woolworths was initially known for selling homeware and clothing, but has been very successful as a food and grocery outlet. Mr Price’s initial offering was fashion apparel. However, the organisation has since successfully moved into sporting apparel and homewares such as textiles and furniture.

### 5.5.3 Strategic ambidexterity

Early in the development of the strategic management field, the external environment was considered the primary determinant of which strategies would likely be successful.<sup>79</sup> This idea of *environmental determinism* suggested that good management is associated with determining which strategy will best fit environmental forces at a particular point in time, and then executing it. From a *deterministic* perspective, the

most successful organisation will be the one that best adapts to existing forces in the external environment (*adapters*). However, environmental determinism is no longer accepted as an absolute or the primary guide for crafting strategies. The notion of adaptation has been supplemented by the principle of enactment, which assumes that organisations do not have to submit to existing forces in the environment and can, to a certain extent, actively shape their environments through strategic actions (*shapers*). In reality, the most successful organisations will not opt for adaptation *or* enactment. They will engage in processes of adaptation and enactment simultaneously.

Strategic ambidexterity can be defined as the ability to exploit existing competencies while simultaneously exploring new opportunities in the organisational environment. Stated differently, it involves a balance between explorations and exploitation - and so achieves the ‘best of both worlds’. Strategic ambidexterity will position the organisation, giving it the ability to influence those parts of the environment over which it can exercise some control, while adapting to environmental circumstances that are beyond control or too costly to influence.

Animals have used this mechanism for millions of years to forage for food effectively, and they must consider the same essential trade-off that companies do, and this is whether or not to *exploit* the current environment or to go beyond the current environment and *explore* the unknown.

Giraffes, for example, employ clear and distinct approaches for balancing this trade-off. When food is abundant, as it usually is in the wet season, they don’t need a targeted strategy - there’s plenty of low-hanging fruit. In the dry season, giraffes need, on the one hand, an explicit strategy for how frequently and how far away they should search for food sources, since staying too long at one grove will reduce yield and leave them too hungry to find the next food source. On the other hand, spending too much time wandering around looking for food will also make them vulnerable to starvation. Businesses, too, need to balance exploiting and renewing their advantage, especially when their current source of advantage is threatened by changes, such as technological, social, economic, cultural, political, environmental, competitive or natural changes. ‘Low-hanging fruit’ for businesses is scarcer than ever, and they need deliberate approaches to achieving ambidexterity.<sup>80</sup>

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## The big picture

When considering the context of strategy, a profound understanding of the business environment is a prerequisite for successfully managing and practising strategy. This is particularly important when viewing strategic decision-making at domestic, regional and African contexts. In order for organisations to survive, strategists need to know how to assess the market and remote environments in relation to key stakeholders and, more specifically, to identify and evaluate the extent to which key factors provide an opportunity or a threat for the organisation concerned.

However, the main objective of external environmental analysis is not only to determine opportunities and threats, but also to provide strategists with an understanding of the strategic context and a solid foundation for decision-making and planning. A major shortcoming is often the inability to move beyond mere *accurate identification* and *description* of forces driving change. What is required, is an appropriate interpretation and assessment of what important strategic and competitive implications these forces hold for organisations charting a future direction.

## **Summary of learning outcomes**

### **LO 1: Explain the external environment in the context of strategic management.**

Organisations are open systems that are influenced by the environment in which they operate. The environment consists of the micro- (or internal) environment, and the macro- (or external) environment, where the latter consists of the market and remote environments. Variables in the micro-environment are organisational functions, policies, strategies, goals and resources. Variables in the market environment are customers, competitors, the labour market and labour unions, intermediaries and suppliers. Sub-environments of the remote environment are the political, economic, socio-cultural, technological, legal, environment (natural) and global environments. Two levels of analysis of the macro-environment, that will influence the organisation's strategic direction and strategic actions, can be identified, as (i) an analysis of the remote environment; and (ii) an analysis of the market environment.

### **LO 2: Explain the importance of strategic context in strategic planning and decision-making.**

For strategic planning and decision-making to be effective, it is important to identify opportunities and threats in the external environment, as well as strengths and weaknesses in the internal environment. Strategists should take advantage of inherent or internal strengths and the identified opportunities arising from the external environment; overcome inherent weaknesses, or neutralise identified threats found in the external environment; to ensure the strategic 'fit' or consistency between the opportunities and threats in the internal environment.

### **LO 3: Analyse the remote environment to identify opportunities and threats facing an organisation.**

The analysis of the remote environment firstly involves the identification of remote environmental forces. The most important elements of this environment are the political, economic, socio-cultural, technological, legal, environmental and global factors (PESTL/G). For South African business organisations, it is important to also analyse the remote environment in an African and regional context. Lastly, strategists also need to evaluate an organisation's strategic response to factors in the remote environment. The external Factor Evaluation Matrix is one of the tools that can be used for this purpose.

**LO 4: Analyse the market environment to identify threats and opportunities facing an organisation.**

The terms ‘sector’, ‘market’ and ‘industry’ are differentiated. A sector is a group of closely related industries. A market is a group of customers with similar needs, while an industry is a group of organisations offering products and services that are close substitutes for one another. Various forces are responsible for the attractiveness of an industry (in terms of competition in an industry and the profitability of the industry), namely, customers, suppliers, existing competitors, potential competitors, substitute providers, industry regulation and complementors.

**LO 5: Discuss strategic responses to changes in the external environment.**

Organisations should be able to respond quickly to a constantly and rapidly changing environment and alter their strategies accordingly. Strategic agility and strategic ambidexterity are two important abilities in this regard, where strategic agility is defined as the ability of organisations to stay competitive in their industry and markets, by adjusting and adapting to new ideas and using these ideas to create new products and services, as well as new business models. Strategic ambidexterity can be defined as the ability to exploit existing competencies while simultaneously exploring new opportunities in the organisational environment.

### **Discussion questions**

1. Explain how an understanding of the external environment of an organisation can provide strategists with a foundation for crafting strategies.
2. Explain the composition of the management environment and discuss how this framework aids in your understanding of the context of strategy.
3. Differentiate between the terms ‘sector’, ‘industry’ and ‘market’.
4. Explain the various forces that shape the attractiveness of an industry, both in terms of competition and profitability.
5. Differentiate between the terms ‘strategic agility’ and ‘strategic ambidexterity’.

### **Learning activities**

1. Visit the web page <https://www.howwemadeitinafrica.com/business-africa-12-profit-making-ideas/60141/>. Select any one idea that interests you, and conduct an environmental analysis to determine if the idea could work.
2. Visit the SABMiller website and download the annual report for 2017 at <http://www.sabmiller.com/investors/reports>. Read the chairman’s report in the annual report and identify three opportunities and three threats from the perspective of SABMiller.

3. Visit the SABMiller website <https://sabcms.blob.core.windows.net/wp-content/2017/05/The-South-African-Breweries-BEE-Certificate-2017-2018-Final.pdf>. Comment on the implications of this certificate for the strategic planning and implementation of the company.

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# **Strategic resources and capabilities**

## **Cecile Nieuwenhuizen**

### **LEARNING OUTCOMES**

After studying this chapter, you should be able to:

- LO 1: Explain the importance of resources, capabilities and core competencies in strategic management.
- LO 2: Explain the appraisal of the value of resources and capabilities.
- LO 3: Explain the resource-based view of an organisation's internal analysis.
- LO 4: Explain the identification of capabilities and core competencies to create value according to the functional area and value chain analyses.
- LO 5: Discuss the contribution of resources, capabilities and core competencies towards competitive advantage and sustainable competitive advantage of an organisation.
- LO 6: Explain the importance of capturing the value generated by resources, capabilities and core competencies.

### **KEY WORDS**

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>■ <b>Appropriability</b></li><li>■ <b>Capabilities</b></li><li>■ <b>Competitive advantage</b></li><li>■ <b>Core competencies(also</b></li></ul> | <ul style="list-style-type: none"><li>■ <b>Explicit knowledge</b></li><li>■ <b>Tacit knowledge</b></li><li>■ <b>Non-substitutable</b></li><li>■ <b>Rare</b></li></ul> |
|---|---|

<p><b>known as distinctive capabilities)</b> <b>(or</b> <b>Dynamic capabilities</b> <b>Exploitable</b> <b>Inimitable</b> <b>Knowledge; explicit</b> <b>knowledge; tacit</b> <b>knowledae</b></p>	<p><b>Resources</b> <b>Resource-based view</b> <b>resourcc-based theory)</b> <b>– Sustainable competitive advantage</b> <b>■ Value chain</b></p>
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## CHAPTER ORIENTATION

Strategy is the link between the organisation and its environment. This means that there should be consistency between the external environment of the organisation (including the market and remote environments) with its opportunities and threats, and its internal environment (including its mission, goals, values, resources, capabilities, structure and systems) with its strengths and weaknesses.<sup>1</sup>

Matching resources and capabilities within the organisation, with opportunities in the external environment is essential for successful strategy. Resources and capabilities have been identified as the primary source of competitive advantage and also as a basis for the formulation of a strategy for an organisation. Resources and capabilities enable organisations to differentiate themselves from competitors and develop strategies from which they can benefit.

In this chapter, the focus is on the role of the organisation's resources and capabilities in the development and implementation of strategy to achieve the goals of the organisation. First, we differentiate between resources, capabilities and core competencies and focus on their importance in strategic management. Second, we focus on appraising the value of resources and capabilities addressed, and then on the resource-based view relating to internal environmental analysis. Subsequently, we identify the capabilities and core competencies for creating value in line with the functional area and value chain analyses. Then, the contribution of resources, capabilities and core competencies towards the competitive advantage and sustainable competitive advantage of organisations are addressed. Lastly, the importance of capturing the value generated by resources, capabilities and core competencies is addressed.

Figure 6.1 demonstrates the focus of this chapter within the broader context of strategic management. This figure also demonstrates the uniqueness of strategic resources and capabilities, in the sense that they underpin both strategy formation and organisational architecture. They form part of the internal context of organisations, because organisations need to understand their strategic resources and capabilities and their strengths and weaknesses in this regard.

Current development and/or the development of new resources and capabilities can also be the content of strategic decisions. For example, in the Discovery Bank case study, Discovery used its strategic resources (such as the Vitality customer base) and capabilities for innovation and managing financial services organisations as a basis for entering the retail banking industry. They are also a vital part of organisational architecture, and have to be aligned, not only to the strategy, but also to other components of the organisational architecture, such as leadership. They also need to be

In the opening case study, Adrian Gore explains how Discovery's ability to create unique new value propositions for customers will be brought to bear on the banking sector.

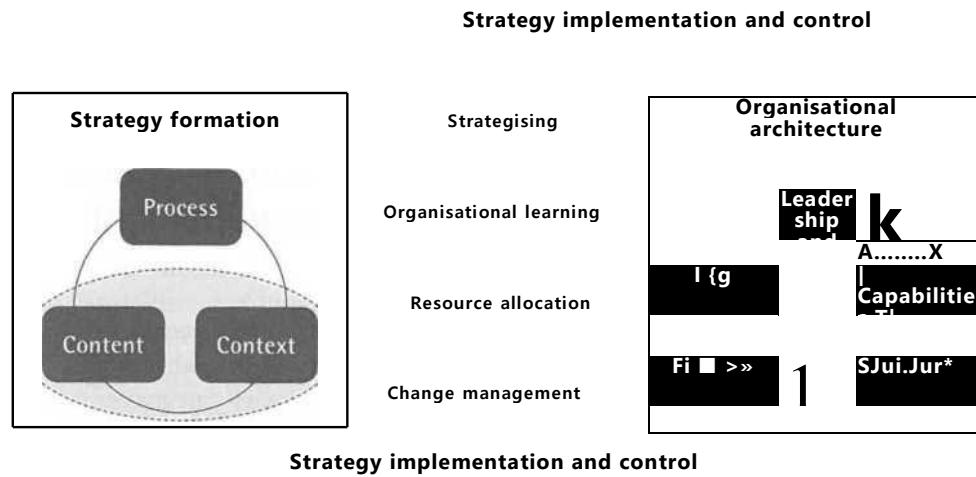


Figure 6.1 *Strategic resources and capabilities*

## Case study

### Discovery Bank<sup>2</sup>

Discovery, one of South Africa's leading insurance companies, is entering the retail banking market with Discovery Bank in 2018. Discovery built its success on its leading medical insurance business, Discovery Health, and its highly successful Discovery Vitality loyalty programme.

Discovery has been working on its bank for two years, and according to CEO Adrian Gore, it has made good progress. They now have a strong team of people on the project and the company is already interacting in the payment space. Discovery Bank is being built from the ground up, and around R1.5 billion has already been invested in the project to ensure that the best platform to serve customers is built, without taking any shortcuts. The value proposition itself will be good for customers. I mean, that is what we do,' said Gore.

Discovery Bank will essentially target the same market as its health and insurance businesses, namely, the 'mass affluent market' in South Africa. As they had shown with the Vitality programme, using incentives to change behaviour where people are often irrational works well, and Discovery feels that they can add value with their model of sharing value and creating behavioural change. 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. What they do not have is extensive experience of operating a bank successfully, and only time will tell if they are able to master this requirement to compete successfully in the very competitive South African banking industry.

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

## **6.1 The importance of resources, capabilities and core competencies in strategic management**

### **6.1.1 Resources**

Resources are the productive assets owned by organisations<sup>3</sup> used to transform inputs to marketable outputs (you may also refer to Chapter 1, Section 1.2.1, where resources were first introduced). Resources can be grouped into five primary categories:

1. Financial resources. Financial resources refer to any economic resource that an organisation has, measured in terms of the money utilised in the organisation to buy what is needed to offer products and/or services to the market. An organisation can generate financial resources internally from own funds or externally from third parties (or non-owners) such as banks, financial institutions and creditors.
2. Physical resources. Physical resources refer to an input in the production process, for example, operational and manufacturing equipment, raw materials and components.
3. Human resources. Human resources refer to the skills, knowledge and experience possessed by an individual or group of individuals, which is viewed in terms of their value to the organisation. Human resources also include aspects such as employee insight, intellect, relationships, training and judgement.
4. Organisational resources. Organisational resources are often referred to as the prime intangible asset of an organisation. It relates to resources such as patents, brands and human capital, that are used to transform inputs to marketable outputs and be productive. Organisational resources also include the reporting structure and management, including planning, co-ordinating, controlling and networks in organisations.
5. Technological resources. The technological resources of an organisation can be the sum of two components, namely, the tangible component (which includes the active part of the organisation's tangible fixed assets such as computers and information technology systems) and the intangible component (which includes intangible assets related to intellectual properties, accumulated skills and experience, software licences and patents).

Resources can be used as a basis for the formulation and implementation of strategies, but not all are strategically relevant. Some have little or even a negative impact on the performance of an organisation. Resources that can contribute positively to an organisation's strategy and lead to sustained competitive advantage need to be identified.

Although resources of organisations in the same industry are typically similar, organisations themselves are never identical. They will therefore possess some resources that are differentiating, valuable, rare and inimitable (cannot be imitated) and will accordingly pursue different strategies and achieve different levels of success. This heterogeneity in resources can be acquired and sustained over a longer period within an industry as it may not be perfectly mobile across organisations.<sup>4</sup>

To determine the resources of an organisation, a comprehensive inventory (according to the various categories thereof as explained previously) should be developed. The inventory should differentiate between tangible and intangible resources and capabilities, and human resources (or tacit knowledge). The practising strategy box below illustrates an example of the value of resources and capabilities of Discovery.

## Practising strategy: Discovery Medical Aid Insurance

Discovery Medical Aid Insurance started as a corporate entrepreneurial venture within First National Bank (FNB). This means that it was started as a business within a business. Through FNB, resources, including financial, physical, human, organisational and technological resources, were available to commercialise a new business opportunity identified by the bank. Examples of available resources to establish Discovery Medical Aid Insurance were:

- *Financial resources*: start-up capital was provided, salaries were paid to existing and new employees and funds were made available to market the new venture;
- *Physical resources*: office space, equipment and infrastructure for those involved in setting up the new venture were made available;
- *Human resources*: existing employees in FNB who had the knowledge, experience, training and relationships relevant to the new business and who had the necessary experience to appoint the required new employees, were made available; organisational resources such as a related knowledge and experience in the financial services market and a tested management structure that was also relevant to the new business;
- *Technological resources*: existing technology, such as computers and an established information technology system that could be used and adapted according to the needs of Discovery Medical Aid, were made available.

The resources at the disposal of an organisation can also be categorised as tangible and intangible resources.

### *Tangible resources*

Tangible resources are physical, observable and quantifiable assets of the organisation and include physical things such as equipment, money, structures, the sophistication and location of a plant, formal reporting structures, technology used and patents. Tangible resources can fall into any of the five categories of resources identified above: financial (ie loan capital raised), physical (ie equipment and machinery), human (ie employees), organisational (ie brands) and technological (ie computers) resources. However, some of these resources can also be intangible, for example, intellectual capital as a human resource and networks as an organisational resource.

### *Intangible resources*

Intangible resources are a subset of an organisation's strategic resources and can be categorised into three types, namely, human resources, innovation resources and reputational resources.<sup>5</sup>

Kristandl and Bontis define intangible resources as follows:<sup>6</sup>

*Intangibles are strategic firm resources that enable an organisation to create sustainable value, but are not available to a large number of firms (rarity). They lead to potential future benefits which cannot be taken by others (appropriability), and are not imitable by competitors, or substitutable using other resources. They are not tradeable or transferable on factor markets (immobility) due to corporate control. Because of their intangible nature, they are non-physical, non-financial, are not included in financial statements, and have a finite life. In order to become an intangible asset included in financial statements, these resources need to be clearly linked to a company's products and services, identifiable from other resources, and become traceable results of past transactions.*

Intangible resources are not so easy to identify, but are usually much more valuable and superior to tangible resources. Intangible resources include the reputation of an organisation and that of its product, employee know-how, perception of quality, ability to manage change, ability to innovate, team-working ability and participative management style.

Competitors find it difficult to understand, acquire, substitute and imitate intangible resources. Therefore, organisations often rely on intangible resources for their core competencies and capabilities. Consequently, more intangible and unobservable resources will lead to more sustainable competitive advantage.<sup>7</sup>

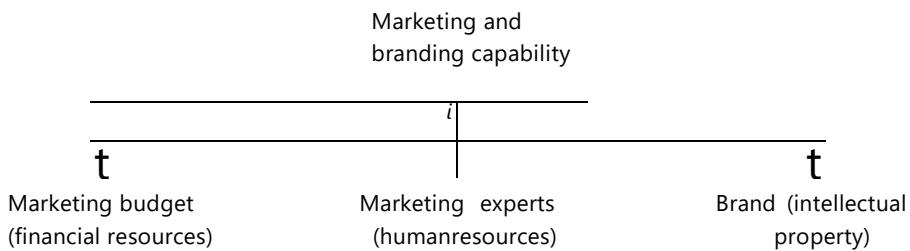
The three types of intangible resources, (human resources, innovation and reputation) are discussed in more detail below.

1. Human resources. Human resources refer to people that own, manage or work in an organisation, that have knowledge, trust and managerial capabilities. Having these capabilities can be valuable and even primary contributors to competitive advantage as these can contribute to the uniqueness of an organisation.
2. Innovation resources. Innovation resources include ideas, scientific capabilities and the capacity to innovate. Innovation resources refer to the capacity of an organisation to innovate through the acceptance and implementation of new ideas, processes, products or services. It involves the ability of an organisation to understand the needs of customers and develop innovative solutions that will ensure customer satisfaction. The practising strategic box, focusing on Discovery Medical Aid Insurance, highlighted the fact that Discovery started as a corporate entrepreneurial venture within FNB. Corporate entrepreneurs (also referred to as ‘intrapreneurs’) have the vision and ability to develop new ideas and opportunities (in this case, new approach to medical aid insurance) within an existing business (in this case, FNB).
3. Reputational resources. Reputational resources include the brand name, reputation with customers, perceptions of product quality and reliability. Corporate reputation can be defined as the collective assessments of an organisation’s past actions and the ability of the organisation to deliver improving business results to multiple stakeholders over time. Financial results, management efficiency and effectiveness, the quality of products and services and market competitiveness are examples of factors that can be used as criteria for ranking. A good corporate reputation is vital for an organisation. Organisational reputation and image, as well as brand reputation and image, are reputational resources. These resources ensure the credibility, trust and confidence of current and future employees, shareholders, customers, service providers and the public in general, within an organisation.

### 6.1.2 Capabilities

Capabilities are the capacity of an organisation to deploy resources for a unique end result. Capabilities are organisation-specific clusters of activities developed through complex interactions between tangible and intangible resources over time and reflect what an organisation excels at compared to other organisations. They can also be information-based.<sup>8</sup>

Key characteristics of capabilities are that they are valuable across various products and markets, embedded in routines and are tacit. Capabilities are what the organisation can do exceptionally well.<sup>9</sup> While resources are static and will generally deplete over time, capabilities increase with use and become more valuable. Figure 6.2 illustrates an example of how resources combine to become marketing and branding capabilities within an organisation.



**Figure 6.2** The link between resources and capabilities

Capabilities can be within business functions, can be linked to technologies or product design, can involve the ability of the organisation to manage linkages between elements of the value chain or can refer to the capacity of the organisation to deploy resources through processes.<sup>10</sup>

*Capabilities* are ‘high-level routine[s] that, together with its implementing input flows, confers upon an organization’s management a set of decision options for producing significant outputs of a particular type’.<sup>11</sup> A capability is reflected in high-level activities (routines) that produce important outputs of significant value that contribute to the organisation’s competitive advantage.

The practising strategy box below provides an example of an organisation that develops and continuously improves its capability to develop strong brands.

## Practising strategy: Discovery brands

Discovery is an example of an organisation that develops and continuously improves its capability to develop strong brands. This is possible through the combination of financial resources (Discovery Medical Aid was initially funded by First National Bank as a corporate entrepreneurial venture), human resources (experts in the financial services and insurance sector and experts in marketing) and organisational resources (knowledge of brand development and management expertise) as the bases for the development of excellent business development, marketing and branding capabilities. The first venture was with Discovery Medical Aid, that started in the 1990s and is now the best-known brand, as well as the largest and most successful medical aid fund in South Africa. This was followed by the Discovery Vitality reward programme that was developed for Discovery Medical Aid clients. Discovery Vitality rewards Discovery Medical Aid members by encouraging them to exercise regularly, eat well and do relevant and regular health checks. Subsequently, Discovery Insure was added to the Discovery portfolio and includes Discovery Life Insurance and Discovery Car and Home Insurance. Discovery Car Insurance is combined with Discovery Vitality

Drive that is a unique driver behaviour programme that rewards members for driving well. Another service developed by Discovery is Discovery Credit Card, a unique credit card that gives cardholders access to Discovery Miles rewards. Members earn up to 10 times the number of kilometres when they shop with Discovery's wide range of in-store and online partners.<sup>12</sup>

The business development, branding and marketing capabilities improve and strengthen with each new service and brand added. It is difficult for competitors to imitate (inimitable) Discovery as their capabilities improve continuously and form the basis of its competitive advantage in the financial services and related industries.

Carefully developed capabilities form the basis of competitive advantage and are therefore the primary differentiators of organisations from their competitors. Building difficult-to-imitate capabilities, as seen from the Discovery examples, is of great importance to an organisation as this ensures differentiation.

### 6.1.3 Core competencies

According to Grant and Jordan<sup>13</sup> and other authors,<sup>14</sup> capabilities or competencies are the same thing. 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. In Figure 6.3, the link between resources (tangible and intangible), capabilities, core competencies, strategy, competitive advantage, value creation and organisational performance, is illustrated.

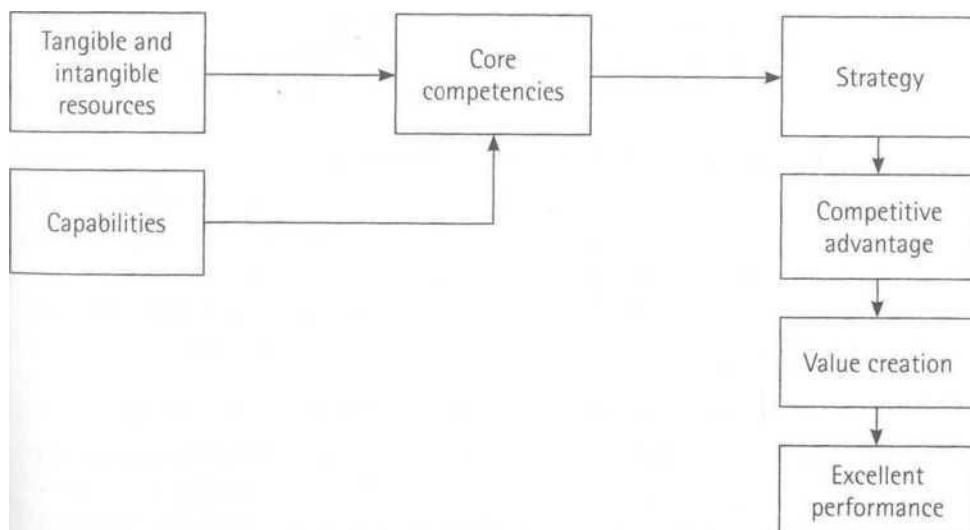


Figure 6.3 *The link between resources, capabilities, core competencies, strategy and competitive advantage and organisational performance*<sup>15</sup>

Core competencies make a disproportionate contribution to customer value and the efficiency of its delivery, and serve as a basis for market entry.<sup>16</sup> Core competencies that are internal strengths of an organisation enable it to capitalise on opportunities that are identified in the environment.

Core competencies involve the combination of various resources and capabilities. The development of core competencies usually takes place over a period of time and is a process of accumulation and learning how to use a unique combination of resources and capabilities. It also often involves communication and an intensive commitment to working across organisational boundaries. It can entail the co-ordination of diverse production skills and the integration of multiple streams of technology.

Their complex co-ordination, integration and harmonisation across production skills, technologies and capabilities make core competencies difficult to imitate. They enable access to a variety of markets and significantly contribute to perceived customer benefits from products and services.<sup>17</sup> Most successful organisations will have only one or two core competencies, while many average organisations will have no distinguishing core competencies at all. From the Discovery example (see the practising strategy box), we can see that their capabilities and core competencies are their strategic priorities, meaning that the organisation requires a lot of resources to develop and expand those important strategic resources.

## Practising strategy: Discovery's core competencies

Discovery's capabilities to develop new businesses, branding and marketing have become so specialised and distinctive that it distinguishes Discovery from others in the insurance and financial services industries. Therefore, new business development, branding and marketing are the basis of its competitive advantage and strategy.

### Creating a balanced and attractive spread of businesses

The range of Discovery businesses is differentiated yet related, ranging from medical aid, insurance, reward programmes and banking services. All are based on their core competencies of new business development in insurance and financial services and rewards programmes, branding and marketing. Their next project, Discovery Bank is proof that they are continuously looking for new business opportunities.

### Developing strong, relevant brand portfolios that win in the local market

Discovery developed a variety of brand portfolios that meet different insurance and finance needs of the same target market, the mass affluence market. These services are complemented by rewards programmes with equally strong brands, ie Vitality linked to Discovery Medical Aid and Vitality Drive linked to Discover Car Insurance.

Through the varied services, Discovery attracts clients that then often also migrate to other services. For instance, a Discovery Medical Aid and Vitality member will also acquire the Discovery Credit Card due to the integrated benefits (ie additional rewards and Discovery miles) between the services.

Constantly raising the profitability of their businesses

Discovery's aim is to keep on developing new businesses and to improve their operational performance through top-line growth and continuous improvement in services and products.

Our focus now turns to the appraisal of the value of organisational resources and capabilities.

LO 2: Explain the appraisal of the value of resources and capabilities.

## **6.2 Appraising the value of resources and capabilities**

Capabilities and resources have the potential to become core competencies and these core competencies can result in competitive advantage, but only if they meet certain conditions. A resource-based framework for the analysis of an organisation will determine the resources and capabilities that will result in core competencies.

For resources and capabilities to become the core competencies, they should be valuable (V), rare (R), inimitable and non-substitutable (I), and exploitable by the organisation (O), creating (VRIO). Each of these measures can be used to test the strategic value of resources and capabilities and are discussed in more detail below.

### **6.2.1 Value (V)**

Valuable (V) resources imply that the organisation has the ability 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 (refer to Chapter 1, Section 1.2.3, where these concepts were explained). To be valuable, the capability must increase efficiency by using fewer resources to generate maximum outputs, or by using the same resources to generate more outputs. For example, an information system could reduce the number of customer service agents required or increase the number of calls that the same number of agents can answer. To be valuable, the capability must increase the effectiveness of the organisation, meaning that the organisation should increasingly be 'doing the right things' - formulating and pursuing appropriate organisational goals. Value is dependent on the type of strategy implemented, for example a low-cost

strategy of a specialist South African airline, such as Kulula.com, that offers flights at a lower cost than conventional airlines. Thus, Kulula.com attracts more customers, which is valuable as this contributes to higher profitability for the company. Another example is value created by a differentiating strategy. For example, the African Pride hotels, the luxury hotels in the Protea Group of hotels, generate additional income for the group from customers who require specialist services and who are prepared to pay for such services. African Pride hotels transform a resource into a service (hotel accommodation) with a higher value to its customers. An organisation decides on a strategy for a specific business unit that will add value to the organisation. In business, this value can be a measure such as profitability

### 6.2.2 Rarity (R)

A valuable resource and/or capability that an organisation owns that other organisations do not have, and that is not generally available in the open market, is considered rare (R). The situation that arises when a few organisations have the same resource and/or capability, creates competitive parity. This is because organisations can use identical resources to implement the same strategies and no organisation.

### 6.2.3 Inimitability and non-substitutability (I)

Inimitable capabilities (I) and core competencies are valuable, unique and complex resources, and include intangible resources (such as organisational reputation, networks employed, client trust and the intellectual property that an organisation might have) and capabilities (such as knowledge, the culture of the organisation, skills and experience)<sup>18</sup> that make it difficult for competitors to copy what an organisation is doing, resulting in sustained competitive advantage. If it is easy to copy something valuable that an organisation started doing first, its competitors will soon follow, and in the process, erode any competitive advantage.

Imitation by competitors is prevented if:

- they do not understand the reason for the organisation's success.
- they do not have the same unique historical conditions.
- the cause of effectiveness is uncertain due to social complexity (for example, trust between the organisation and its stakeholders, teamwork and informal relationships such as networks).

Non-substitutability is also part of the inimitability of resources and capabilities and means that there are no equivalent resources, duplicates, substitutes or imitations that can be exploited to implement the same strategies. The strategic value of a capability or core competency of an organisation increases when it is difficult for competitors to substitute it and also when it is difficult for them to identify, discern or observe it. Specific knowledge of the organisation and trust relationships are not easily observable and therefore difficult to copy.<sup>19</sup>

### 6.2.4 Exploitable by the organisation (O)

The organisation's structure and systems (O) should be suitable for a specific competitive advantage. If an organisation cannot exploit a resource or capability, it will have little value. Managerial awareness, of both the potential competitive advantage and the action required to realise it, is essential.<sup>20</sup> The practising strategy box below provides an example of the importance of an organisation's structure and systems that should be suitable for a specific competitive advantage.

### Practising strategy: The Joule electric car runs out of current<sup>21</sup>

In 2008, the Joule, an electric car developed in South Africa, was launched with great fanfare in Paris. The car, a first for South Africa, was designed by South African-born automotive designer Keith Helfet, chief stylist at Jaguar, and it certainly seemed set to shake up the motoring world.

However, the dream was not to be. In 2012, Optimal Energy, the company behind the Joule, announced that it was shutting down, with the loss of 60 jobs and the R300 million, largely funded by the government through the Industrial Development Corporation (IDC) that was invested to develop the vehicle.

The reason for winding down Optimal Energy was that it could not attract the R7 billion required to industrialise the Joule, and the IDC and other investors decided against providing further funding for the project. Efforts to find manufacturing partners or facilities had also been fruitless, with Optimal Energy exploring the options of taking over the then-defunct Hummer production line at the General Motors plant in Port Elizabeth or joining forces with other manufacturers. Another option was to develop an electric bus using the intellectual property developed by Optimal Energy for the Joule.

While one could argue that the Joule was a good design and idea, the company simply could not meet the requirement of organisation, meaning that it could not attract the required funding and manufacturing expertise to commercialise its idea. However, the intellectual property is still a valuable resource that could be used to generate revenues for its owners.

In the next section, our focus shifts to the analysis of the internal strengths and weaknesses of the organisation in terms of its resources. We focus on one specific model that can be used for this purpose, namely, the resource-based view.

LO 3: Explain the resource-based view of an organisation's internal analysis.

### 6.3 The resource-based view of internal analysis

Strategy formulation originally included a market-focused mission statement addressing what the organisation was about, its business, the market and needs it served, and its customers. In a volatile and ever-changing environment, this external focus became risky and in the 1990s, attention shifted towards the internal strengths, resources and capabilities of organisations.

The resource-based view (RBV) is a model for analysing the internal strengths and weaknesses of the organisation with respect to its resources and linking them to opportunities in the external environment. It determines where the organisation can build competitive advantage, superior performance and customer value.

A model of the RBV is presented in Figure 6.4. It indicates an assessment of the organisation that starts with a general internal evaluation to determine its strengths, specifically as related to the industry in which it operates. Important considerations for this assessment are the following:

- Management's strategic role and the strategic direction. This should reflect what is conveyed in the vision, mission, purpose and values to determine whether the organisation is clear about what it wants to achieve and how it wants to achieve it.
- Core competencies. Core competencies, as identified, developed and protected by management that contribute to the competitive advantage of the organisation, should be considered.
- Resources. The value, barriers to duplication, inimitability and rarity of the tangible and intangible resources of the organisation should be considered.
- Capabilities. The value, barriers to duplication, inimitability and rarity of the capabilities of the organisation as determined by the culture of the organisation, the knowledge, skills and tacitness of employees and the ownership structure of the organisation should be considered.
- Appropriability. This refers to the ability of the organisation to retain the value it creates for its own benefit. The organisation also needs to determine who benefits from this added value. It needs to ensure the retention of key employees, the inimitability of intangible assets and an ownership structure that reinforces inimitability contribute to the core competencies of the organisation.
- Managers. This relates to determining whether the experience, strengths and management style are aligned with the strategy of the organisation.
- Business owners and investors. This entails determining whether they are aware of and in possession of the resources, capabilities and core competencies required for success in their organisation.

- Operational issues. Aspects such as sales, assets and location should be considered in order to determine whether the management thereof are appropriate for the specific organisation.
- Employees. The type and level of employees should be considered to determine whether the employees have the relevant skills, knowledge and experience required for the organisation.
- Organisational culture. The culture of the organisation should be considered to determine whether the shared values and beliefs of the people in the organisation are conducive to the improved performance of all stakeholders.

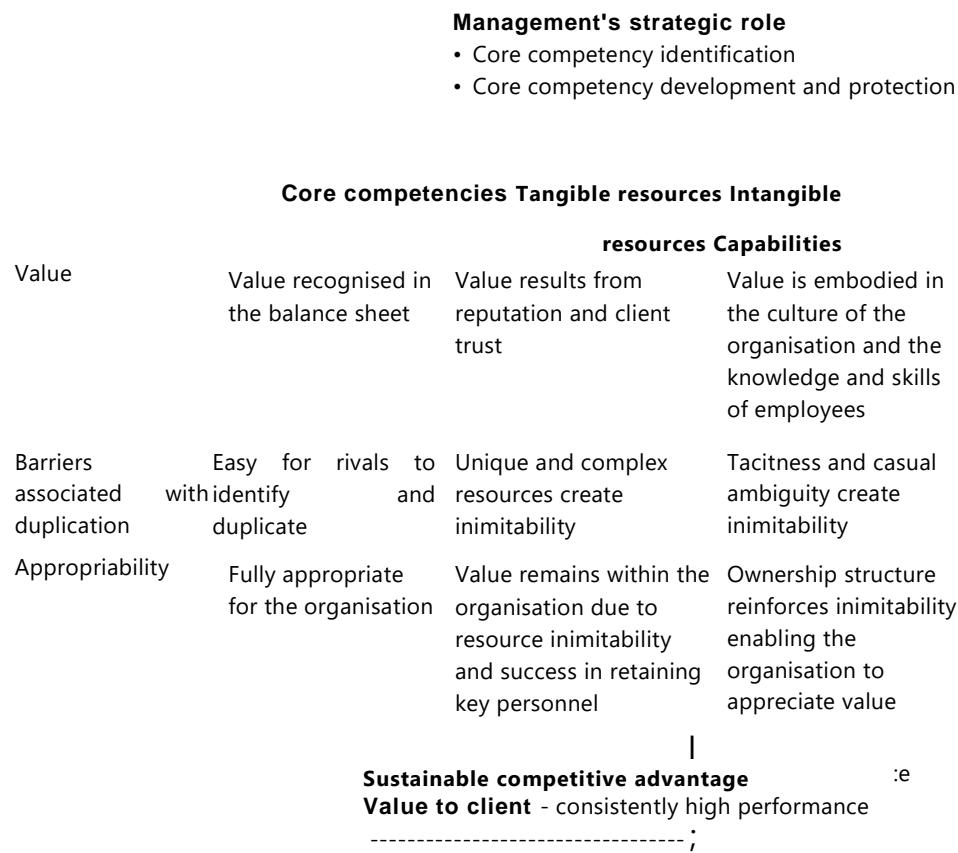
A positive assessment of the organisation (management's strategic role and core competencies) will lead to sustainable competitive advantage that ensures value to the client and, subsequently, superior performance in terms of profitability of the organisation, sustainability and the attainment of organisational goals.

Figure 6.4 depicts a model of the resource-based view of an organisation's internal analysis.

As mentioned previously, the RBV is a model that is used for analysing the internal strengths and weaknesses of the organisation in terms of its resources and linking them to opportunities in the external environment. It determines where the organisation can build competitive advantage, superior performance and customer value. Although the RBV is a widely accepted and invaluable framework for strategy formulation, some limitations have been identified. These limitations are listed below:

- It has not yet been tested and proven empirically.<sup>23</sup> Daellenbach and Rouse suggest that an important requirement is that the RBV be measured and analysed at the resource level, implying the need for longitudinal studies. A longitudinal study is a research design that involves repeated observations of the same variables over different points in time. Reviewing and testing of longitudinal data will make it possible to measure the performance of an organisation over a period of time, with a start and end date.<sup>24</sup>
- It does not address how to increase profitability and/or how to develop further competitive advantages or create new ones.<sup>25</sup>
- The lack of future orientation and the inability to differentiate between valuable and less valuable resources and capabilities result in a lack of predictability.<sup>26</sup>

The next section focuses on the identification of capabilities and core competencies in an organisation.



**Superior performance**  
**Constantly outperform competitors** - rate of return relative to competitors

**Figure 6.4 An adapted model of the resource-based view<sup>22</sup>**

LO 4: Explain the identification of capabilities and core competencies to create value according to the functional area and value chain analyses.

## 6.4 The identification of capabilities and core competencies to create value

Through the exploitation of capabilities and core competencies, organisations create products and services with value which customers are willing to acquire. Those that are superior to what is being offered by competitors contribute to competitive advantage. Value is determined by lower production cost and/or differentiation between products and services of competitors.

The identification and assessment of capabilities and core competencies are challenging but essential as it forms the basis of an effective organisational strategy.<sup>27</sup> A value-chain analysis or a resource-based approach can be used. Both models involve determining the strengths and weaknesses of an organisation and how the strengths contribute to its competitive advantage. The performance of an organisation can also be evaluated and compared to the performance of competitors.

Identifying and assessing capabilities and core competencies will enable the organisation to determine the following:

- how the components of its value chain add worth to its performance.
- how resources and capabilities contribute to competitive advantage.
- how good its financial performance is compared to competitors.
- how customers and employees benefit from the organisation's capabilities and core competencies.

As discussed in the previous section, the resource-based view of strategy focuses on the internal environment with analysis of the internal strengths and weaknesses of the organisation in terms of its resources and capabilities and links it with opportunities in the external environment. Internal resources and capabilities determine strategic decision-making as these are key factors that determine the performance of an organisation. The five stages of strategy formulation according to Grant and Jordan<sup>28</sup> based on the resource-based view of strategy are as follows:

1. The identification and classification of the organisations' resources.
2. The identification of the capabilities of the organisation.
3. Appraisal of the rent-generating potential (the value) of resources and capabilities.
4. The selection of a strategy that optimally exploits the resources and capabilities of the organisation relative to the opportunities in the external environment.
5. The identification of resource gaps, that is the difference in the resources available and the resources needed for the organisation's strategy.

An organisation's resources, capabilities and core competencies can be identified, classified and analysed either (1) according to its functional areas, or (2) by means of an analysis of its value chain. These two approaches are explained below.

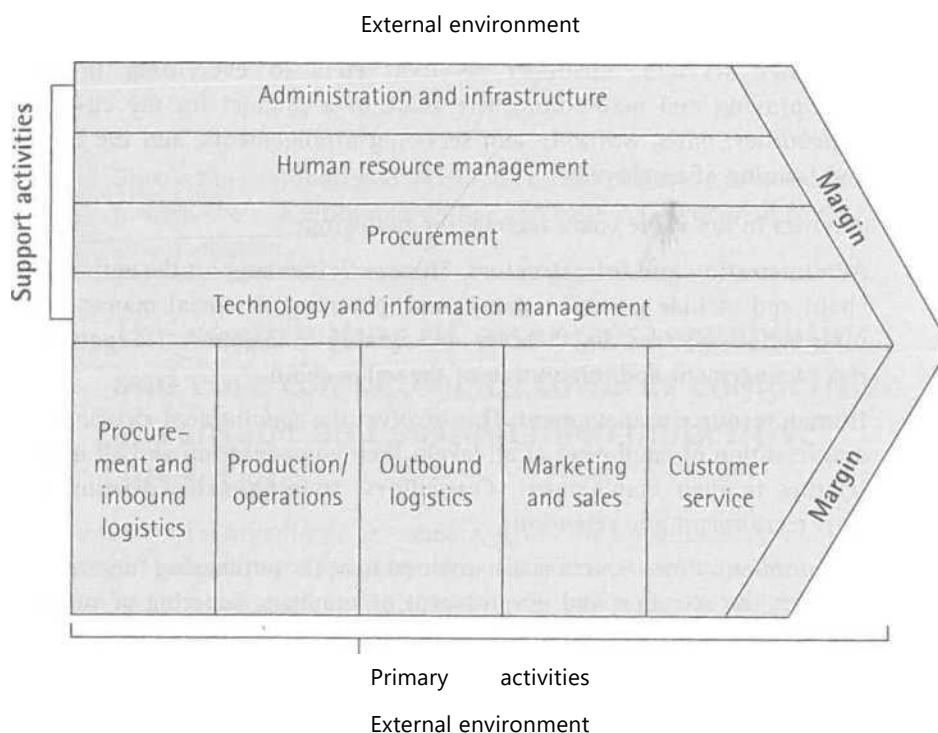
#### **6.4.1 Classification of capabilities and core competencies according to the functional areas of an organisation**

A functional analysis identifies capabilities that can become core competencies of an organisation in line with its functional areas. Below, examples in terms of the finance, operations, human resources, procurement, research and development, marketing and public relations functions are provided:

- Financial function. This chapter's opening case study on Discovery Bank provided an example of a profitable organisation which had access to internally generated funds, as well as external funds, due to their reputation for excellent performance. Their access to funds enables them to implement research initiatives, be innovative and continuously expand the organisation.
- Operations function. Toyota Motor East Japan, Inc. has been at the core of the Toyota group, serving as a key base for development and production. It excels in its operations function due to its culture and tacit knowledge that cannot be imitated by Toyota plants in other countries.
- Human resources function. For six consecutive years, the Massachusetts Institute of Technology (MIT), has been rated the world's top university. At the heart of this incredible ranking is their extremely strong reputation among both fellow academics and employers, as well as the fact that MIT is responsible for an impressive number of academic citations per faculty.
- Procurement function. Mr Price Home identifies trends and products that they imitate, order and buy directly from producers and wholesalers. Due to this procurement capability of bringing desirable, yet affordable products in high volumes to the low- and medium-income mass market, Mr Price Home has a competitive advantage in the home and decor market.
- Research and development function. Apple Inc. is an example of a company in which research and development in its high-technology products is a core competency. Apple's strategy is to always be ahead of its competitors in new products, applications, functions and the look of their Mac computer range, iPods, iPhones, iPads, Apple watch and complementary products and services.
- Marketing function. In the opening case of this chapter, the marketing function of Discovery is identified as a core competency. The database of existing customers using one service, ie the medical aid, are exposed to Discovery's other and new services, such as their new hanking services.
- Public relations function. Building relations with strategic markets is, in effect, the management of relationships with the public relevant to the organisation. Upmarket restaurants are organisations that have developed public relations as a core competency. For example, the very successful chef and restauranteur Chantel Dartnall whose Mosaic restaurant has twice been named as one of the top ten restaurants in the country, present culinary programmes on prominent television stations, participates in chef competitions in South Africa and internationally, and was named the best female chef in the world in 2017. Besides distributing a quarterly newsletter to customers, regular articles and snippets about Dartnall and the restaurant appear in magazines. She also personally presents her menu of the day to all patrons of the restaurant, and even meets and greets customers informally in public places. Effective public relations is a core competency of this organisation.

### 6.4.2 Classification of capabilities and core competencies through value chain analysis

The main function of an organisation is to add value successfully in the process of producing products and/or delivering services. In other words, this means that the main activities of an organisation are effectively combined to create customer value. Michael Porter developed the value chain, which can be defined as a set of activities that an organisation performs to create value for its customers. These activities are divided into five primary and four support categories.<sup>29</sup> Figure 6.5 depicts the value chain.



**Figure 6.5** The value chain<sup>30</sup>

As previously stated, capabilities or competencies are the same things. 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 an organisation's core competencies.

A distinction is made between primary and support activities. Primary activities and related capabilities in the value chain include the following:

- Procurement and inbound logistics. These activities relate to receiving, storing and distributing inputs for the manufacturing of products by the organisation. *Capabilities:* purchasing, material and inventory control systems.

- Production/operations. Production/operations activities refer to those activities that transform inputs into final products, ie facility operations, machines and assembly. *Capabilities:* design and product development, quality control, component manufacture and assembly.
- Outbound logistics. Outbound logistics refers to activities related to collecting, storing and distributing products and services to customers. *Capabilities:* distribution co-ordination, processes related to warehousing of products and dealer relationships.
- Marketing and sales. These refer to marketing, sales and purchasing of an organisation's products and services. *Capabilities:* innovative promotion and advertising, and a motivated sales force.
- Customer services. Customer services refers to everything involved in improving and maintaining the value of a product for the customer. *Capabilities:* parts, warranty and servicing arrangements, and the quality and training of employees.

Support activities in the value chain include the following:<sup>31</sup>

- Administration and infrastructure. These activities support the entire value chain and include general management, planning, financial management, information systems, legal issues and quality management. *Capabilities:* risk management and integration of the value chain.
- Human resource management. This involves the appointment, development and retention of employees at all levels, their compensation and all matters relating to their employment. *Capabilities:* training, skills development, staff recruitment and retention.
- Procurement. Procurement is also referred to as the purchasing function and involves the selection and development of suppliers, sourcing of supplies, evaluating price, cost control, paperwork and accounting and inventory control. *Capabilities:* inventory and database management.
- Technology development. This involves all technology related to the operations and management of the organisation. *Capabilities:* integrated management information systems and technology-managed design and manufacturing.

The internal environment of the organisation, including the primary and support activities, determines an organisation's strengths and weaknesses. This has to be aligned with the opportunities and threats in the external environments (as indicated in Figure 6.5). Therefore, knowledge and understanding of the external environment are essential to determine opportunities and threats. The external environments that impact on organisations are the market environment and the macro-environment. The market environment comprises consumer behaviour, needs, purchasing power, suppliers, intermediaries and competitors. The macro-environment includes the political, technological, physical and international environments, as well as broad economic and social issues.

The margin (which is also indicated in Figure 6.5) is the economic value that the organisation retains for corporate and operational purposes and includes profits and funding other projects, such as research and development projects, corporate social responsibility projects, mergers and acquisitions.

The objective of successful organisations is to build difficult-to-imitate core competencies that distinguish an organisation from its competitors. Capabilities and core competencies are valuable when they enable an organisation to implement strategies that improve efficiency and effectiveness. The type of strategy also determines the value, ie low cost or differentiation strategies.

The following section focuses on the contribution of organisational resources towards the competitive advantage and sustainable competitive advantage of organisations.

- LO 5: Discuss the contribution of resources, capabilities and core competencies towards the competitive advantage and sustainable competitive advantage of an organisation.

## **6.5 The contribution of resources, capabilities and core competencies towards competitive advantage and sustainable competitive advantage**

When two or more organisations compete within the same industry, one organisation possesses a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals (refer to Chapter 1, Section 1.8, where the term ‘competitive advantage’ was introduced). Organisations can achieve competitive advantage, in two ways:

1. Differentiation. It can produce products and services that are superior in value to those of competitors, and that allows it to charge premium prices or to retain customers for a longer period of time. The differentiation approach can be focused, meaning, that the organisation can concentrate on offering its products or services to a specific segment of a market or niche market. Alternatively, if it is a product or service with a wider appeal, it can target broad segments of a market or industry.
2. Cost leadership. It can produce products or services at a significantly lower cost than its competitors (cost leadership), enabling it to leverage higher profit margins. The cost leadership strategy can also be aimed at a focused or broader market.

The practising strategy box that follows provides examples of companies achieving competitive advantage through various strategies (differentiation and cost-leadership).

## Practising strategy

### **Apple: Competitive advantage through a broad differentiating strategy**

As introduced in Section 6.4.1, Apple Inc. is the producer of the Macintosh computer and laptop range, iPods, iPhones, and iPads, Apple watch and complementary products and services. The products are also developed to integrate and synchronise with one another. Many people who make up Apple's loyal customer base owns various Apple products, such as a Mac Air laptop, an iPhone, an Apple watch, an iPad and all the complementary products such as smartphone and iPad covers, docking stations, various applications such as iTunes and more. The design of Apple products is sleek and sophisticated and the Apple brand is a core competence of the organisation. Apple Inc. is an example of a company that is a differentiator, as it spends a lot on research and development and charges a premium price for its products. Despite this, Apple products have a broad international appeal in the high-income market.

### **Singita: Competitive advantage through a focused differentiating strategy**

Singita is an example of a focused differentiating strategy, offering a range of exclusive game lodges in private African game reserves. Tourists stay at Singita to experience the expansive space and beauty of their reserves. Limited guests paying a premium ensures that guests experience exceptional care. These lodges are accessible only to highly affluent, mostly international tourists, as the cost per person per night is around R24,000 (in 2018). This includes luxury accommodation, all meals and refreshments, exclusive safari experiences and other five-star services.

### **Mr Price Sport: Competitive advantage through cost leadership**

The establishment of Mr Price Sport has followed Mr Price's success in bringing fashion clothing at affordable prices to the mass market in South Africa. Mr Price Sport has identified the extensive market for sports clothes and equipment at affordable prices. By offering a wide range of good quality sports clothes and equipment at unbeatable prices, Mr Price Sport has gained a large market share of all income groups, including the vast market for children. In many cases, the same producers and suppliers of fashion clothing are also able to supply the new venture with sports clothing. Due to its large market share, Mr Price is in the position to negotiate excellent prices, often directly with producers of clothes and equipment, as well as with international wholesalers. The benefit of the low prices paid for stock can then be transferred to customers to whom pricing is of utmost importance. Mr Price is an example of an organisation with a competitive advantage based on a broad cost leadership strategy.

### **Road Lodge Hotels as a focused cost leadership strategy**

As part of the City Lodge Hotel Group, the Road Lodge Hotels offers accommodation at very affordable rates to a focused market, namely, the public that want to or have to travel, but within a limited budget. Accommodation at these hotels is focused on providing low-cost accommodation to those niche markets who want to travel for leisure or are entry-level employees who have to travel for work, but have limited funds available.

For differentiators, competitive advantage is achieved by combining resources, capabilities and core competencies to produce products and services of superior quality. For cost leaders, production efficiency is important. Either a differentiating or cost leadership strategy can be achieved through different capabilities, as follows:

- The ability to produce high-quality products. Products are perceived as superior to those of competitors when they have a high brand value or are more reliable and durable.
- The ability to innovate. Innovation involves experimentation and creative processes aimed at developing new products, services or processes for commercialisation and introduction to the market or potential users. In order to innovate, organisations will typically have to spend more than their competitors on research and development. This can involve technological improvements to products, services or processes; the design of new products; new marketing strategies, or improved administrative and organisational systems and techniques. By ensuring uniqueness through innovation and the ownership of patents, trademarks or brands that cannot be imitated by competitors, organisations can achieve competitive advantage.
- Responsiveness to customers. This is the ability of an organisation to identify and satisfy the needs and wants of customers. To contribute to competitive advantage, customer responsiveness should be superior to that of competitors. By providing unique and innovative services, organisations may be in a position to charge premium prices or to retain customers.
- Efficiency. Efficiency is achieved by using the fewest inputs (raw materials, production methods, labour, knowledge, expertise, technology) to generate a maximum amount of outputs (products and services produced). The level of efficiency is determined by the quantity of inputs needed to produce output, therefore:

$$\text{Efficiency} = \text{output/input}$$

An efficient organisation will require less input to produce a desired output. Efficiency is often determined by the productivity of the employees of an organisation. The ability to produce products or services at a cost significantly lower than competitors rests on the ability of the organisation to leverage production efficiencies. Production efficiencies can be achieved through various means, for example:

- ◆ Economies of scale. Economies of scale is an economics term that describes a competitive advantage that large organisations have over smaller ones. It means that the larger the organisation, the lower its costs and such an organisation will be able to produce larger quantities of a product at lower prices.
- ◆ Economies of learning. A learning economy can be defined as an economy in which knowledge is the crucial resource and learning is the most important process. Just like economies of scale, economies of learning will enable an organisation to develop a competitive advantage by gaining more experience, which will lead to a decrease in production costs.
- ◆ Designing products for more economical production or using new technologies to reduce costs. Organisations can gain competitive advantage by designing products which require fewer inputs, and which will lead to higher levels of efficiency.
- ◆ Reducing unnecessary costs.
- ◆ Leveraging location advantages. Organisations can gain a competitive advantage by locating productive assets in areas where the costs are lower.

## Practising strategy

Differentiating or cost leadership strategy can be achieved through different capabilities:

- The ability to produce high-quality products. Harley-Davidson motorcycles deliver high-quality products. There are various Harley-Davidson models, but all have the distinctive Harley-Davidson look, sound and branding and are regarded as status symbols in some motorcycle circles. To many, the appeal lies specifically in the American heritage of these motorcycles, and customers are willing to pay a premium for these symbols to reflect their status as motorcycle connoisseurs. There are also many complementary Harley-Davidson accessories such as jackets, helmets and other items that further enhance the experience of belonging to a group of people who own products with high brand value.
- The ability to innovate. As explained previously (Section 6.4.1), Apple Inc. has built a large loyal customer base by producing innovative products and stylish product designs, with the result that from 2013 to 2017, Apple was recognised as the most valued brand in the world, with a brand value worth of \$184,15 billion in 2018.<sup>32</sup>

- Responsiveness to customers. Discovery Medical Aid's Vitality programme rewards members for healthy living. Discovery's unique approach is in identifying rewards that are valuable to their customers, ie discounted gym membership, movies, national and international flights and hotel accommodation; cash back when buying healthy foods; rewards such as smoothies for reaching activity goals and many more. By constantly researching and identifying what would add value to customer experience Discovery responds to their needs, often before customers realise their own needs. This capability of Discovery is very difficult, if not impossible to imitate, thus inimitable. Therefore, Discovery is a good example of an organisation that is responsive to its customers.
- Efficiency. Mr Price is an example of a very efficient organisation. Through its network of suppliers and high-volume purchasing, Mr Price offers fashion, sport and home goods at excellent prices at its three extensive specialist store ranges, Mr Price Clothing, Mr Price Sport and Mr Price Home. Due to economies of scale, goods at Mr Price stores can often be purchased at lower prices than through wholesalers that seldom have the purchasing capacity of Mr Price. Mr Price reduces cost by identifying fashion trends in clothing, interior decor and home goods and having it reproduced in large numbers at very good prices.

An organisation that has the ability to perform (or the potential to perform) better than its rivals over the long term, has a sustainable competitive advantage (refer to Chapter 1, Section 1.8, where we differentiated between competitive advantage, sustainable competitive advantage and transient competitive advantage). Sustainable competitive advantage is determined by the durability of the relevant resources, capabilities and core competencies and how inimitable they are. *Durability* refers to the length of time over which a capability is relevant and can contribute to the competitive advantage of the organisation. For example, a strongly ingrained culture is extremely durable and long-lasting, while a technical competence is of much shorter duration. *Inimitability* refers to how easy or difficult it is for competitors to copy the competitive advantage and is determined by transferability and how replicable a capability is. *Transferability* is how easy or difficult it is to acquire or buy a resource. For example, raw materials, components, machines and human resources are all easily transferable, while immobile and intangible resources, such as organisational culture, are not easy to transfer. The latter is more valuable because it may be specific to the organisation or lose worth when transferred. *Replicability* refers to the ability to use the resource in other settings. For example, Curro Private schools were established in 1998 as a leading independent school provider in southern Africa. It was able to replicate its ability to start up and manage more than 100 private schools since its establishment in South Africa.

In the last section of this chapter, our focus turns to capturing the value generated by resources, capabilities and core competencies.

- LO 6: Explain the importance of capturing the value generated by resources, capabilities and core competencies.

## **6.6 Capturing the value generated by resources, capabilities and core competencies**

Even when resources are inherently valuable and comply with the value, rarity, inimitability and organisation (VR10) principles explained in Section 6.2, it does not necessarily mean that the organisation will have the capacity to take advantage of them, nor 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. This is known as *appropriability*.

As explained in Section 6.1.2, dynamic capabilities are strategic in nature and are those capabilities that help organisations to learn new capabilities that enable them to adapt to environmental changes. Dynamic capabilities involve the ability to integrate, build and reconfigure internal and external processes and competencies to address a rapidly changing environment. It is the ability to adapt capabilities that is the ultimate basis of sustainable competitive advantage.

Resources and capabilities are valuable when they enable organisations to deliver products and services to customers at a price they are willing to pay. The value of resources and capabilities is indirectly determined by the following:

- the external environment, including demand and the potential of the market.
- changes in the external environment, for example, changes in technology, the structure of an industry and preferences of customers.
- differences between the resources utilised by different organisations.
- value as determined by either lower production cost than rivals or increased revenues, or a combination of the two.

Although competitive advantage is important to an organisation, on its own it does not necessarily lead to superior organisational performance. For resources and capabilities to be the basis of competitive advantage, as well as ensuring superior profitability, the following are important:

- The resources and capabilities should be inherently valuable, as determined by the VR10 framework.
- The resources and capabilities should enable the organisation to address market segments that are large enough (L) to allow the organisation to generate sufficient financial returns.
- The resources and capabilities should enable the organisation to identify and address an unmet (U) needs of customers. Unmet needs are defined as those needs of customers that are high in importance and insufficiently satisfied.<sup>33</sup>

These additions extend the VRIO framework of resources and capabilities to VRIOLU. The extended framework involves the evaluation of resources and capabilities along three important dimensions:<sup>54</sup>

1. From the organisational perspective, it evaluates the value (V) to the organisation and the ability of the organisation (O) to exploit the resources and capabilities.
2. From the perspective of competitiveness, it considers the rareness (R) and inimitability (I) and the availability of resources and capabilities to competitors.
3. From the perspective of customers, it evaluates the size of the market and determines whether it is large (L) enough to cover the fixed costs of the organisation. It also evaluates the extent to which resources and capabilities allow the organisation to address unmet (U) customer needs.

The development of capabilities is highly dependent on human beings and their store of knowledge. As Robert Grant explains, organisational capability is a function of knowledge integration.<sup>35</sup> In other words, competitive advantage begins with individual knowledge, but individual knowledge on its own is not worth very much. It is really in the extent to which it is shared, assimilated and transformed that its true value will be realised, and this will ultimately determine the development of capabilities and core competencies. For that reason, this section should be read in conjunction with Chapter 9, which explores the learning organisation, and the individual and organisational learning process.

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## **The big picture**

In this chapter, we introduced four key concepts. First, we explored the idea of strategic resources, as the tangible and intangible assets of the organisation. On their own, resources are valuable, but will reduce in value over time. It is only when resources are combined to develop capabilities that they become a revenue-generating asset. Unlike resources, capabilities will become more valuable with use and over time, they will lead to the generation and accumulation of more resources.

We also explored the importance of dynamic capabilities, those capabilities that allow the organisation to sense opportunities for renewing itself and developing new capabilities.

Core competencies (also known as distinctive capabilities) are the few very important capabilities that the organisation does differently and better than its competitors and provides the organisation with a competitive advantage.

In the resource-based view, history matters, and the more resources an organisation begins with, the more likely it is to succeed and to add to its resources, increasing the foundations of its success. For this reason, it is important for organisations to think about their strengths and weaknesses in terms of resources and capabilities, and to find ways of developing dynamic capabilities.

## **Summary of learning outcomes**

**LO 1: Explain the importance of resources, capabilities and core competencies in strategic management.**

Resources are the productive assets owned by organisations. Resources are grouped into five primary categories, namely, financial, physical, human, organisational, and technological resources. Resources at the disposal of an organisation can also be tangible or intangible. Capabilities are the capacity of an organisation to deploy resources for a unique result. Core competencies are those capabilities that distinguish an organisation from others in that industry and form the basis of its competitive advantage, strategy and performance.

**LO 2: Explain the appraisal of the value of resources and capabilities.**

Capabilities and resources have the potential to become core competencies and these core competencies can result in competitive advantage, but only if they meet certain conditions. A resource-based framework for analysis of an organisation can be used to determine the resources and capabilities that will result in core competencies. For resources and capabilities to become core competencies, they should be valuable, rare, inimitable and non-substitutable, and exploitable by the organisation.

**LO 3: Explain the resource-based view of internal analysis.**

The resource-based view (RBV) model for analysing the internal strengths and weaknesses of the organisation in terms of its resources and linking them to opportunities in the external environment was elucidated. The RBV determines where the organisation can build competitive advantage, superior performance and customer value.

**LO 4: Explain the identification of resources, capabilities and core competencies to create value according to the functional area and value chain analysis.**

An organisation's resources, capabilities and core competencies are identified, classified and analysed according to its functional areas, or through an analysis of its value chain.

**LO 5: Discuss the contribution of resources, capabilities and core competencies towards competitive advantage and sustainable competitive advantage of an organisation.**

This learning objective explained how organisations achieve competitive advantage over competitors through differentiation or cost leadership based on their resources, capabilities and core competencies.

**LO 6: Explain the importance of capturing the value generated by resources, capabilities and core competencies.**

Appropriability or the ability of the organisation to capture sufficient value to justify its investment in developing unique resources and capabilities, to ensure the achievement of competitive advantage, is explained.

### **Discussion questions**

1. Differentiate between resources, capabilities and core competencies of an organisation and explain the importance thereof to strategic management.
2. Distinguish between tangible and intangible resources of an organisation.
3. Explain why it is important for an organisation to ensure that its resources and capabilities become core competencies.
4. Explain the VRIO analysis.
5. Explain the resource-based view of an organisation's internal analysis.
6. Explain the identification of capabilities and core competencies to create value in terms of their functional area analysis.
7. Explain the identification of capabilities and core competencies to create value in terms of the value chain analysis.
8. Identify an example of how organisations gained competitive advantage through a differentiation and cost leadership strategy respectively.
9. Explain, and illustrate with the aid of an example, your understanding of the 'appropriability' of an organisation.
10. Consider the opening case study in this chapter. What are the core competencies of Discovery? How valuable will these core competencies be in the insurance and financial services industry? Substantiate your answer.
11. Read the story on Apple Inc. by Gary Hamel on Management Innovation Exchange (<http://www.managementexchange.com/blog/what-makes-apple-apple>) and identify the core capabilities of Apple that led to their success.

### **Learning activities**

1. Watch the video on the resource-based view by Jay Barney on YouTube ([http://www.youtube.com/watch?v=-KN81\\_oYlls](http://www.youtube.com/watch?v=-KN81_oYlls)). What did you learn about the notion of differential resources in this video?
2. Interview a manager in any organisation of your choice about his or her organisation's key strengths and weaknesses. What did you learn about the idea of resources and capabilities in this interview?

## Endnotes

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# 7

# Developing and choosing appropriate strategies

Mari Jansen van Rensburg

## LEARNING OUTCOMES

After reading this chapter, you should be able to:

- LO 1: Understand the nature and use of strategic goals and strategic choices in providing strategic direction.
- LO 2: Differentiate between various corporate-level strategies that create corporate value and synergy.
- LO 3: Discuss the management of the multi-business organisation.
- LO 4: Differentiate between the various business-level strategies for creating and sustaining competitive advantage.
- LO 5: Explain the evaluation of strategic choices.

## KEY WORDS

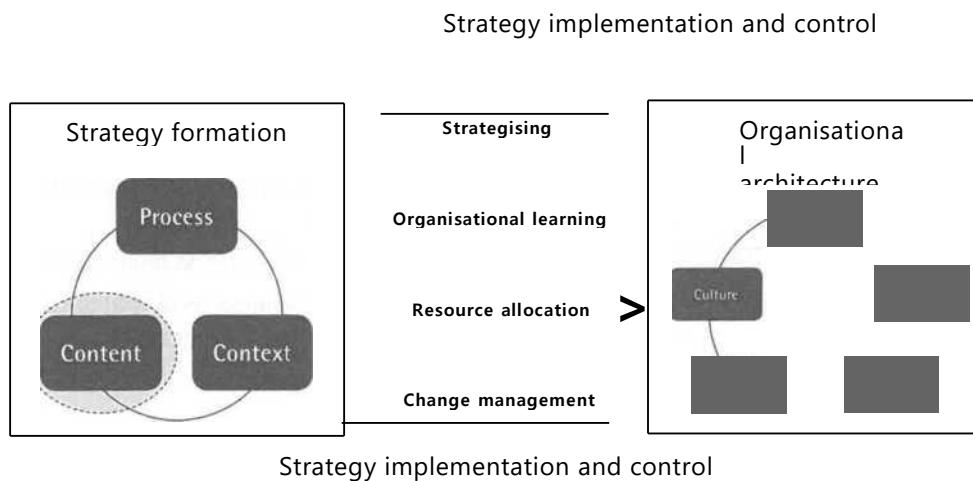
- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| ■ <b>Acceptability</b>            | ■ <b>Feasibility</b>              |
| ■ <b>Cooperative strategy</b>     | ■ <b>Internal growth strategy</b> |
| ■ <b>Cost leadership strategy</b> | ■ <b>Strategic business units</b> |
| ■ <b>Differentiation strategy</b> | ■ <b>Suitability</b>              |
| ■ <b>External growth strategy</b> | ■ <b>Turnaround strategy</b>      |

## CHAPTER ORIENTATION

Becoming a leading multi-national group starts with one strategic decision. In the case of Bidvest, it was through buying businesses that others were eager to sell, followed by a process to turn underperforming operations around. On the surface, this process seems quite basic, but success only follows well-considered strategic choices in anticipation or response to market conditions. Good strategic decisions follow a clear strategic direction, insight to the external environment (as explained in Chapter 5), understanding of the organisations' own strengths and weaknesses (as explained in Chapter 6), as well as the ability to anticipate and respond to customers' needs.

This chapter deals with developing and choosing appropriate strategies. First, the nature and use of strategic goals and strategic choices to provide strategic direction to an organisation are

explained. Second, we differentiate between the various corporate-level strategies, and follow this with a discussion of the management of multi-business organisations. Third, we differentiate between the various business-level strategic options. Lastly, we explain the evaluation of strategic choices. Figure 7.1 illustrates how to develop and choose appropriate strategies in the context of this book.



**Figure 7.1.** *The development and selection of appropriate strategies*

## Case study

### Bidvest: From humble beginnings to a leading multi-national group<sup>1-2 3</sup>

The JSE-listed Bidvest Group is one of the leading corporations in South Africa with a turnover of over R70.1 billion, employing more than 130,000 people.<sup>4</sup> Brian Joffe launched the organisation in 1988. Joffe built the organisation by buying businesses that others were eager to sell. He followed a uniquely empowered business model driven by autonomous entrepreneurs, each responsible for growing their own operations. Following the acquisition by Bidvest, under-performing operations were often transformed into industry leaders. Rather than focus on one market, the group offers a diverse range of products and services across industries. Key corporate strategies, since the inception of the organisation, are listed in Table 7.1:<sup>5</sup>

Table 7.1: *Corporate strategy*

Year	Corporate strategy	Year	Corporate strategy
1988	Start of Bidvest Food Services Acquisition of: <ul style="list-style-type: none"><li>• Chipkins</li><li>• Sea World</li></ul>	2005	Acquisition of: <ul style="list-style-type: none"><li>• 6 Fox</li></ul>
1989	Start of Bidvest Commercial Products Acquisition of: <ul style="list-style-type: none"><li>• Afcom Group</li></ul>	2006	Acquisition of: <ul style="list-style-type: none"><li>• Deli XL</li><li>• Top Turf</li><li>• Execuflora</li><li>• Versa Iec</li></ul> Buy the controlling stake in HORECA Trade
1990	Bid Corporation becomes holding company of Bidvest	2007	Acquisition of: <ul style="list-style-type: none"><li>• Anglis</li></ul> Rennies Bank became Bidvest Bank
1991	Start of Bidvest Hygiene Services Business and start of Bidvest Business Services Division Acquisition of: <ul style="list-style-type: none"><li>• Steiner Services</li></ul>	2008	Viamax acquisition concluded
1992	Acquisition of: <ul style="list-style-type: none"><li>• Crown Food Holdings</li></ul> Crown Food Holdings merged with National Spice to establish Crown National	2010	Acquisition of: <ul style="list-style-type: none"><li>• Nowaco Group</li><li>• Purgeau</li><li>• Bidtrack</li></ul> Bidvest Namibia lists on the Namibian Stock Exchange (Bidvest owns 52%)
1993	Start of Bidvest Freight Acquisition of: <ul style="list-style-type: none"><li>• Safcor</li><li>• Prestige Cleaning Services</li></ul> Prestige Cleaning Services merged with Steiner	2011	Acquisition of: <ul style="list-style-type: none"><li>• Seafood Holdings</li><li>• Nowaco Baltics</li><li>• Rotolabel</li></ul>
1995	Acquisition of: <ul style="list-style-type: none"><li>• Manettas</li></ul> Manettas renamed Bidvest Australia	2012	Acquisition of: <ul style="list-style-type: none"><li>• Deli Meals</li></ul>

PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

Year	Corporate strategy	Year	Corporate strategy
1997	Start of Bidvest Office Acquisition of: • Waltons (including the Konica Minolta operations)	2013	Acquisition of: • Home of Living Brands
1999	Acquisition of: • Booker Foodservice • Rennies Group • Lithotech	2014	Acquisition of: • Mvelaserve • Academy Brushware
2000	Acquisition of: • Crean • Island View Storage Banking licence granted to Rennies Bank, to form Bidvest Financial Services	2015	Acquisition of: • DAC (Italy) • PLC Transport 24/7 (UK) • Compendium and Bush Breaks acquisitions concluded.
2001	Acquisition of: • John Lewis Foodservice • mymarket.com, Bidvest's e-commerce initiative launched	2016	Acquisition of: • Plumblink • Glassock Foodservices unbundles to unlock shareholder value
2002	Start of Bidvest Electrical • Remaining 68% of Voltex acquired Acquisition of: • Paragon Paragon merged with Lichotech	2017	Acquisition of: • Brandcorp • Technilamp • Eagle Lightning
2003	The Bidvest Academy, a group training and development programme launched. BEE initiative with Dinatla Investment Holdings announced	2018	Acquisition of: • Noonan
2004	Start of Bidvest Automotive Acquisition of: • McCarthy South Africa (South Africa's second-largest motor retailer)		

The Bidvest Group strategy focuses on strategic diversification, across industries and geographies. This strategy creates built-in stability, for example, when the South African economy faces challenges and the Rand comes under pressure, offshore businesses generally provide a strong counterweight. Representation across numerous industries ensures that a degree of growth is achieved overall, even in difficult trading conditions.

The first step that Bidvest follows when implementing the strategy, is to identify an underperforming organisation, to acquire such an organisation and to turn its performance around by the redefinition of the market and expansion into related areas. For example, in 1995, Bidvest acquired Manetta Australia (now Bidvest Australia). In the first two years following the acquisition, Bidvest made a loss of AU\$6m. However, after the two years, the company contributed to the organisation's profit. Once an organisation has been acquired, it is followed by the redefinition of the market and expansion into related areas. For example, Walton's, a stationery supplier, created an entry-point into the business retail industry (supplying stationery to businesses). However, the market was widened by adding office furniture and office technology.

The organisation is of the opinion that critical mass enables greater efficiency that drives further growth and helps secure the jobs of employees. In most cases, efficiency results in less wasted resources and further cost advantages due to scaling. Lower costs can either improve margins or enable the organisation to lower selling prices, which in turn could increase market share. Reinvention and a wider vision are critical. For example, the Rennies acquisition created potential for strategic expansion into banking, freight, shipping services and the travel industry. The acquisition of the McCarthy automotive retailing business created a base for financial services such as car financing, leasing and insurance. These services were added to Bidvest Bank (originally Rennies Bank, a bank that specialised in foreign exchange business targeting a niche (specialised) segment).

The creation of critical mass ahead of renewed growth was also evident in 2014 when Bidvest acquired the Mvelaserve group of corporate service businesses. Bidvest was, at the time, of the opinion that the acquisition would enable Mvelaserve to continue its customers more efficiently once it became a subsidiary of Bidvest. Services would be enhanced as Mvelaserve could use products supplied by Bidvest Hygiene Services, thereby bulking up its own services and rental and products. Mvelaserve also benefited from being able to offer its products to the wider customer base of Bidvest. Bidvest simultaneously responded to the growing importance of consumer spending on the economy by purchasing the Home of Living Brands. The Home of Living Brands is a supplier of a wide range of consumer products to major retailers. This acquisition therefore expanded Bidvest's market to enter the retail industry that serves consumers. Entry into another important industry that serves consumers was then achieved with the purchase of 35 per cent of the shares in the pharmaceutical organisation, Adcock Ingram.

Bidvest has grown from its humble beginning to a multi-national organisation. During the last 30 years, the company had to consider its own resources and capabilities as well as the opportunities in the external environment to make the best strategic choices. The current portfolio of the organisation is strategically diversified and the result of a number of strategic choices responding to market conditions.

LO 1: Understand the nature and use of strategic goals and strategic choices in providing strategic direction.

## 7.1 Strategic goals and strategic choices

In Chapter 3, we explained strategic planning as the responsibility of strategists to determine and communicate the strategic direction of the organisation. In Chapter 3, we also highlighted the formulation of the vision, mission and strategic goals that provide an indication of strategic direction. We also considered how value statements can be used to keep the behaviour of all staff members in line with organisational expectations. We established that every organisation is part of a larger system and that interactions within this system are determined by various role-players, referred to as stakeholders, present in the organisation's business environment as well as the composition of the business environment. The first part of any strategy formulation process is thus to assess the current situation. The findings of such an assessment will inform the goals of the organisation with the overall goal of creating a strategic fit between the organisational resources and capabilities (which are explained in Chapter 6) and the opportunities present in the external environment (explained in Chapter 5). We note that strategic goals are statements that express specific outcomes to be achieved. We also acknowledge that goals form the basis of a common language for understanding the wider context as it contains realistic measures of progress and achievement.<sup>6</sup>

These measures of progress are set to support and achieve the strategic direction of the organisation. However, the primary objective of business strategy is to achieve a sustainable competitive advantage that leads to above-average performance and returns. To achieve this objective, managers and key employees need to make decisions on three levels:

1. Organisational or corporate level. Decisions are taken about the overall purpose, scope, range and diversity of the organisation. These decisions are typically orchestrated by senior management, such as the Chief Executive Officer (CEO) or Managing Director (MD), the board of directors and other senior executives. The outcome of these decisions is corporate strategies, and the purpose of corporate strategy should be to maximise stakeholder value in the long term by managing a portfolio of businesses.
2. Business level. General managers of each line of business or strategic business unit (eg a subsidiary) determine which business (or competitive) strategies would be most suitable to achieving sustainable competitive advantage. These decisions constitute business-level strategies.
3. Functional level. Managers lower down make decisions about how to best support business-level strategies by performing strategy-critical activities. These functional strategies include decisions, such as optimal staffing (the responsibility of the HR manager), marketing strategies (the responsibility of the marketing manager) or research and development initiatives.

In this chapter, we focus on corporate and business-level strategies. The corporate centre is typically the head office of a multi-business organisation (see Figure 7.2) and manages a portfolio of businesses with a view to maximising the value of the portfolio for the benefit of stakeholders. The corporate head office will typically add value to strategic business units (SBUs) by means of specific capabilities or shared corporate services. SBUs are organisational units that exercise control over most of the resources they require to be successful (ie they are autonomous). Consider, for example, the Bidvest Group. The group operates through seven SBUs (also referred to as divisions), namely Automotive, Commercial Products, Electrical, Financial Services, Freight, Office and Print and Services. In this case, the corporate centre adds value by ‘identifying strategic investment opportunities while promoting experience sharing across SBUs and fostering synergies and savings’. Specific examples of value added to SBUs include:<sup>7</sup>

- access to corporate finance
- Bidvest brand support
- compliance
- executive training, oversight and financial management
- investor relations and corporate communications
- risk and sustainability issues
- strategic direction.

Each SBU is required to compete in their respective markets and industries with a view to establishing competitive advantage as a means of creating competitive advantage for their corporate owners.

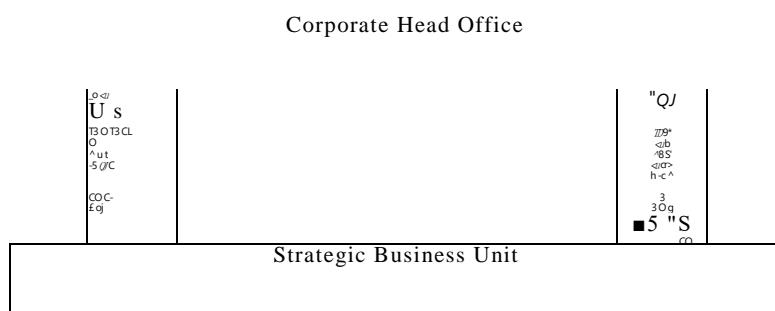


Figure 7.2 *The relationship between the corporate centre and strategic business units*

In this chapter, we will review different corporate and business strategic options that could be implemented to create strategic success based on an organisation’s proposed strategic direction, its strengths and weaknesses, as well as the opportunities and threats presented in the environment in which it operates. The complexity of strategic choice lies in the alignment between choices and the realities found in the operating environment. In addition, strategy is developed overtime and often involves choices.

- LO 2: Differentiate between the various corporate-level strategies that create corporate value and synergy.

## **7.2 Corporate level strategic options: creating corporate value and synergy**

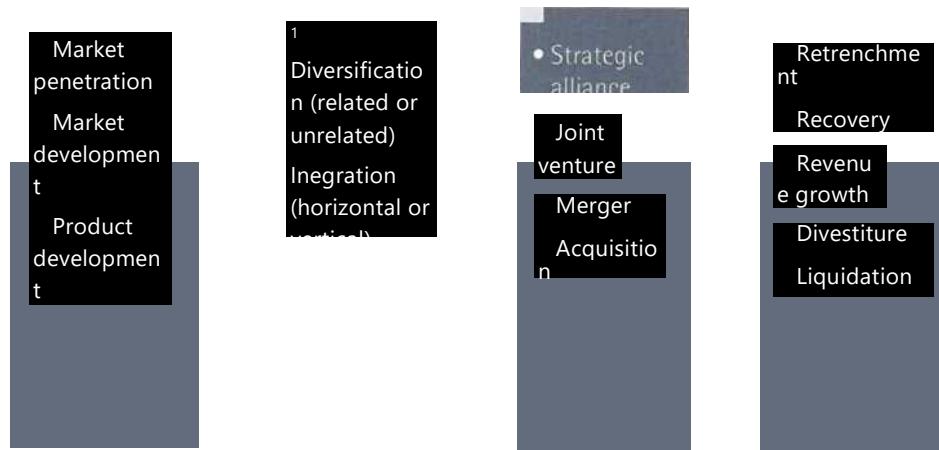
In order to create value for the organisation as a whole, executives need to make decisions about the growth path of the organisation. On a corporate level, executives on the highest level need to make decisions about the overall purpose, scope, range and diversity of the organisation. In short, the corporate-level strategies deal with the number of products and services that the organisation will offer and the markets which will be pursued.

In the case study on The Bidvest Group, we see how the organisation grew from its humble beginning in 1988 to become a leading multi-national organisation. The Bidvest Group strategy is based on strategic diversification, across industries and geographies. Note how this position was built over three decades as a result of a number of strategic decisions.

Whether an organisation operates as a multi-business or not, organisations have the option to pursue any, or a combination of, corporate strategies. We can broadly classify these strategies into the following categories:

- Internal growth strategies
- External growth strategies
- Co-operative or corporate combination strategies
- Turnaround and exit strategies.

Each of these broad categories can be achieved by employing different strategic options. The choice of the most appropriate strategy is dependent on the strategic fit between the organisation's internal strengths, capabilities and resources, and the opportunities available and threats facing the organisation in the external environment. Table 7.2 provides a summary of the corporate strategic options that will be discussed in this chapter.

Table 7.2 *Corporate level strategic options*

### 7.2.1 Internal growth strategies

Often the least risky option for organisations is to grow from within. This type of strategy aims to leverage the organisation's current range of products (or services) and the markets it serves and propose growth strategies that combine new and/ or existing products and markets. Depending on whether products and markets are new or not, four internal growth strategies are possible, namely, market penetration, market development, product development and innovation.

We will use Woolworths Holdings Limited (WHL) as an example to illustrate how it successfully employed each of these strategies. WHL is one of the top 40 companies listed on the JSE Limited Securities Exchange (JSE). The organisation opened its first Woolworths clothing store in Adderley Street in Cape Town more than 80 years ago. Today the organisation is a leading retail group with operations across the southern hemisphere.<sup>8</sup>

#### *Market penetration strategies*

Market penetration strategies aim to increase market share by selling more of the organisation's existing products and/or services to its existing markets. One of the strategic focus areas of Woolworth's, for example, is to 'build stronger and more profitable customer relationships'.

To achieve this objective, the organisation relies on customer insights and data obtained through the WRewards loyalty programme to inform business decisions. At present, approximately 75 per cent of the 3.3 million Woolworths<sup>9</sup> customers participate in this programme, which enables the organisation to track customer- spending patterns. In turn, customers earn rewards based on a tiered system determined by their annual spend at the retailer. In order to participate in and benefit from this programme, customers need to accept marketing material. This offers the organisation

the opportunity to direct carefully selected promotions to market segments based on customer history. In addition, customers are encouraged to apply for a Woolworths Store Card or Credit Card. This allows them to buy on credit and enjoy an additional 5 per cent savings. The organisation realised that through effective database marketing campaigns, they can successfully increase spend per customer.<sup>10</sup>

### *Market development strategies*

The aim of market development strategies is to grow turnover by selling the organisation's existing products and/or services into new markets. For example, Woolworths expanded its footprint in areas where it had a low density of stores, or no stores, by opening stores at petrol station forecourts. This strategy is so successful that the organisation now trades out of 72 Engen petrol forecourts selling food products across South Africa."<sup>11</sup>

### *Product development strategies*

The aim of product development strategies is to grow turnover by selling new products or services to the organisation's existing market. Moving beyond retailing of quality food and fashion, Woolworths Financial Services was launched in 1993 in order to provide Woolworths' customers with an in-store card and access to credit facilities. Over the years, its product range has grown and today it offers a suite of financial products, including in-store credit, credit cards, personal loans and a range of insurance products.

### *Innovation strategies*

The aim of innovation strategies is to introduce advancements in technology and/ or services. These advancements are developed through research and development. Woolworths products and services are continuously advanced to create superior value. Consider, for example, Woolworths school shirts. These shirts have built-in ultra-violet protection and block out more than 98 per cent of harmful ultraviolet rays.<sup>12</sup>

As can be observed from the Woolworths example, choices made on the basis of products and markets have successfully contributed to the organisation achieving its growth objectives. Read more about the organisation's growth objectives in the practising strategy box below.

## Practising strategy: Insight into Woolworths strategic focus<sup>13</sup>

According to Ian Moir, Woolworth's CEO, the future of retailers lies in the creation of amazing experiences for consumers and the combination of food and fashion. Retailers need to consider changing consumer behaviour and face the possibilities offered through online platforms. Moir says customers want to interact differently with retailers and want more personalised services.<sup>14</sup>

Woolworths has six strategic focus areas that are driven at a group level. This organisation understands that their long-term success depends on their ability to use their resources to implement the group's strategy. Table 7.3 reviews the performance indicators against various targets of Woolworths South Africa. The first column lists the six strategic focus areas of Woolworths South Africa. The second column lists the performance measures used to evaluate the performance of each strategic focus. Finally, the third column reports the actual performance of Woolworths South Africa as reported in the WHS 2017 integrated report. These targets revolve around improved customer relationships, an increase in online sales of the organisation, an increase in sales as a leading fashion designer, an increase in food sales, improved synergies within the organisation and the organisation's targets in terms of sustainability. Specifically, note that each organisation determines its own performance measures in line with the organisational objectives. These objectives should include clear targets, as well as timelines in which the targets should be achieved. It is beyond the scope of this chapter to review performance measures and the measures listed below merely illustrate how Woolworths measures the performance of each strategic area.

Table 7.3 *Targets of Woolworths South Africa*

Strategic focus area	Performance measures	2016/7 Performance
 Customer relationships	Number of active customers	3.3m
	% revenue tracked on loyalty cards	75%
 Connected retail	Growth in online sales	33.10/0
	% online sales	0.7%
	Net new space	3.80/0
 Leading fashion designer	Sales	R13.9bn
	Comparable sales growth	(1.1%)
	Gross profit margin	47.90/0
	Return on sales %	15.60/0
	Customer perceptions of fashion and quality	Improved
 Big food business	Sales	R27.7bn
	Comparable sales growth	4.60/0
	Gross profit margin	25.10/0
	Return on sales %	7.3%
	Market share	Increased
	Customer perceptions on price	Improved
Drive synergies	Cost to sell %	22.70/0
 Embed good business journey	% targets achieved on sustainability scorecards	85%o

## 7.2.2 External growth strategies

Some organisations choose to grow by adding new businesses to their current portfolio, which is referred to as external growth strategies. These strategies create diversification by means of new products or markets or integration when organisations acquire an organisation similar to the current business.<sup>15</sup> Strategic options to achieve external growth can be broadly classified as diversification and integration.

### *Diversification strategies*

Diversification strategies are driven by two key objectives, namely, growth and risk reduction. However, diversification that only seeks growth or risk reduction is likely to destroy value. Conversely, if these objectives are supplemented by an intention to exploit economies of scope (in cases where it is cheaper to manufacture a variety of products together, rather than separately) in resources and capabilities, it has the potential to create stakeholder value.<sup>16</sup> Once an organisation decides to diversify, it faces the choice of whether to diversify into related or unrelated businesses.

Businesses are said to be related when there is a close resemblance between how they perform key value chain activities. Pursuing this strategic option allows the organisation to build stakeholder value by leveraging synergies between the two organisations, enabling the organisation to perform better as a whole than just the sum of its individual businesses.<sup>17</sup> An example of an organisation that employed this strategy successfully is VJO Attorneys. This boutique South African legal firm expanded their legal services and conveyance practice in 2011 to include a debt counselling practice, taking advantage of the opportunities created by the downturn in the economy.<sup>18</sup> Debt counselling requires a strong legal background and there were many synergies between the resources and capabilities required by both the legal practice and debt counselling practice.

An unrelated diversification strategy discounts the merits of pursuing a cross-business strategic fit. Instead, it focuses on entering and operating businesses in industries with opportunities to realise consistently good financial results.<sup>19</sup> An example of an organisation that achieved growth through unrelated diversification is the Bidvest Group, as illustrated in the case study. Today the group operates in the areas of consumer and industrial products, electrical products, financial services, freight management, office and print solutions, outsourced hard and soft services, travel and aviation services and automotive retailing.<sup>20</sup>

### *Integration strategies*

Organisations often acquire other organisations similar to their own. The operative word here is *similar*, meaning that the operations of these organisations are incorporated within the current operations of organisations pursuing this strategic option. These organisations aim to achieve growth through acquisitions of and/or mergers with competitors (horizontal integration) or suppliers or distributors (vertical integration).<sup>21</sup> Mergers and acquisitions are discussed in more detail below.

### 7.2.3 Co-operative or corporate combination strategies

Co-operative or corporate combination strategies allow different organisations to form partnerships to share resources, capabilities or technical know-how (ie to ‘combine’) to build a competitive advantage.<sup>22</sup> We will briefly review four popular strategic options in this category, namely, strategic alliances, joint ventures, acquisitions and mergers.

#### *Strategic alliance strategies*

A strategic alliance is a formal agreement between two or more separate organisations in which they agree to work collaboratively toward some strategically relevant goal.<sup>23</sup> Such agreements typically entail organisations sharing financial responsibilities and require joint contributions of capabilities and resources. Furthermore, organisations entering these agreements, share risks and control. The duration of such agreements is determined by the desired outcome thereof. Some agreements may include longterm arrangements while others are designed to accomplish short-term objectives. In these agreements, there is no formal ownership, but the relationship is guided by contractual arrangements.<sup>24</sup> An accepted practice in the aviation industry, for example, is code-share agreements, where two or more airlines share the same flight. A seat can be purchased on one airline, but is actually operated by a co-operative airline under a different flight number. This agreement allows greater access to more destinations through a given airline’s network without having to offer extra flights. It also makes connections simpler by allowing single bookings across multiple planes.<sup>25</sup>

#### *Joint venture strategies*

When a strategic alliance involves ownership ties, it is called a joint venture. In this agreement, a new corporate entity is formed and is jointly owned by two or more companies that agree to share in the revenues, expenses and control of the newly formed entity.<sup>26</sup> In 2013, South Africa’s Imperial Logistics announced that they entered into a joint venture with international advisory and procurement firm, The Beijing Axis. The partnership enabled Imperial to improve its international supply chain management in Asia, and its clients to benefit from increasing trade between Africa and Asia.<sup>27</sup>

#### *Acquisition strategies*

An acquisition occurs when one entity targets and buys another to become the sole owner of both. Consider the Noonan acquisition reported on in the opening case study. Bidvest bought Noonan in 2018 for approximately R2.7 billion (\$208 million). Noonan is a leading provider of strategic outsourcing and operates in the United Kingdom and Ireland. Noonan design and deliver services and solutions for many of the world’s largest and most prestigious organisations and are highly experienced in delivering large and complex facilities management outsourcing projects. They are recognised experts in first-generation outsourcing and provision of services to quality critical environments

and sectors with unique challenges. Examples of areas in which they operate are life sciences, retail, healthcare, education and police and justice. This acquisition supported Bidvest's overall growth strategy and the purchase allowed the organisation to diversify geographically. According to the CEO of Bidvest, Lindsay Ralphs, Noonan's business model complements Bidvest and the acquisition helps the organisation to improve its services, increase its client base, and support international growth.<sup>28</sup>

### *Merger strategies*

A merger occurs when two separate entities combine forces to create a new organisation. An example of a merger was when two medium-sized South African audit, tax and financial and legal advisory service organisations merged in 2018. BDO South Africa merged with the Cape Town and Port Elizabeth offices of Grant Thornton. Both these offices then operated under the BDO brand. The merged organisation benefits from a scale-up of professional services and can now offer the full spectrum of professional services, including audit, company secretarial, business services and advisory services, corporate finance, cyber lab, economic incentives, and HR advisory service, internal audit and forensics services, legal services, risk advisory, tax, tech advisory, and wealth advisory services. The merger furthermore allowed the organisation to leverage the opportunities created by the changes in the auditing profession, including the introduction of mandatory audit firm rotation. BDO is now in a far stronger position to take advantage of opportunities in the market and to provide the market with a significant alternative to competition.<sup>29</sup>

### 7.2.4 Turnaround and exit strategies

Operational realities and fierce competition often result in companies performing poorly over an extended time. These organisations are not in a position to grow and for them, survival becomes the core objective. In order to affect a turnaround, executives need to acknowledge problems and consider strategic options that could yield immediate returns. Unfortunately, sometimes there is no other option than to cut losses and exit the industry.

In this section, we will review a few strategic options available to organisations facing this scenario. The practising strategy box on South African Airways' turnaround strategy below reviews key considerations for the new CEO to turnaround the performance of the national carrier.

## Practising strategy: South African Airlines: We live in hope<sup>30 31</sup>

On August 2017, South African Airways (SAA) appointed yet another CEO, Vuyani Jarana, whose responsibility it was to attempt implementing the organisation's ninth turnaround strategy in a little over a decade, inheriting a massive debt and maturing loans of almost R20bn over the next five years. In August 2019, Jarana resigned and SAA will need new leadership again.

Key considerations for the new CEO include the following:

1. Implement staff reductions. An audit needs to be conducted on the entire staff complement and benchmarks be done to determine the worker/aircraft personnel ratio. International best practice reported a ratio between 120 and 140 employees per aircraft. The current SAA ratio is 190 employees per aircraft, which is approximately 46 per cent higher than the average. To be competitive, it would require SAA to retrench 3,000 employees, but this might not be realistic from a political standpoint.
2. Update fleet. SAA's fleet does not match that of international competitors. The procurement of new aircraft seemed to be done without any larger strategy. For example, the five new A330-300 aircraft acquired, have a range of 6,350 nautical miles, which can limit their usage in key European or Asian markets. The fleet of older Airbus aircraft was known for high fuel consumption. If SAA wants to compete internationally in terms of cost efficiency in a comfort- driven long-haul market, they need to consider updating their fleet with the prevailing best sellers of the A350-900 or B787 variant. This would, however, require huge capital investments.
3. Servicing sensible routes. SAA faces a chicken and egg situation when it comes to routes. To service routes, airlines compete on extremely tight margins and often uncontrollable extraneous factors. SAA will require the right equipment and rigorous internal controls to contain operational costs. It would help if SAA operated a lean and profitable route network and entered into codesharing partnerships to cover destinations that it could not be serve profitably previously. Over the longer term, a more city-to-city direct approach to connectivity needs to be established.
4. Implementing international services from Cape Town. Cape Town is one of South Africa's main tourism destinations and is considered an important business hub, with a population of 4 million. Therefore, Cape Town should be regarded as a core component of the airline's global route network.

5. Liaison more efficiently with South African tourism. As the South African national airline, SAA should partner with South African Tourism, the country's national tourism board. The partners could then work together to develop travel packages to popular South African tourist destinations.
6. Providing some extras. Many airlines allow greater weight allowances for travellers and SAA needs to consider providing travellers with some extras that would distinguish them from their rivals.
7. Improving service levels. SAA needs to develop a commitment to outstanding service. Given the intensity of international rivals, any turnaround strategy could fail (again) as a result of lacklustre or uninspiring service. When evaluating services, customer satisfaction surveys should be complemented with staff morale surveys to determine the relationship between staff morale and customer satisfaction.
8. De-politicising the airline. An independent assessment of all business linkages needs to be established to rid the airline of the bad habits of graft and patronage. The 2015 Ernst & Young forensic investigation into 48 tenders at SAA indicated that 28 of these did not comply with tender requirements.

At the time of writing this chapter, the public and media were speculating whether South Africa could really afford a national carrier, or whether some degree of part-privatisation is necessary. This follows the request from the airline for yet another cash injection by the Finance Minister to keep the airline flying by providing salaries and urgent debt repayment. The nation lives in hope that SAA will stabilise.

In the shorter term, the most successful turnaround strategies focus on reducing direct operational costs and improving productivity gains. Three strategic options that can be used to achieve these objectives are retrenchment, recovery and revenue growth.

### *Retrenchment strategies*

Retrenchment strategies are typically used to reduce the size or diversity (in terms of the number of product offerings or strategic business units) of the organisation. This strategy takes two forms, namely, cost-cutting and reducing non-core assets. In the SAA example above, overwhelming evidence suggests that a combination of systematic weaknesses are the result of a lack of internal control. Suggestions are, for example, that the SAA board approved wasteful and irregular expenditure. Cost-cutting will only incur when internal controls are in place to ensure operational efficiency, reliable financial reporting and compliance with laws and regulations. Cost-cutting would also result if staff are reduced in line with international best practice and if mechanisms are put in place to ensure optimum performance.<sup>32</sup>

### *Recovery strategies*

Recovery strategies are used to stabilise the business. This strategy is often employed in response to externally induced problems and a recovery strategy aims to introduce new entrepreneurial blood in the form of turnaround specialists or a new leadership team. The appointment of Mr Vuyani Jarana on 1 November 2017 as new CEO of SAA was part of the recovery strategy of the airline. Following his resignation, it needs a new recovery strategy.

### *Revenue growth strategies*

Revenue growth strategies aim to grow sales in various ways, for example, decreasing selling prices, increasing promotions, implementing product modifications, appointing more sales staff and improving customer service.

### *Divestiture strategies*

Turnaround can also be achieved through divestiture. A divestiture is the partial or full disposal of assets or SBUs through sale, exchange or closure. Divestiture results from a management decision to cease operations in a particular area because it is no longer part of a core competency or when it is no longer profitable.<sup>33</sup> SAA, for example, should reconsider its current routes, suspend some routes, and minimise loss-making international networks.

### *Liquidation strategies*

If none of the options above (retrenchment, recovery, revenue growth or divestiture strategies) are viable, the organisation would have no other choice but to exit the industry. In order to exit, executives may sell the organisation, liquidate the organisation or declare bankruptcy.<sup>34</sup> A liquidation strategy implies that the entire organisation be sold-off, either as a whole or in parts of it. Liquidation can be voluntary or, in the case of bankruptcy (where the organisation can no longer pay its debts), can be directed by the court.

In summary, this section provided an overview of the various options for corporate-level strategies. In the following section, our attention shifts to the management of the multi-business organisation.

LO 3: Discuss the management of the multi-business organisation

## **7.3 Managing the multi-business organisation**

Managing a sometimes diverse group of business units in an organisation, requires action that is tailored to the circumstances confronting each business unit with due consideration to the resultant impact on the entire organisation. A useful management tool to provide a snapshot view of an organisation's investments is two-dimensional

matrices. Executives can use various adaptations of well-established portfolio matrices, such as the Boston Consulting Group (BCG) matrix, the directional policy matrix (General Electric-McKinsey matrix), the SPACE or the parenting matrix.<sup>35</sup> For purposes of this chapter, we will focus on the directional policy matrix as illustrated in Figure 7.3.

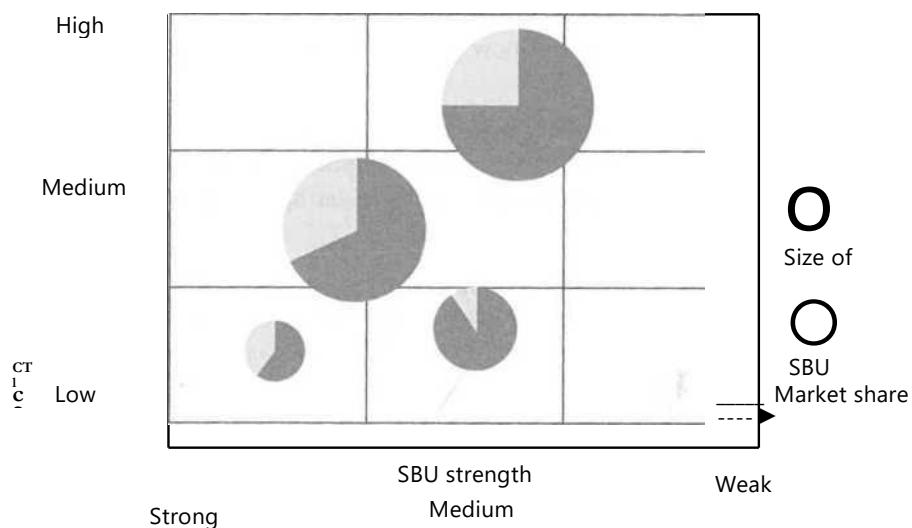


Figure 7.3 *Directional policy matrix*<sup>36</sup>

The directional policy matrix positions the various strategic business units (SBUs) of an organisation according to (1) the long-term attractiveness of the relevant market in which they operate, ranging from low to high (depicted on the vertical axis of this matrix), and (2) the competitive strength of the SBU in the market, ranging from strong to weak (depicted on the horizontal axis of the matrix). The matrix further allows analysts to illustrate the relative size of the market, as well as the market share of the SBU. In Figure 7.3, the size of the market is indicated in blue, whereas the market share is indicated in grey. This snapshot serves to inform portfolio strategies to guide corporate decision-making in terms of financial investment and divestment. Investment would be appropriate in instances in which the market is attractive and the SBU displays a relative strength in that industry. Divestment would be considered in unattractive markets where the SBU display a competitive weakness. If we look at Figure 7.3, the smallest circle indicates a strong SBU in terms of market share, but the long-term market attractiveness is very low. The biggest circle indicated in Figure 7.3 indicates an SBU with a medium to weak market share, with high long-term market attractiveness. The organisation might decide to rather invest most of its resources indicated in the SBU with the biggest market share, with medium long-term market attractiveness. These decisions also need to consider the organisation's strategic direction, potential for growth elsewhere and possible synergies among SBUs.

With this in mind, it is clear that matrices such as these, only provide a simplistic view and should be supported by sound business intelligence. Each matrix gives more or less attention to one of three criteria:<sup>37</sup>

- the balance of the portfolio, for example, in relation to its markets and the needs of the organisation
- the attractiveness of the business units in terms of their individual competitive positioning and how profitable their markets or industries are likely to be in future
- the ‘fit’ that the business units have with one another in terms of potential synergies or the extent to which the corporate parent will be good at managing them and assisting them in creating value in the corporate portfolio.

An understanding of where the organisation want to go should be followed by an agreement on how to compete in order to get there. The next section focuses on the various business-level strategic options.

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

#### **7.4 Business-level strategic options: creating and sustaining competitive advantage**

Corporate-level strategies essentially deal with the number of products and services that the organisation will offer and the markets which they will pursue. Business-level, or competitive, strategies consider how to compete successfully in these markets. In other words, these strategies focus on how to position an organisation within an industry in such a way that it has competitive advantage.

There are many variations in business-level strategies, but if we strip away the details to get to the real substance, the biggest and most significant differences among competitive strategies are reduced to the following:

- 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
- a combination of the above.<sup>38</sup>

When you ask customers why they buy a specific product or service, they will tell you that it is because the product is cheaper than, different from or provides a better value proposition than alternative competing choices. Although these are broad generalisations, important implications which represent the generic strategic options for achieving competitive advantage flow from them. Four distinct generic competitive strategy approaches stand out:<sup>39-40</sup>

### *Cost leadership strategies*

A cost leadership strategy involves becoming the lowest cost organisation (with regard to production cost) in a domain of activity by a significant margin. This strategy will typically target a broad spectrum of buyers. It is important to note that cost leadership does not necessarily imply low price - in fact, having low production costs and a low price will result in average returns and no real competitive advantage.

### *Differentiation strategies*

A differentiation strategy involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium. This strategy may focus on either a broad section of buyers or a narrow buyer segment.

### *Focus strategies*

A focus strategy involves targeting a narrow segment or domain of activity and tailoring its products or services to the needs of that specific segment, to the exclusion of others.

### *Best cost provider strategies*

A best cost provider strategy is a hybrid strategy that involves giving customers more value for their money by offering upscale product attributes at a lower production cost than rivals.

Each of these four generic competitive approaches stakes out a different market position, as illustrated in Figure 7.4.

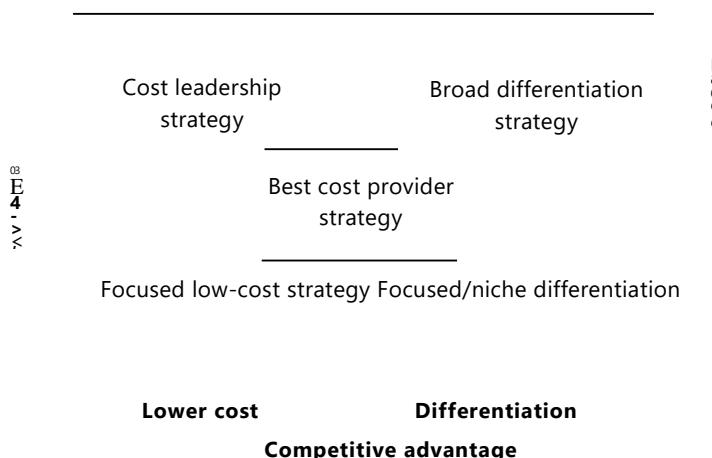


Figure 7.4 *Business-level strategies\**

**Figure 7.4 illustrates that the type of business-level strategy is determined by two factors. The first factor is the type of competitive advantage offered by the**

organisation (either lower cost, differentiation, or a combination of lower cost and differentiation), which is depicted on the horizontal axis of Figure 7.4. The second factor is the target market pursued by the organisation (either broad or focused), which is depicted on the vertical axis of Figure 7.4. A best cost provider strategy is depicted in the middle of Figure 7.4 - indicating a strategy positioned between the extremes of a lower cost and differentiation on the horizontal axis and between the extremes of a broad and focused strategy on the vertical axis. These strategies relate to the organisation's deliberate decisions on how to meet its customers' needs, how to counter the competitive efforts of its rivals, how to cope with the existing market conditions and how to sustain or build its competitive advantage. Some companies choose to focus their strategic efforts to build leadership in one type of competitive advantage. A good example of such an organisation is PEP Stores which is known for overall cost leadership in all the product categories they offer. Other companies, such as Unilever, aim to serve several market segments by offering different products to different markets. Consider the information in the practising strategy box that follows, which is based on Unilever's position strategies and then reflect on the different business-level strategies employed by this organisation in the washing powder product range.

## Practising strategy: Unilever: Position strategies

Brand

# Skip

Competitive strategy:  
broad differentiation  
strategy

Price: \* R64.99

Weight: 1 kg

**Product: SKIP Auto Regular  
Autowashing Powder**

\* Price obtained from Pick 'n Pay Online  
on 6 August 2019

### Positioning<sup>42</sup>

We at SKIP believe that you get the cleanest wash with our product through technology that makes the laundry process simpler and faster for you.

SKIP washing powder was the first automatic washing powder in South Africa. It was launched in the 1960s - when the first washing machines were introduced in South Africa.

SKIP is the leading garment care expert and as such, consumers have not only come to trust SKIP and be loyal consumers, they also expect SKIP to continually offer them the most up-to-date, technologically advanced products on the market, to care for their clothes.

SKIP is a premium brand with a premium offering. Not only does SKIP offer cleaning power, but it also specialises in caring for clothes. SKIP is the technology expert that prides itself on its ability to help clothes last longer.

**Brand**

**Competitive strategy:**  
**best cost provider**  
**strategy**

**Price:**\* R69.99

**Weight:** 3 kg

**Product:** OMO Multi-active  
Flexi Washing Powder

\* Price obtained from Pick 'n Pay  
Online on 6 August 2019

**Positioning<sup>43</sup>**

Remember when you were a child? How you were free to explore, returning home covered in dirt and other stains that you wore like the badges of an intrepid discoverer?

'Dirt is good!'

More significantly, the idea that dirt is good isn't simply a catchphrase for OMO. It lies at the core of our brand, supported by patent-protected technology that gives your kids the freedom to get dirty, safe in the knowledge that OMO will remove those awkward stains. Omo's superior formulation offers South Africa's best-ever stain removal, which cleans deep inside pockets, where kids often store their little discoveries.

To ensure that everyone, everywhere, can share in this initiative, we're investing heavily in developing a range of products that suits the pockets of all income groups.

**Brand**

**Competitive strategy:**  
**overall low-cost**  
**provider strategy**

**Price:**\* R37.99

**Weight:** 2 kg

**Product:** Surf Regular  
Washing Powder

\* Price obtained from Pick 'n Pay  
Online on 6 August 2019

**Positioning<sup>44</sup>**

Surf washing powder is known for its super whitening power.

Surf washing powder is one of the oldest washing powders on the market in South Africa. It was launched in 1959. Surf washing powder is known for its super whitening power. It has been used and trusted by many people over the years, because of its reputation for maintaining the whiteness of white garments.

Surf is a handwashing powder. Because of high foaming, it is not suitable for washing machines - twin tubs, top loaders and front loaders.

Although consolidated market positions are achieved over time, organisations often need to review different strategic choices more frequently. Once an organisation has selected potential business-level strategies, it needs to evaluate these options to choose the most appropriate business-level strategy or combination of strategies. The next section focuses on the evaluation of strategic choices.

LO 5: Explain the evaluation of strategic choices.

## 7.5 Evaluating strategic choices

Strategies can be evaluated against three key evaluation criteria, namely, suitability, acceptability and feasibility. *Suitability* considers whether the proposed strategies address the key issues related to the strengths, weaknesses, opportunities and threats the organisation faces. Suitable strategies need to take advantage of external opportunities and internal strengths while, at the same time, overcoming external threats and internal weaknesses. In order to identify whether a strategy is suitable, the strategist should have a good understanding of the internal environment of the organisation (the focus of Chapter 6), as well as of the external environment (the focus of Chapter 5), in which the organisation operates. In practice, it often happens that more than one strategy may be suitable, but that limited resources necessitate the screening of options so that the most appropriate strategy can be selected.

Strategies are acceptable if their expected performance outcomes meet the expectations of all stakeholders. Since the *acceptability* of a strategy option is determined by expected performance outcomes, this criterion requires strategists to consider risk, return and stakeholder reaction. We find that organisations, regardless of the industry in which they operate, mostly engage in formal risk assessment if strategic options require substantial investments. Tools such as sensitivity analysis, financial ratios, and break-even analysis are useful to evaluate risks. These aspects are dealt with in Chapter 14. The second consideration is return, which refers to the financial benefits which stakeholders are expected to receive from a strategy. To assess return, strategists can use different measurements such as financial analysis, shareholder value analysis, cost-benefit evaluations and the real option approach. To assess the final consideration, which is the reaction of stakeholders, strategists can make use of stakeholder mapping.

Finally, a strategy is feasible when the organisation has, or can obtain, the capabilities required to deliver a strategy. To assess *feasibility*, strategists need to address two key questions:

1. Do the resources and competencies currently exist to implement a strategy effectively?
2. If not, can they be obtained?

The answers should be informed by considering financial and human resource requirements, as well as resource integration.<sup>45</sup>

Although the criteria seem to be quite straight forward, the reality is that each criterion can only be assessed if key strategic issues dealing with it are identified by means of a comprehensive internal and external environmental analysis.

## The big picture

Choosing appropriate strategies is not possible unless they are aligned with organisational resources and capabilities and the opportunities available in the external environment. As a result, strategy selection is a dynamic process that is subject to change. We need to realise that there is not a ‘one size fits all’ option. Organisations are different in terms of their overall purpose, scope, range and diversity of products and/or services, as well as in terms of the markets they serve. On a corporate level, portfolios need to be managed in such a way that the corporate parent creates value for the SBUs. Each SBU needs to be positioned within an industry in which it has a competitive advantage (see Figure 7.5). There are various strategic options available to companies to achieve this, but each organisation has unique needs and the application of options will differ accordingly. Finally, strategic options need to be evaluated to determine their suitability, acceptability and feasibility. The outcome of this evaluation will indicate whether the strategy selected has a strategic fit within the operating environment.



Figure 7.5 Corporate- and business-level strategy

## Summary of learning outcomes

LO 1: Understand the nature and use of strategic goals and strategic choices to provide strategic direction.

Strategic goals are statements that express specific outcomes to be achieved. These goals are set to support and achieve the strategic direction of the organisation. To achieve strategic goals, managers and key employees need to make strategic choices on three levels. First, decisions are taken about the overall purpose, scope, range and diversity of the organisation. The outcome of these choices is corporate strategies that aim to maximise stakeholder value in the long term by managing a portfolio of businesses. Second, decisions are taken about how to differentiate each strategic

business unit. The outcome of these choices is business-level strategies that determine competitive advantage. Third, decisions are required on a functional level about how to best support business-level strategies by performing strategy-critical activities.

**LO 2: Differentiate between the various corporate-level strategies that create corporate value and synergy.**

Corporate-level strategies determine the overall purpose, scope, range and diversity of the organisation. In this chapter, we discussed internal growth strategies, external growth strategies, corporate combination strategies, turnaround and exit strategies. We also reviewed strategic options that can be followed in support of the strategy types listed above.

**LO 3: Discuss the management of the multi-business organisation.**

To manage multi-business organisations, strategic decisions should be tailored to the circumstances confronting each business unit, with due consideration to the resultant impact on the entire organisation. In this chapter, we propose that executives would benefit from depicting SBUs on portfolio matrices to get a snapshot of the entire organisation. This snapshot would then serve to inform portfolio strategies to guide corporate decision-making with regards to financial investment and divestment. These decisions also need to take into consideration the organisation's strategic direction, potential for growth elsewhere, and possible synergies among SBUs. Matrices should further be supported by sound business intelligence.

**LO 4: Differentiate between the various business-level strategies for creating and sustaining competitive advantage.**

Business-level strategies take into consideration to compete successfully in these markets. In this chapter, we reviewed four different strategic options, namely, cost leadership, differentiation, focused and best cost provider strategies.

**LO 5: Explain the evaluation of strategic choices.**

Strategies can be evaluated against three key evaluation criteria, namely, suitability, acceptability and feasibility. *Suitability* considers strategic fit between the organisation's capabilities and resources and the opportunities present in the external environment. Strategies are acceptable if the expected performance outcome of the strategy meets the expectation of all stakeholders. Finally, a strategy is feasible when the organisation has, or can obtain, the capabilities required to deliver a strategy.

## **Discussion questions**

1. Distinguish between corporate- and business-level strategies.
2. Explain why the Bidvest Group followed a successful diversification strategy.  
Substantiate your answer.
3. Explain how an organisation can build a competitive advantage.

4. Discuss three strategic options that companies can employ to grow from within.
5. Evaluate South African Airlines' turnaround strategy.

## Learning activities

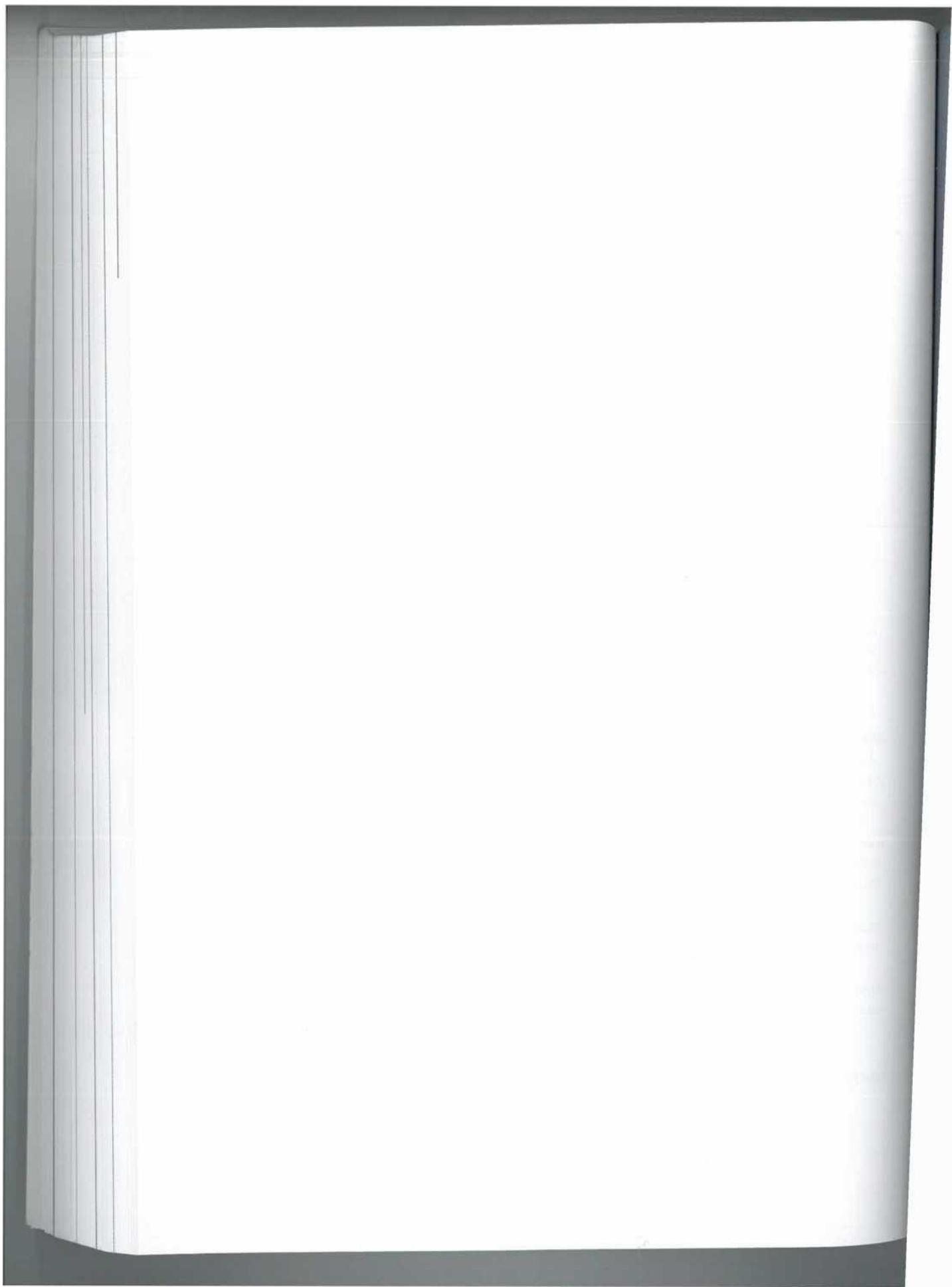
1. Watch the interview with Michael Porter on YouTube ([http://www.youtube.com/watch?v=mYF2\\_FBCvXw](http://www.youtube.com/watch?v=mYF2_FBCvXw)) on the five competitive forces. How do these forces shape strategy?
2. Read the article available on <http://www.whatifyourstrategy.com/wp-content/uploads/2008/08/with-all-this-intelligence.pdf>. What are the implications, in your view, for strategists?

## Endnotes

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# Strategy implementation

## as change management

### Tertia Botha

#### LEARNING OUTCOMES

After studying this chapter, you should be able to:

LO 1: Explain 'strategy implementation' and differentiate between strategy formation and implementation.

LO 2: Explain the various barriers to successful strategy implementation.

LO 3: Explain the principles of strategy implementation.

LO 4: Discuss change as a fundamental strategy implementation element.

LO 5: Differentiate between the various types of strategic change.

LO 6: Differentiate between the various models of planned change.

LO 7: Explain the barriers to successful strategic change and ways to overcome them.

#### KEY WORDS

Adaptation

■ Reconstruction

Analytical models of  
planned change

■ Revolution

„ strategk change

Best practice models of  
planned change

a S(strategy implementation

Evolutionary change

#### CHAPTER ORIENTATION

In Chapter 2, you were introduced to strategy-as-practice, which recognises that strategic management is a dynamic discipline and that its key influences change over time. Although there are many different views on how strategic management should be done, Chapter 2 outlined seven universal principles that underlie the different views of strategy and strategic management. In short, in accordance with these principles, strategy is about positive change; it takes a longterm view; is complex; has an internal and external focus; is both deliberate and emergent; involves different thought processes; and happens at different hierarchical levels in organisations.

Chapter 3 provided coverage of the process perspective of strategic management. The approach in terms of strategic management adopted in this book is that strategic management is a complex and dynamic discipline and that a static, linear process does not take into account the complexity or the environment in which the organisation operates. However, the process perspective of strategic management is a valuable instrument or model that offers a sound theoretical foundation from which to work. The process perspective of strategic management identified three stages or phases, namely, strategic planning, strategy implementation and strategic control. Strategic planning is a conceptual process that consists of an environmental analysis and the development of strategies. These were dealt with in Chapter 3 (*A process perspective of strategic management*), Chapter 5 (*The context of strategy*), Chapter 6 (*Strategic resources and capabilities*) and Chapter 7 (*Developing and choosing appropriate strategies*).

World-class processes will not lead to successful organisations without the correct strategic direction. The best strategy in the world will get nowhere without strong operations to implement it. In this chapter, our focus turns to strategy implementation. First, the term 'strategy implementation' is explained and we differentiate between the concepts 'strategy formation' and 'implementation'. Second, the barriers to successful strategy implementation are explored, after which the principle to overcoming these barriers is explained. The second part of the chapter focuses on change as an integral part of strategy implementation. As such, change and strategic change is first explained, followed by a discussion of the various types of strategic change. Then, we differentiate between various models of planned change. Lastly, the chapter identifies barriers to successful strategic change and ways to overcome them. Figure 8.1 highlights the focus of this chapter.

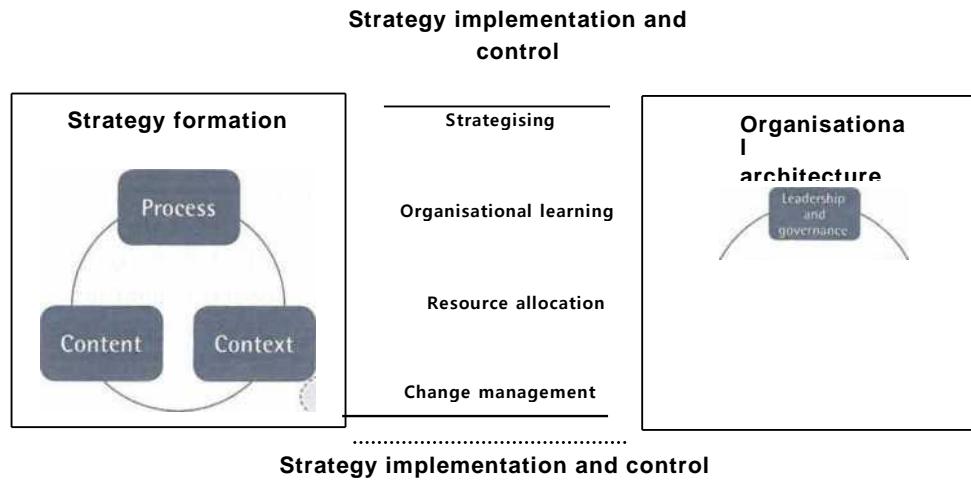


Figure 8.1 *Strategy implementation as change management*

## Case study

### NASPERS

Founded in 1915 in Stellenbosch, South Africa, Naspers is a global internet and entertainment group and is one of the largest technology investors in the world. Operating in more than 130 countries and markets with long-term growth potential, Naspers builds leading companies that empower people and enrich communities. The strategy of the company is stated as follows:

*We believe in the power of local, backed by global scale - we back new business models to fuel our growth and increasingly we look for opportunities to address new big societal needs in markets where we see the greatest growth potential. These include all major markets in the world.*

*We believe we are the best global growth partner for founders, start-ups and other investors with the ambition to scale in our markets.*

Naspers' operating model is different from many other companies. They both invest and manage leading companies and add value at all life-stages. They create their own businesses or invest in early-stage companies, take promising modes and grow them quickly to scale, they grow companies already at scale and they hold investments in listed companies with significant upside.

The following examples clearly illustrate the implementation of the strategy and the various change programmes that the company successfully underwent since its establishment in 1915.

Naspers was founded to produce a Dutch language newspaper, *De Burger*. In the 1920s, Naspers added book publishing to its operations and during the next 60 years, it grew into one of Africa's leading media groups. In 1985, M-Net was founded, Naspers' first pay-TV business and in 1997, MWEB was founded, the company's first internet service. In 1994, the company listed on the Johannesburg Stock Exchange. In 2001, Naspers invested in Tencent Holdings, which represented the beginning of its growth into a global internet and entertainment group and in 2008, it acquired Allegro and entered the B2C e-commerce segment. In 2010, the company acquired a majority share in OLX as a foundation to build its online classifieds business segment. In 2015, the company celebrated its 100th year, operating in over 130 countries and markets. In the same year, Naspers bought majority shares in Avito and in 2016, the company entered the Edtech sector with early-stage investments in Brainly, Codecademy and Udemy. In 2017, Naspers closed a deal on the divestment of Allegro, achieving a transaction to the value of US\$3,253 billion. In the same year, the company closed the Ibibo/MakeMyTrip transaction, creating one of the largest travel groups in India, invested €387 million in Delivery Hero, and invested US\$80 million in Indian-based food ordering and delivery platform, Swiggy. In 2018, Naspers completed its sale of Tencent shares, reducing its stake from 33.2 per cent to 31.2 per cent, yielding US\$9.8 billion. In the same year, the company also sold its stake in Flipkart.

Today, Naspers is organised into six business areas:

**Classifieds.** Their classifieds business, the OLX Group, provides local mobile and digital marketplaces that connect more than 350 million buyers and sellers every month in more than 40 countries around the world. Their companies, OLX, Avito and letgo, between them, are among the top-ranked mobile classifieds applications in more than 20 countries.

**Payments.** PayU is one of the largest payment service platforms in the world, focusing on markets with long-term growth potential. It has leading positions across Africa and the Middle East, Central and Eastern Europe, India, and Latin America. PayU's 250 payment options enable safe transactions in 16 countries for more than 160,000 merchants, enabling them to focus on reaching the 2.2 billion consumers in their markets.

**B2C.** Their B2C eCommerce segment contains their business to consumer e-commerce companies and investments. These businesses are leading players in Latin America, Central and Eastern Europe, the Middle East and Africa and include Allegro, Avenida, eMAG, Flipkart, Konga, Amazon.ae, and Takealot, as well as online travel businesses such as Goibibo and Redbus.

**Ventures.** Their ventures team hunts for new opportunities to back high potential internet businesses and help their founders to scale globally.

**Video Entertainment.** Through MultiChoice South Africa and MultiChoice Africa, their video entertainment division brings quality entertainment anytime, anywhere, on any device to more than 10 million subscribing households in more than 50 countries across sub-Saharan Africa.

Media. Naspers started as a print business in 1915 with their Dutch language newspaper *De Burger*. Today, the group has grown beyond recognition, and since 2000, their news and print businesses have been organised under the umbrella brand, Media24. It is South Africa's leading publisher, with more than 40 magazines and 80 newspapers and reaches more than 13 million monthly unique browsers across its digital platforms. Media24 has interests in digital media and services, newspapers, magazines, e-commerce, book publishing, print and distribution and continues to shape the media landscape.

Sources: <https://www.naspers.com/about> [Accessed 4 January 2019]; <https://www.naspers.com/about-us/strategy> [Accessed 4 January 2019].

LO 1: Explain 'strategy implementation' and differentiate between strategy formation and implementation.

## **8.1 What is strategy implementation and how does it differ from strategy formation?**

Strategy implementation can be defined as the process during which the organisation draws on both human and non-human factors to ensure that its strategy is executed in line with the plans devised during the strategy formation phase. Strategy implementation is the action phase of strategic management. Stated differently, strategy implementation is the process whereby selected strategies are turned into action in order to realise the vision, mission and goals of the organisation. Therefore, strategy implementation deals primarily with change by translating organisational strategies into action. What has been planned must now be executed. It is the phase of the strategic management process where management aligns strategic leadership, organisational culture, organisational structures, rewards systems, policies and resource allocation with its chosen strategies. Strategy implementation is often regarded as the most difficult part of strategic management. The implementation of strategies is that part where strategies often fail. The opening case study of this chapter illustrates the successful implementation of Naspers' strategy of looking for opportunities to address new big societal needs in markets where they see the greatest growth potential. This includes all major markets in the world. Starting as the producer of a newspaper in Stellenbosch, the company diversified into book publishing, pay television business, internet services, e-commerce and entertainment business on a global scale - all of these decisions required organisational changes to ensure their successful implementation.

Strategy formation and implementation differ from each other in a number of important ways:

- Strategy formation is regarded as the intellectual phase of strategic management, while strategy implementation is the 'action' phase.
- Internal and external forces drive strategy formation, whereas strategy implementation is mainly driven by internal, organisational and operations-related forces.

- Strategy formation requires strategists to be intuitive with good analytical and forecasting abilities, while strategy implementation requires strategists to have excellent motivation and leadership skills, in other words, people-related skills.
- Strategy formation is regarded as the main responsibility of senior management (although there is a drive towards wider participation based on the strategy-as-practice approach), whereas lower levels of management are regarded as having the responsibility to implement strategies.
- Strategy formation is concerned with the overall goals and objectives of the organisation, whereas strategy implementation is concerned with the deliberate choice of a set of activities or steps needed to achieve strategic goals.
- Strategy formation follows a top-down approach - the strategic goals and plans that are developed, lead to the development of tactical and operational goals and plans. On the operational level, goals and plans for portfolios, programmes, projects, deliverables and activities are developed. Strategy implementation follows a bottom-up approach - the execution of activities leads to the realisation of planned deliverables, deliverables will realise project goals, the realisation of project goals will lead to the realisation of programme and portfolio goals. Then, the realisation of portfolio goals will lead to the realisation of operational, tactical and ultimately, strategic goals. This is illustrated in Figure 8.2.

Strategy formation (top-down)

Strategy implementation (bottom-up)

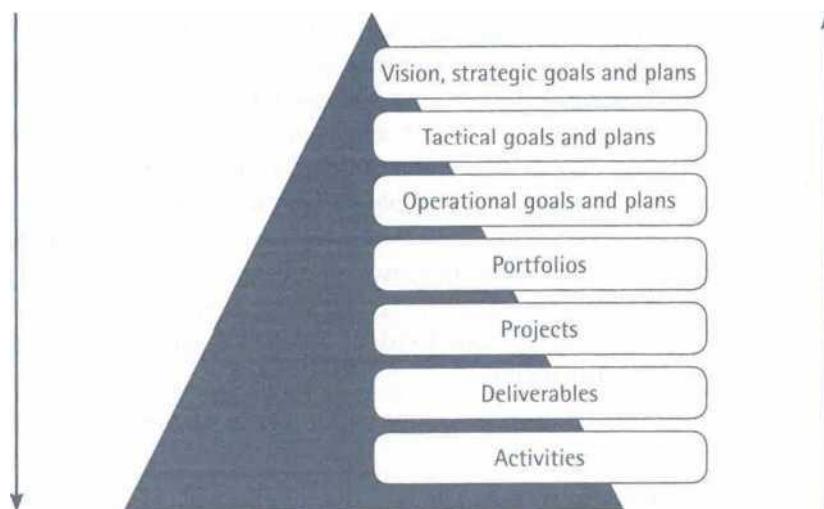


Figure 8.2 *The top-down and bottom-up approaches of strategy formation and strategy implementation*

A portfolio is regarded as an investment fund aimed at managing and attaining strategic goals and plans. A portfolio funds various approved projects. A project has a clear objective with an organised set of activities to be carried out in order to attain its objective. Each project in a portfolio is prioritised and activated based on its contribution to the strategic goals and plans of the organisation. Projects are unique and are not repeated exactly. They integrate various functions, contractors and departments in an organisation. Organisations can undertake various projects, for example, projects in research and development, the development of new products and/ or services, product and/or service enhancements, information systems development, process improvement, business improvement, event management and mergers and acquisitions. A project consists of various deliverables, whereas deliverables consist of various activities.

Strategy formation and implementation is an integrated process. Although the process perspective of strategic management (discussed in Chapter 3) indicates a clearly divided and neatly performed process consisting of different phases, strategic management, in practice, is a fully integrated process with overlaps between strategy formation, implementation and control. Formation decisions have a direct impact on strategy implementation - they influence the approval of projects and the subsequent execution of deliverables and activities. The execution of activities influence the attainment of deliverables and ultimately, the attainment of portfolio, operational, tactical and strategic goals. Success in both strategy formation and implementation is necessary to attain superior organisational performance. Strategy formation and implementation are both an art and a science; it incorporates both a rational, analytical element and an element of creativity. In the following section, we will address the barriers to successful strategy implementation.

LO 2: Explain the various barriers to successful strategy implementation

## **8.2 Barriers to successful strategy implementation**

In Chapter 3 (Section 3.4.1), the balanced scorecard (BSC) was identified as a strategic management tool, developed by Kaplan and Norton<sup>2</sup>, which can be used in strategy formation as it guides the organisation and management team to translate the strategic direction into strategic goals. One of the benefits of the BSC is that it offers a balanced approach to setting strategic goals. The ‘balance’ is grounded in its four perspectives, namely, financial, customer, learning and growth, and business processes. The BSC enables organisations to clarify their vision and strategy, thus making it possible to translate them into action. Therefore, the true purpose of the BSC is to translate strategy into action. Further research conducted by Kaplan and Norton and other researchers, estimated that 80 to 90 per cent of organisations fail when it comes to strategy implementation. Kaplan and Norton’s research identified four main barriers to successful strategy execution, namely:

- The people barrier. As indicated in Section 8.1, strategy implementation is the ‘action’ phase of strategic management, where the successful execution of activities by various people is the first step in the realisation of organisational goals and ultimately, its vision (see Figure 8.2). Therefore, it is imperative that organisational reward and incentive systems be linked to strategy implementation to assist in overcoming the natural resistance to change that can be expected. Kaplan and Norton’s research indicated that only 25 per cent of organisational management has incentives directly linked to strategy implementation, which was indicated as a people barrier.
- The vision barrier. Ultimately, the execution of all the activities, deliverables and the outcomes of the portfolios should lead to the attainment of strategic goals and the organisation’s vision. Therefore, each individual should have a clear understanding, first of the vision and second, of the strategy that the organisation intends to implement in order to realise its vision. Kaplan and Norton’s research indicated that only 5 per cent of the workforce of organisations actually understand the strategy that the organisation intends to implement to realise its vision.
- The management barrier. Strategic management in practice is a fully integrated process with overlaps between strategy formation, implementation and control - a process that needs to be managed continuously. Kaplan and Norton’s research indicated that 85 per cent of the executive teams of organisations spend less than an hour per month managing and discussing organisational strategy.
- The resource barrier. Resources are needed for strategy formation, implementation and control, and budgeting which plays a pivotal role in strategic management. Kaplan and Norton’s research indicated that more than 60 per cent of organisations fail to link their strategy to a budget.

In order to increase value, organisations need to overcome these barriers to strategy implementation by implementing a formal process. This can be achieved through the five principles of strategy implementation. These principles are discussed in the section that follows.

LO 3: Explain the principles of strategy implementation.

### 8.3 Principles of strategy implementation

To overcome the barriers to successful strategy implementation, Kaplan and Norton\* highlighted five principles of successful strategy implementation, based on the BSC. They called these the ‘principles of a strategy-focused organisation’, which are explained below.

### Principle 1: Translate the strategy to operational terms.

The first principle entails translating the corporate strategy into the logical architecture of a strategy map and BSC to specify the details of the critical elements of the corporate strategy. A strategy map is drawn up by specifying strategic objectives for each element (financial, customer, internal business processes, learning and growth) of the BSC, as indicated in the example in Figure 8.3. The organisation should not have more than 20 objectives - tracking too many strategic objectives will dilute the overall goals of the organisation. Strategy maps can also have arrows between the objectives to show their main cause-and-effect chain. By following the arrows' paths, we can see how the objectives in the lower perspectives (learning and growth, internal business processes), drive the success of the higher ones (customer and financial). With a well-designed strategy map, every individual employee will know the vision and overall strategy of the organisation. Also, every employee will know where he or she fits into the big picture of this overall vision and strategy. This principle is imperative in creating a common understanding and point of reference for all individuals, functional units and business units in the organisation. It helps to overcome the vision barrier.

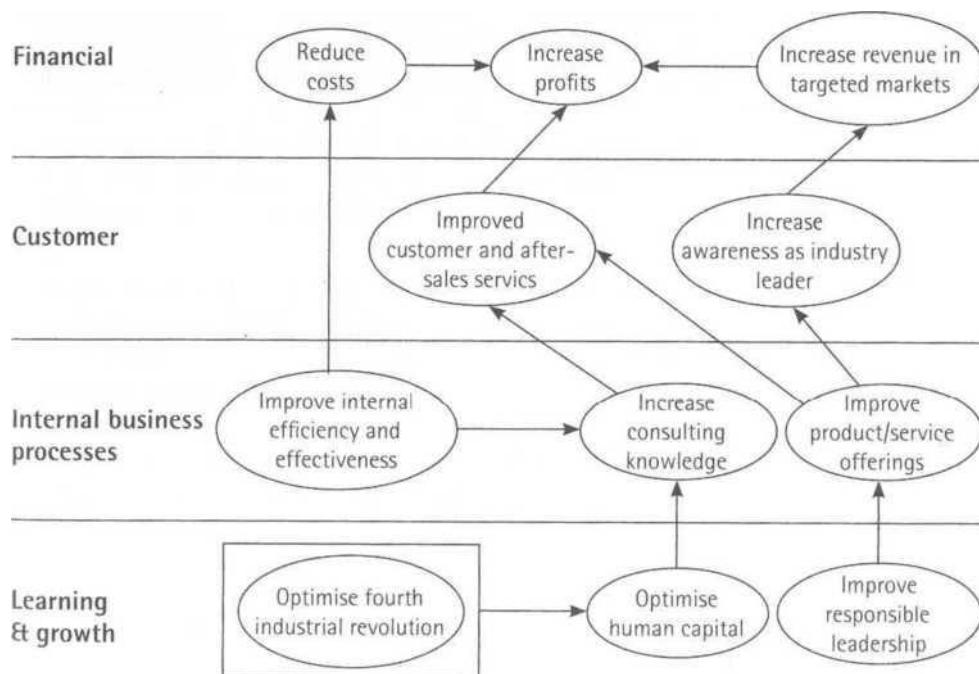


Figure 8.3 An example of a strategy map

**Principle 2: Align the organisation to its corporate strategy.**

Organisations consist of various sectors, business units and functional departments, each with their own operations and often, each with their own strategies (refer to Chapter 2, Table 2.1, which illustrates strategic management and decision-making at various hierarchical levels). Functional departments, such as finance, marketing, procurement, and so on, have their own bodies of knowledge, language and culture. Functional silos may arise and become a major barrier in successful strategy implementation, since organisations may experience difficulty in communicating and co-ordinating activities across these specialised functions. For an organisation to create synergy (to be more than the sum of its various parts), individual strategies must be aligned, integrated and linked. Therefore, the second principle involves the creation of synergy to ensure that these linkages actually occur. In other words, it entails aligning all hierarchical levels (business units, functional units and individual employees) to the strategy. In practice, this step will require the following: (1) each business unit will develop a long-term plan and BSC consistent with strategic priorities; and (2) each functional unit will develop a plan and BSC for best practice sharing to create synergies across business units. When this process is complete, all units should have well-defined strategies that are articulated and measured by BSCs and strategy maps. Linkages should also be established across boundaries with external stakeholders, such as customers and suppliers (refer to Chapter 1, Section 1.7, for an explanation of internal and external stakeholders). BSCs can also be developed to define the organisation's relationship with these stakeholders. The execution of this step will help overcome the people barrier through initiatives that support strategy implementation. The importance of appropriate change management and effective communication should be acknowledged in this steps. (Change management is addressed in detail in Section 8.4).

Figure 8.4 illustrates how this principle is executed. For illustrative purposes, the strategic priorities identified in the corporate scorecard are financial growth, improved stakeholder value, corporate citizenship, and research and development. The organisation may have a number of different business units and a number of functional units, such as finance, marketing, procurement, operations, public relations and information technology. The external stakeholders identified as important and which should be linked to the corporate strategy are customers, suppliers and distributors.

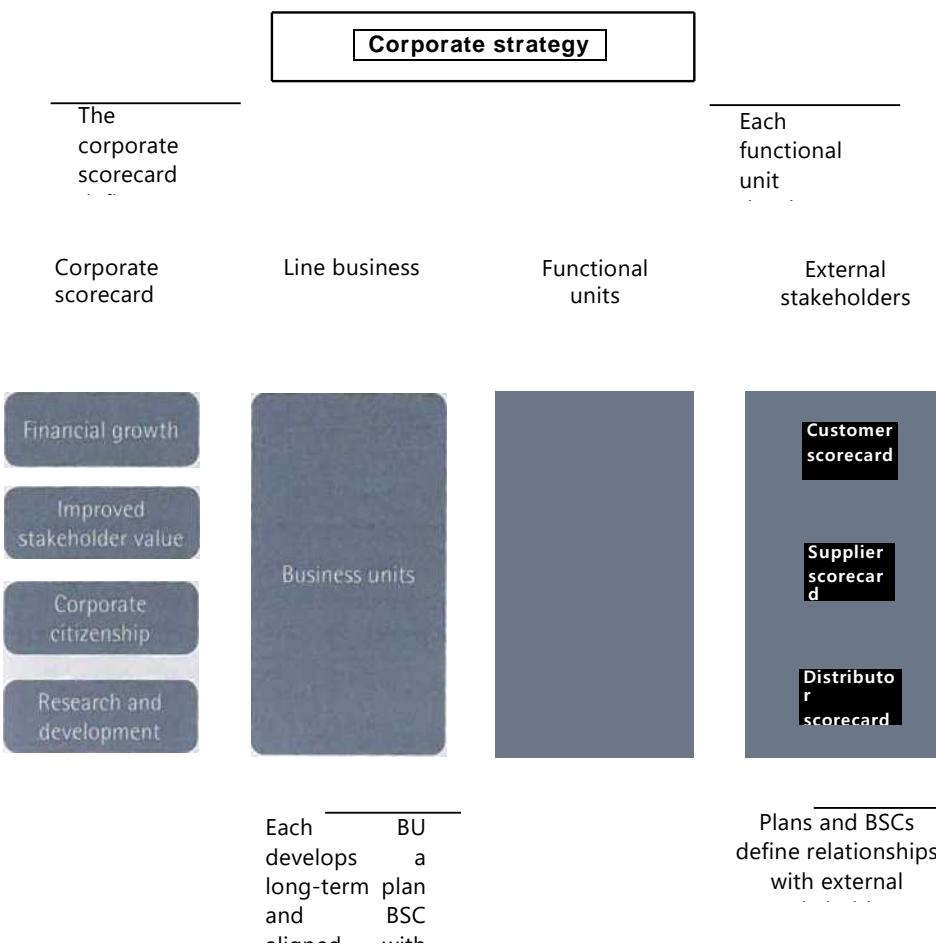


Figure 8.4 Aligning the organisation to its corporate strategy

Source: Adapted from Kaplan, R.S. Et Norton, D.P. 2001. Transforming the Balanced Scorecard from performance measurement to strategic management: Part II. American Accounting Association, *Accounting horizons*. 15(2): 150.

### Principle 3: Make strategy everyone's everyday job.

Senior management and other strategists cannot implement strategies on their own - they need the actions and ideas from everyone in the organisation. The third principle requires that all employees understand the strategy and conduct their day-to-day activities in such a way that it contributes to the success of the strategy. During this stage, organisations should also link their reward systems to the BSC. The execution of this stage is required to overcome the resource barrier.

**Principle 4: Viewing strategy as a continual process.**

The fourth principle introduces strategic management as a double-loop process, which integrates the management of tactics with the management of strategy. This is achieved through the execution of three steps. First, organisations should link strategy to the budgeting process. In terms of budgeting, it is useful to have two kinds of budgets, namely, strategic and operational budget. Strategic budgets enable organisations to develop entirely new capabilities (refer to Chapter 6 where organisational resources and capabilities were explained), reach new customers and/or new markets, become good corporate citizens or improve existing processes and capabilities. An operational budget authorises spending for the production and delivery of existing products and/or services, as well as the marketing and selling thereof to existing customers. The development of both strategic and operational budgets ensures that the organisation shields long-term strategic priorities from the pressures to perform financially well over the short term. The second step of the double-loop process is the execution of management meetings (monthly or quarterly) to review strategy. Finally, a process for learning and adapting the strategy should be executed. Management should be alerted to emerging strategies, new opportunities and risks, and adapt where necessary. Organisational learning is explained in more detail in Chapter 9.

**Principle 5: Mobilise leadership for change.**

Principles 1 to 4 focus on the BSC tool, framework and the processes that support it. Becoming a truly strategy-focused organisation, requires more than tools and processes. First, it requires ownership and the involvement of the executive team. Second, it requires change from virtually every part of the organisation. In Chapter 2, (Section 2.3.1), it was indicated that to be considered 'strategic', organisations cannot carry on what they were doing (ie business as usual). Furthermore, it was indicated that being 'strategic' is not a quick fix of small change - it requires a large and sustained change effort over a long period of time. Initially, the focus should be on the mobilisation of leadership for change, to get the change process started. Once started, the focus shifts to governance to install the changes. A strategic management system evolves. This system will institutionalise the new cultural values and process into a new system for managing.

In the section that follows we discuss, change as a fundamental strategy implementation issue is discussed in more detail.

LO 4: Discuss change as a fundamental strategy implementation element.

## 8.4 Change - a fundamental strategy implementation element

Change is an essential and inevitable feature of organisational life. Just as all biological organisms evolve and develop through time, organisations are also subject to change. There is general agreement that the rate and pace of change facing organisations are greater now than they have ever been. As a verb, the term ‘change’ can be defined as the action to make the form, nature, content, or future course of something different from what it is or from what it would be if left alone.<sup>4</sup>

As indicated in the previous section, being ‘strategic’ is not business as usual but requires large and sustained organisational change. Organisational change can be defined as ‘a process in which an organisation changes its working methods or aims. Sometimes, deep organisational change is necessary to maintain a competitive advantage.<sup>5</sup> Derived from this definition, we can define ‘strategic change’ as ‘deep’ organisational change. It involves changes to some or all of these features for instance:

- the vision, mission, strategy, goals and objectives
- the products and/or services that it offers
- the market to which it offers its products and/or services
- the processes used to offer products and/or services to the market
- the technology used to offer products and/or services to the market
- the values, corporate culture and/or shared beliefs
- the outcomes of the way in which people work or its performance
- the location (including internationalisation)
- structure.

Strategic change seeks to improve an organisation’s competitive position by improving certain of its features, for example, its cost position or differentiation in terms of its product and/or service offerings. Thus, strategic change involves a change in the strategic direction of an organisation and the implementation of new strategies, involving major changes to the ‘normal’ or ‘previous’ routines in the organisation. Strategic change inadvertently causes change in other areas of the organisation, for example its structure, culture, systems, and technology to support its new strategic direction. The opening case study of this chapter illustrates the successful implementation of Naspers’ strategy that necessitated various strategic changes. For example, the addition of book publishing to its operations in the 1920s was a major strategic change. Other examples are the addition of MNet and MWeb to its business, as well as acquiring a majority share in OLX as a foundation on which to build its online classifieds business segments.

What makes strategic change complicated is that it often comprises a large number of small-scale changes within the larger strategic change programme. Internal factors (explained in Chapter 6), as well as external factors (explained in Chapter 5), are resulting in organisations reappraising their strategies, structures and processes, all of which require them to implement and manage change. This is especially true in the wake of the worldwide recession that followed the global financial crises of 2007-2008, coupled with rapid technological advancements, which are causing organisations worldwide to question their traditional business models. In addition, each country has its own threats and opportunities, causing organisations to adjust their strategies, goals and plans. For example, in South Africa, the National Minimum Wage Act came into force in January 2019.<sup>6</sup> This Act will have an influence on the incentive systems of organisations, which may also lead to strategic changes. Business relationships may also bring about strategic changes. New alliances, mergers, acquisitions and other significant developments in the business arena may require substantial strategic changes in an organisation's structure. Lastly, the strategic awareness and skills of managers and employees may also lead to strategic change. Promotional expectations require strategic developments and growth in organisations, which require strategic changes. In the next section, the various types of strategic change will be addressed.

### **Practising strategy: Fortune 500 firms**

#### **1955 v 2017: Only 60 remain<sup>7</sup>**

Comparing the 1955 *Fortune 500* companies to the 2017 *Fortune 500*, there are only 60 companies that appear on both lists. This means that fewer than 12 per cent of the *Fortune 500* companies included in 1955 were still on the list 62 years later in 2017, and that 88 per cent of the companies from 1955 have either gone bankrupt, merged with (or were acquired by) other firms, or they still exist but have fallen from the top *Fortune 500* companies (ranked by total revenues). Many of the companies on the list in 1955 are unrecognisable, forgotten companies today.

What is the lesson to be learned from these statistics? Strategic change is inevitable, and it needs to be managed.

LO 5: Differentiate between the various types of strategic change.

## **8.5 Types of strategic change**

Strategic change can be classified according to two variables, namely, (1) the extent of the change required, and (2) the speed of the change that is to be achieved. In terms of the extent of the change required, we can differentiate between transformation and realignment. Transformation entails a change in organisational culture - a fundamental change that requires a change in the existing organisational paradigm.

Realignment does not involve a fundamental reappraisal of the central assumptions and beliefs in the organisation. In terms of the speed of change that is required, we can differentiate between incremental and 'big bang' change. Incremental change takes place over a long period of time but results in a fundamentally different organisation once completed. 'Big bang' change is usually forced, reactive change that occurs over a short period of time. Based on these two variables {the extent of change and the speed of change}, four different types of strategic change can materialise within organisations, as depicted in Figure 8.5.<sup>8</sup>

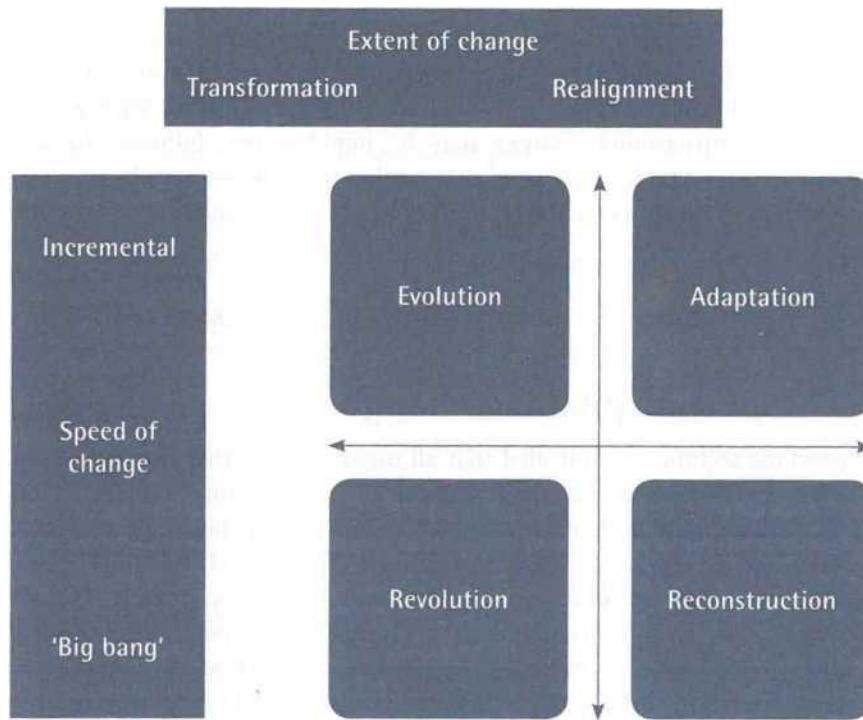


Figure 8.5 *Types of strategic change*

1. Evolution (transformation; incremental). Evolutionary change refers to transformational change that is implemented gradually (or incrementally) through inter-related initiatives. This type of change is likely to be proactive, undertaken in anticipation of the need for future change. These changes are seen as opportunities for the organisation to improve, aspects such as project management techniques that spread with use or improved administrative management processes. Since there is no pressing need for this type of change, it is often difficult to manage.
2. Adaptation (realignment; incremental). Adaptation change refers to change undertaken to realign the way in which the organisation operates. It is usually implemented in a series of steps. This type of change is most common in organisations and occurs incrementally according to changing circumstances.

3. Revolution (transformation; ‘big bang’). This refers to transformational change that occurs through simultaneous initiatives relating to many aspects. Revolutionary change is usually forced and reactive because of a changing competitive condition that an organisation is facing such as a potential takeover that threatens the existence of the organisation. Another example is when an information technology department fails an audit and immediate changes need to be made.
4. Reconstruction (realignment; ‘big bang’). This refers to change undertaken to realign the way in which the organisation operates and involves many initiatives being implemented simultaneously. This type of change is usually forced because of a changing competitive position condition that an organisation is facing. Reconstruction may involve a good deal of disruption in an organisation. For example, a turnaround strategy may be implemented, followed by a major structural adjustment or a major cost-cutting programme may be implemented in reaction to declining financial performance or changing market conditions.

LO 6: Differentiate between the various models of planned change.

## 8.6 Models of planned change

In the previous section, we indicated that all organisations need to change. Some of these changes will be deliberate and planned by organisational leaders (in Chapter 12 we will differentiate between the role of leaders and managers in organisations), while others may be due to environmental pressures beyond their control. For example, changes in production processes are planned, while changes in interest rates and the exchange rate may force many organisations to restructure and change. High streets around the globe have lost many well-known names and large-scale changes are taking place across the public and private sectors in all countries. Change can therefore affect entire economies, organisations and the individuals employed by them.

Most management models are founded on the notion that change can be viewed as a planned activity that requires management. In this context, planned change can be defined as an approach to managing change that assumes that change is an activity that can be managed, organised and led by the senior management of an organisation. The notion that change can be viewed as a planned activity, is also based on the assumption that an organisation can move from one stable state to another. Models of planned change can be classified as either ‘best practice’ or ‘analytical’ models. Best practice models of planned change suggest that there is a recipe that can be learned for managing change successfully, while analytical models provide a framework to help explain the process of managing a change programme. It has to be recognised that change is a messy, very difficult and unpredictable process. In the section that follows, we will first focus on the best-practice models of planned change, after which the analytical models will be addressed.

### 8.6.1 Best-practice models of planned change

It would be difficult to find another area of management practice that is included in so many ‘how-to’ research papers and books as organisational change and management is. Each researcher has his or her own preferred approach to managing change and most advocate a number of steps that should be executed to achieve success. John Kotter<sup>9</sup> is widely regarded as one of the leading experts in change management, and his eight-step change process is perhaps the best-known best-practice model of planned change. The eight steps are discussed below.

#### **Kotter's eight-step change process Step 1:**

##### *Establishing a sense of urgency*

This phase requires leaders to establish a need for change and create a sense of urgency around the need for change. In terms of strategy implementation, not changing would be a threat or a hindrance to the continued success of the organisation, and employees will have to be convinced of that in order to create a sense of urgency.

##### *Step 2: Creating the guiding coalition*

A guiding coalition is a group of individuals with the requisite knowledge, skills and attitudes to drive the change in the organisation. This group of people should act as change agents, where a change agent is defined as a person within an organisation tasked with managing change. One of the key roles of the guiding coalition is to create and implement a roadmap for change. The coalition should be a good mix of individuals who complement one another.

##### *Step 3: Developing a change vision*

The purpose of this step is to create a compelling vision for change that employees can buy into and that will mobilise them to change. Ideally, a change vision will emphasise the need for change and the aspirations of the organisation. Kotter provides guidelines for a good change vision. It should provide a clear, compelling view of the future - in other words, it should be imaginable; it should appeal to the long-term interests of stakeholders and, accordingly, be desirable; it should be feasible, containing realistic and attainable goals; it should be focused and clear enough to provide guidance in decision-making; and it should be flexible, allowing individual initiative and alternative responses as conditions change; it must also be easy to communicate and explain. In the strategic management process, determining the change vision and the broad roadmap for achieving it forms part of the strategy formation process.

##### *Step 4: Communicating the vision for buy-in*

Simply telling employees about change is not enough; they need to understand what it entails, why it is necessary, and why it will be beneficial. The change needs to be communicated consistently and on every possible platform. One of the most powerful tools in transmitting the vision is through the behaviours and words of leaders.

### *Step 5: Empowering broad-based action*

Existing and potential barriers to change must be removed and those responsible for driving change must be empowered to do so. Barriers may include structural barriers, such as systems that are not aligned with the required change, and human barriers, such as resistance to change or a lack of skills.

### *Step 6: Generating short-term wins*

Large-scale change, such as that needed for strategy implementation, can be a long process. To keep the momentum going, it is imperative to show some short-term results. Kotter suggests that this could take the form of setting performance goals that are aligned with the change, acknowledging and celebrating the attainment of such goals. Such successes generates further change.

### *Step 7: Sustaining acceleration*

Given the long timelines and effort required to effect large-scale change, it is vital to ensure that the change process never stops and that the momentum is maintained. If this step is executed correctly and the change process is successful, this step will see many spontaneous examples of momentum becoming visible, such as new projects being initiated, efforts being made to keep urgency levels high, and employees being increasingly empowered.

### *Step 8: Incorporating changes into the culture*

The most difficult aspect of change is changing the culture or mindset of the organisation, and this will take up most of the time. For this reason, it is seen as the last step and not the first step. In order to inculcate the change in the culture of the organisation, it must become part of the shared values and beliefs of the organisation. This could be accomplished in the following ways: proving that the new way is better than the old way; achieving visible success (for example, increased financial performance); accepting that some people may not accept the change and moving on; reinforcing new norms and values with incentives, rewards and promotions; and reinforcing the culture with every new employee.

Although best-practice models such as Kotter's model, have attracted much attention and have many followers, they have also been criticised for adopting a unitary view of organisations that do not consider the unique context or circumstances of each organisation.

## 8.6.2 Analytical models of planned change

Theorists have devoted considerable attention to developing models that can contribute to our understanding of how change comes about and how it can be managed within a planned perspective, based on the unique situation and context of an organisation.

Analytical models suggest that change management programmes should proceed through various phases - they do not prescribe specific actions that managers should take. One of the most widely cited analytical models of planned change is that of Kurt Lewin, which identifies three stages as outlined below.<sup>10</sup>

### **Lewin's change model**

#### *Stage 1: Unfreezing*

Most individuals will naturally resist change and will be inclined to maintain the status quo (the current state). For this reason, actively ‘unfreezing’ the status quo and readying the organisation for change is required. Unfreezing entails two critical elements or steps. First, current behaviours have to be carefully examined and employees have to be shown how necessary change is, and how the status quo is hindering organisational growth. Second, employees have to be informed of the imminent change, why it is necessary, what it will entail and how it will benefit them. During the unfreezing phase, communication is critical. The more employees know about the change, the better they understand why it is necessary and how it will affect them, the more they will be motivated to accept the change.

#### *Stage 2: Changing*

During this stage, the actual change takes place, and for that reason (and due to the resistance to change that will accompany it), it is the most difficult phase of the change process. During this stage, employees need to start learning the new behaviours required of them, and they require a lot of support. This phase is characterised by employees acquiring new knowledge, skills and attitudes (for example, through training); organisational structures and systems changing; and effective communication throughout to maintain the momentum of change. Employees should be reminded why it is necessary and how it will benefit them.

#### *Stage 3: Freezing*

Once the change has been implemented, the challenge is to make it a permanent part of employee behaviour. It has to be solidified and entrenched in the organisation, and that is why Lewin called this phase ‘freezing’. This stage is essential to ensure that employees do not simply revert back to their old ways. The change should, therefore, be made part of the performance management and reward systems.

### **Balogun and Hope-Hailey's change kaleidoscope**

Based on Lewin’s model, Balogun and Hope-Hailey developed the change kaleidoscope, which is founded on the principle that change needs to be context-specific and that the approach to change that the organisation chooses should be based on a thorough analysis of the following: (1) the context within which change is taking place and (2) a series of decisions around the way in which the change is to be managed. The model divides the context within which change takes place into eight core segments:<sup>11</sup>

1. Power. The organisation needs to determine who the powerful stakeholders in relation to the change are. These could, for example, be the senior managers, labour union members and leaders, employees, customers, legislators, or suppliers.
2. Time. The time available to effect the change should be determined. In the event of a crisis, the range of options is limited, whereas if more time is available to implement the change, the range of options increases.
3. Scope. The extent of the change in terms of its breadth and depth in the organisation should be determined.
4. Preservation. The critical things that need to be maintained in the organisation through the change process and beyond should be identified. This could, for example, include the capabilities of senior and middle managers.
5. Diversity. The diversity of the organisation should be determined. General dimensions of diversity are gender, age, marital status, physical ability and language. The diversity of the organisation will influence the change design.
6. Capability. The capability and experience of the organisation in terms of the management of change needs to be determined. Should managers be inexperienced, expertise from consultants may be needed.
7. Capacity. The change process needs time, resources and people to be successful. Therefore, to ensure that the change process succeeds, the organisation needs to determine its capacity in terms of time, people and other resources to devote to it.
8. Readiness. Lastly, the readiness and attitude of those individuals affected by the change need to be determined.

Based on the analysis of the context of the organisation change, Balogun and Hope-Hailey argued that those leading the change need to make key decisions around the way in which the change process will be managed. These decisions include:

- Changing path. The first decision to make is whether the change will be incremental or transformational. Incremental change refers to small adjustments made towards a targeted end result. Incremental change does not have a significant impact on existing structures, neither does it alter current methods. On the one hand, an example of an incremental change is the implementation of a new computer system to increase efficiency. A transformational change, on the other hand, refers to a shift in the culture of an organisation, resulting from a change in the underlying strategy and processes that the organisation has used in the past. Transformational change is designed to be organisation-wide and is enacted over time.
- Changing the start point. The second decision to make is whether the change will be driven top-down by senior managers or bottom-up through employee suggestions. In practice, most managed change programmes are top-down, in other words, initiated and driven by senior managers and implemented by lower levels of employees.

- Changing style. This refers to the extent to which the change is coercive or directive versus participative and collaborative. A coercive style is associated with the phrase 'do what I say and do it now', which is the opposite of a participative and collaborative change style, which welcomes input from employees.
- Changing target. The target or purpose of the change needs to be determined. This can be either output (such as performance objectives), behaviours (changing the way in which people work), or values (a change in the core organisational values), or a combination of a change in output, behaviours and values.
- Changing levers. Change levers refer to those interventions that are deployed in supporting the management of change. Examples of change levers are organisational structures, control systems and power structures.
- Changing roles. The last decision to make is who should be responsible for managing the change in the organisation. This could be an individual, such as a manager, an external consultant or a delegated change agent or a team of people.

The change kaleidoscope model recognises that it is virtually impossible to map all contextual variables with any one best-practice approach. It acknowledges the need to account for a wide range of organisational situations.

It is important to note that the pace of change in contemporary organisations is such that change is a constant state that requires managing, which leaves little or, sometimes, even no time for recovery (or freezing/sustaining) in between. Also, change often emerges in an unplanned and non-linear manner as a result of changes in the external environment. Change may also develop bottom-up, as people, sometimes unconsciously change the way that they work overtime, to become more effective and efficient. Change can therefore also be seen as an open-ended process of adaptation and organisational learning, which will be addressed in more detail in Chapter 9.

The following practising strategy box provides an excellent example of changes taking place in a mining company, showing how it was managed successfully.

## **Practising strategy: Cynthia Carroll, CEO of Anglo American (2007-2013)<sup>12</sup>**

Anglo American plc is a multi-national mining company based in Johannesburg, South Africa and London, United Kingdom. It is the world's largest producer of platinum, with around 40 per cent of world output, as well as being a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. In 2007, Cynthia Carroll was appointed as CEO of the company, the first outsider (non-South African) to manage what was a very top-down, male-dominated, hierarchical business.

Carroll always had the view that safety is a key indicator of rigour and discipline in an organisation. For the five years prior to Carroll's appointment, Anglo had been losing about 45 people to fatalities every year. Consequently, she started with safety. In 2007, her first year as chief executive, Carroll went to Anglo's Rustenburg platinum mining operation in South Africa, a key part of the company's global activities. Within hours of her visit, she was told that one of the workers had been killed at the mine. She was told at the end of the day that they had yet another fatality. She gave orders to shut down the mine complex, to assess the infrastructure and the standards, and to work to retrain people. She also gave instructions that people would only be returning to work once they feel confident that they would be working in safe conditions. It was a bold decision that affected around 28,000 workers. Carroll knew she would have to gain allies to support her safety campaign within the wider industry, the unions, and the government. Workers felt scared, threatened by the decision, and resisted the change. Although Carroll felt confident that she made the right decision by making the change, mine managers did not support her. At the same time, the company had been transitioning from a largely South African company, to a global company. Carroll also needed to make another change by taking out a layer of people reporting to her. Strategic changes lead to changes in the embedded culture and organisational hierarchy. During these changing times, Carroll spent a lot of time with external stakeholders, shareholders and never received resistance to change from the shareholders - they understood the reasons and ultimate benefits for implementing the changes. Also, communications and relationships with labour unions were very good - Carroll never had a major walkout and the company never experienced a strike because they had built a trusting relationship between all parties.

During her tenure, Carroll had to confront the threat of a takeover, a downturn in the commodity cycle, and criticism of her environmental record and strategy decisions, notably, Anglo's investment in Minas Rio, a Brazilian iron ore project that went into operation four years late and at twice the original budget. Minas Rio is a tier-one asset and was identified as a potential acquisition before she was even appointed as CEO. But the fact was, Anglo had to deal with changes that neither they nor the industry anticipated in Brazil, in the regulatory environment. These changes delayed the project. Eventually, Carroll needed to make tough decisions, not all popular. For example, she had to reduce the number of people. Eventually, these decisions paid off. The company delivered US\$3.2 billion of value over and above their committed number of US\$2 billion. They had a clear strategy - they were joined up. They reduced the number of fatalities by about 70 per cent and that cascaded down into the industry, where a 50 per cent reduction was achieved. That's a great accomplishment.

LO 7: Explain the barriers to successful strategic change and ways to overcome them.

## **8.7 Barriers to successful strategic change and ways to overcome them**

Despite all the research in the field of change management, evidence continues to suggest that most change efforts fail to meet their objectives.<sup>12</sup> Some of the reasons for the failure of change efforts, and ways to overcome them, are explained below.

### **8.7.1 Lack of strategic planning and leadership**

A lack of strategic planning and leadership, including a failure to look ahead and anticipate the impact of external environmental changes on the organisation, is a major barrier to successful strategic change. In change programmes, it could also happen that the leadership of the organisation has different ideas about the change target, path, and style to the rest of the management team or the employees. Leadership will then work towards the change they think is required, but will be undermined by the rest of the organisation, who do not have the same view of the strategic direction. For this reason, widespread communication and participation are critical in any change process.

Trust is another key issue - if there is a lack of trust between leaders and other factions in the organisation (for example, labour unions), this may have a negative effect on any change effort. To overcome this barrier, the context of the change should be evaluated (refer to Section 8.6.1 in which Balogun and Hope-Hailey's change kaleidoscope is explained). Furthermore, open debate and discussions among top management and all other levels of management and leadership should be ensured.

### **8.7.2 Structural reasons**

Where the organisational structure does not support the change required, the change programme can fail. For example, the managers in the organisation may not have the skills and mindset required to operate in a digital environment. If this is the case, large-scale restructuring and the appointment of new managers with the right mindset will be required.

Structure should always follow strategy, and a change in strategy should be followed up with a change in structure.

### **8.7.3 Cultural reasons**

Where the change requires a paradigm shift that is far removed from the current paradigm, changing the culture of the organisation may be too difficult or too time-consuming. This may lead to the failure of the change programme. It may also lead to other consequences that will affect the outcome of the change programme.

The existing paradigm of the organisation may be so strong that change initiatives are simply reinterpreted to fit within the old paradigm. Strategy and culture should always be aligned. To overcome this barrier, a new and supportive organisational that supports the strategic change, should be identified.

#### 8.7.4 System reasons

Where current systems are set up to support a specific paradigm, a change in paradigm might mean that the current systems simply become inadequate to deal with the changes. Remember that systems in this instance refer to technical systems (such as information and communication technology systems) and also to business processes, such as performance management and reward systems. To overcome this barrier, systems should be redesigned and realigned with the changed strategy.

#### 8.7.5 Process reasons

Some reasons inherent in the way the change process is managed, may cause it to fail. These reasons include:

- Lack of communication. Communication is vital to the success of any change process and most organisations fail to communicate effectively. To overcome this barrier, the first thing to consider is what the aim of the communication is, for example, raising awareness of the need for change, disseminating factual information about the change, persuading people to make the change, seeking their views or acknowledging their contributions. Second, the timing of communication before, during and after a change programme is crucial to its success. Third, the target of the communication needs to be determined. In other words, the receiver of the communication needs to be specified, for example, all employees or only specified groups such as a department. Fourth, the sender of the communication needs to be identified, for example, the chief executive officer or financial manager. Next, the communication medium should be identified. The choices include verbal or written communication. Lastly, the content and context of the communication should be determined, where the content refers to what information should be included, and the context refers to other important information relevant to employees. The latter should be carefully considered by management because it affects the resistance to change by employees. For example, will the change affect the job security of employees, or will employees be expected to relocate to other cities because of the change. Communication methods that can be used during changes programmes are (in order of frequency of use) to cascade information via line managers, to hold departmental meetings, to send emails and personal letters from top management and the human resources department, to organise allemployee meetings, to post on the intranet, to hold training sessions, and to communicate via notice boards and video conferencing.

- Time management. This relates to failure to design and implement change quickly enough to keep up with competitors or with customer demands. To overcome this barrier, managers and employees need to manage the time spent on planning, implementing and controlling change programmes effectively.
- Not dealing with resistance. People may resist change and not dealing with resistance to change or brushing it off may lead to an escalation in resistance. For this reason, it is essential to encourage dialogue and debate and to deal with resistance as soon as possible. Again, communication may help people to understand why change is necessary. Also, making people more involved and supporting them in the change programme, may also reduce their resistance to change. Incentives and rewards may also be used to reduce resistance.
- Reinforcing mechanisms. Not building reinforcing mechanisms into the change programme so that the changes do not become embedded can be a major barrier to successful strategic change. Therefore, care should be taken to embed strategic changes in the organisation.

### 8.7.6 Resource reasons

The organisation may fail to devote enough resources in terms of time, money and human resources to managing, implementing and sustaining the change. To overcome this barrier, the organisation should budget adequately for these resources.

## **The big picture**

In this chapter, strategy implementation as change management were addressed. Strategy implementation was first distinguished from strategy formation, after which various barriers to successful strategy implementation were explained. Then, the various principles to overcoming these barriers were addressed. The second part of the chapter focused on change as a fundamental strategy implementation element. The various types of strategic change were explained, followed by an explanation of the various models of planned strategic change. Lastly, barriers to successful strategic change and ways to overcome them were discussed.

## **Summary of learning outcomes**

### **LO 1: Explain strategy implementation and differentiate between strategy formation and implementation.**

Strategy formation is the planning phase of strategic management which involves setting the strategic direction of the organisation, analysing the internal and external

environment, setting strategic goals, and developing and choosing the strategies that will help them attain strategic goals. Strategy implementation refers to the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase.

**LO 2: Explain the various barriers to successful strategy implementation.**

Four main barriers to strategy implementation can be identified: the people, vision, management and resources.

**LO 3: Explain the principles of strategy implementation.**

In order to overcome the barriers to successful strategy implementation, five principles of strategy implementation are highlighted:

Principle 1: Translating the strategy into operational terms

Principle 2: Aligning the organisation to its corporate strategy

Principle 3: Making strategy everybody's everyday job

Principle 4: Viewing strategy as a continual process

Principle 5: Mobilising leadership for change.

**LO 4: Discuss change as a fundamental strategy implementation element.**

Strategic change is deep organisational change which seeks to improve an organisation's competitive position by improving certain of its key features. It involves a change in the strategic direction of an organisation and the implementation of new strategies, involving major changes to the normal or previous routines.

**LO 5: Differentiate between the various types of strategic change.**

Strategic change can be classified according to two variables, namely, the extent of the change required and the speed of the change that is to be achieved. Based on this, four types of strategic change can be found in organisations:

Evolutionary change. Transformational change that is implemented gradually (or incrementally) through inter-related initiatives.

Adaptation. Change undertaken to realign the way in which the organisation operates.

Revolution. Transformational change that occurs through simultaneous initiatives in many aspects.

Reconstruction. Change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously.

**LO 6: Differentiate between the various models of planned change.**

Models of planned change can be classified as ‘best practice’ or ‘analytical’ models.

Kotter’s model is an example of a best practice model of planned change, consisting of eight steps, while the models of Lewin and Balogun and Hope-Hailey are examples of analytical models.

Change can also take place in an unplanned way. It can develop bottom-up and can be seen as an open-ended process of adaptation and organisational learning. The latter will be discussed in detail in Chapter 9.

**LO 7: Explain the barriers to successful strategic change and ways to overcome them.**

The main barriers are a lack of strategic planning and leadership, structural reasons, cultural reasons, system reasons, process reasons and resources reasons.

**Discussion questions**

1. Explain where strategy implementation fits into the strategic management process.
2. Depict the top-down and bottom-up approaches of strategy formation and strategy implementation diagrammatically.
3. ‘Strategy implementation is the most difficult phase of strategic management’. Defend this statement.
4. Explain the barriers to successful strategy implementation.
5. Discuss the principles of strategy implementation.
6. Explain change as a fundamental element of strategy implementation and explain the various types of strategic change.
7. Differentiate between the various models of planned strategic change.
8. Explain the barriers to strategic change and identify ways to overcome them.

**Learning activities**

Read the article ‘Thriving under pressure’ that is available online [https://www.angloamerican.com/~media/Files/A/Anglo-American-Plc-v2/media/publication/optima/cynthiacarroll\\_interview.pdf](https://www.angloamerican.com/~media/Files/A/Anglo-American-Plc-v2/media/publication/optima/cynthiacarroll_interview.pdf) to answer the following questions.

1. Identify the types of strategic change that Anglo American underwent under the leadership of Cynthia Carroll as CEO.
2. Identify the primary goal that Cynthia Carroll wanted to achieve as CEO.
3. Apply Balogun and Hope-Hailey’s change kaleidoscope to the change programme implemented in Anglo under the leadership of Cynthia Carroll.
4. In your opinion, did Carroll, as CEO, manage the change in Anglo effectively?  
Substantiate your answer.

## Endnotes

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# The learning organisation

## Peet Venter

### LEARNING OUTCOMES

After reading this chapter, you should be able to do the following:

- LO 1: Explain what a learning organisation is.
- LO 2: Explain the barriers to organisational learning.
- LO 3: Discuss how individuals learn and transfer knowledge.
- LO 4: Explain the transfer of knowledge to others.
- LO 5: Explain how an organisation can become a learning organisation.

### KEY WORDS

- Absorptive capacity
- Dominant general management logic
- Knowledge management
- Learning organisation
- . Organisational learning

### CHAPTER ORIENTATION

Discovery started out as a medical aid with an innovative loyalty and rewards programme (Vitality) to help their clients live healthier lives. Healthier clients meant lower medical expenses for Discovery and more rewards to the clients - a win-win situation. Discovery has subsequently used this model to expand into other businesses such as life insurance, short-term insurance, and in 2019, a retail bank, applying what it has learned across a range of businesses.

What is clear from this, is that an organisation like Discovery would not have been as successful without its ability to adapt to changing conditions and stakeholder requirements.

Sources of competitive advantage will alter over time and the ability to learn and adapt is arguably the only sustainable competitive advantage. In the previous chapter, we explored the processes of planned change (change management). However, change does not always occur in a deliberate and managed way. In fact, we could argue that most change happens inorganically as individuals and organisations learn and adapt to their environment.

In this chapter, we explore the idea of learning organisations and the importance of organisational learning in innovation and change. In our exploration of organisational learning, we accept the following principles:

1. Learning takes place primarily at the individual level.
2. Organisational learning takes place as information is shared and meaning is created by means of interactions between individuals, technology and processes.
3. Organisational learning is advantageous because it enables organisations to adapt to their environment and to innovate.

Figure 9.1 depicts the focus of this chapter.

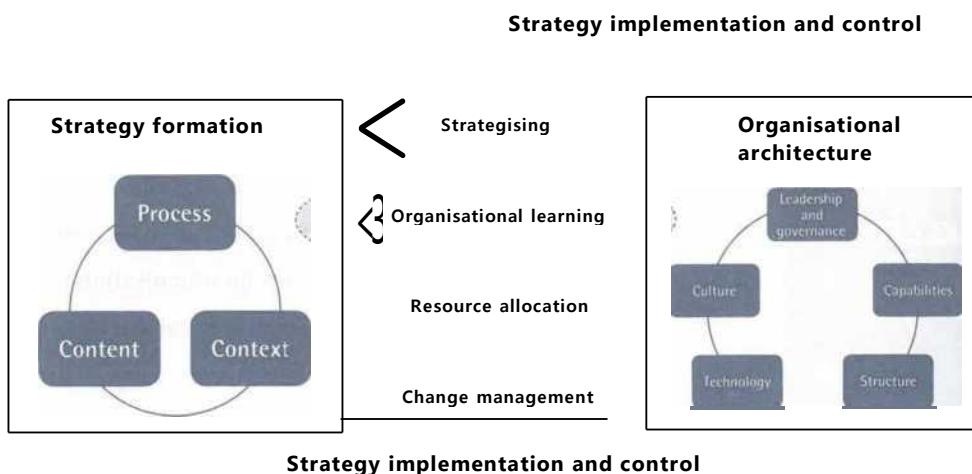


Figure 9.1: *The learning organisation*

## Case study

### Discovery - Innovation in the blood<sup>1</sup>

Discovery, a South African insurance group, built their success on questioning the fundamental rules of the industry game they operate in.

Three lifestyle choices (smoking, poor nutrition, and poor physical activity) contribute to four conditions (diabetes, cancer, heart disease, and lung disease) that cause over 50 per cent of deaths each year. So, if you can get people to be healthier, you can offer more sustainable insurance. With their Vitality programme, Discovery reasoned that by helping people make healthier choices, they could reduce their health risks and they could offer them rewards and lower premiums.

Today, Vitality is a complete wellness system that tracks everything from physical activity to nutrition over the course of a person's life. The Vitality programme is a source of great advantage to Discovery. For example, Vitality subscribers log 70,000 gym visits per day.

Discovery keeps on innovating. In 2001, Discovery Life was introduced on the same basis, and soon became the number-one provider of life insurance in South Africa. The company developed the Vitality Drive programme for their short-term insurance business, which rewards customers for responsible driving.

How do they do it? According to Adrian Gore, founder and CEO of Discovery, their leaders are always on a treadmill to create and launch new ideas: '...every year we have a rock-star launch where we're presenting something new to thousands of our intermediaries who own sales. Our guys know the date is booked. The concert's happening. You just better write the music'.

To drive the company towards the next idea, there is an internal competition every year called Inspiring Excellence, where the top one thousand leaders break into teams of two to four people and work on new concepts. The ideas are narrowed down to the top five teams, who then present at the annual management conference. The programme provides a strong inventory of ideas, and are continually replenished.

Twice a year, the remuneration committee gives each business an innovation score, which influences their remuneration. Beyond this, all employees are involved in the time-based cycle of innovation, working on projects. Across the organisation, there is a natural rhythm of innovation.

Innovation is about learning and constantly questioning the status quo, elements that the Discovery leadership have made part of the organisation's lifeblood.

LO 1: Explain what a learning organisation is.

## **9.1 What is a learning organisation?**

While we can agree that knowledge and organisational learning are important concepts for the success and survival of organisations, it is also important to think about how organisational learning takes place. Firstly, we should understand that individuals learn, not organisations. The process thus starts with individuals learning. The next phase in the process is where learning is shared with other members in the organisation until it becomes commonly accepted practice or knowledge.

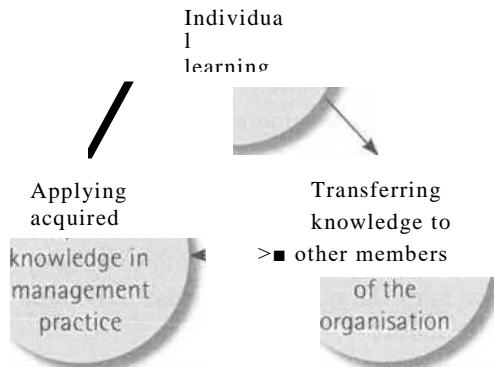


Figure 9.2 *Organisational learning*

Perhaps the most important phase is when the learning is applied to strategic decisions and management practices in the organisation. At this point, it starts becoming an organisational capability, and organisational capabilities are important building blocks of competitive advantage. Application of knowledge also creates new learning opportunities, and once again, the assimilation of this learning in the organisation will lead to the further development of knowledge and capabilities. This process is depicted in Figure 9.2

From Figure 9.1 we can see that organisational learning is continuous (all members of an organisation should be learning and adapting every day in a never-ending cycle) and experimental, because the acquisition of knowledge does not provide guarantees that mistakes will not be made. Making mistakes or figuring out what works or does not work in different situations is an important part of learning.

While we can agree that organisational learning is conceptually important, can we see the evidence of organisational learning leading to organisational success? In the case of Discovery, we can see that the organisation managed to develop a successful global business, but is being a learning organisation the only driver of its success? Perhaps we should ask the question the other way around: what would happen if organisations did not learn and adapt? Clearly, many organisations would fail if they were unable to adjust to environmental changes, which occur often, as we will see in the next section. In addition, such organisations would simply not be able to benefit from innovation because there would be none. So, we can argue that being a learning organisation could lead to at least three benefits:

1. Being able to adapt more quickly to environmental changes through more flexible and agile strategic responses.
2. Being able to benefit from opportunities and sensing and reacting to threats earlier than competitors, leading to superior performance.
3. Being able to apply newly acquired knowledge to business problems **and**

opportunities, leading to innovation.

Alone or in combination, these benefits would provide any learning organisation with a competitive advantage. However, becoming a learning organisation is not easy. Several barriers to organisational learning exist, as discussed below.

LO 2: Explain the barriers to organisational learning.

## **9.2 Barriers to organisational learning**

If organisational learning is so important to the success and survival of organisations, why are so few organisations truly good at it? Some of the reasons are discussed below.

### **9.2.1 Dominant general management logic**

Dominant general management logic stems from the way managers conceptualise their business. It is a set of broad (often flawed) assumptions that can be thought of as a structure (in the case of diversified businesses, there may be multiple dominant logics). Managers make critical decisions about the strategy and allocation of resources based on this, and the more ‘dominant’ the logic, the more it acts as a barrier to learning and change. In effect, the dominant management logic acts as a filter, meaning that executives will only see or focus on data from the environment that is deemed relevant by the dominant management logic. Unlearning must take place to pave the way for new learning and new mental models, and allow new dominant logic to be established.<sup>2</sup>

Ironically, the more successful an organisation is, the more difficult it often is to change its dominant logic, as one of the dangers of dominant management logic is that executives in an organisation will assume that the future is essentially an extension of the past, and will ignore any information to the contrary.

For example, very few of the leading film camera manufacturers, such as Polaroid, are also market leaders in the digital camera age. We could argue that their dominant logic prevented them from making the transition to a fundamentally new technology in digital cameras and a new dominant logic.

### **9.2.2 Management ignorance**

Quite often managers in an organisation assume that they know all there is to know about their business and the industry in which they operate, and there is accordingly no need to learn anymore. In this instance, *ignorance* and *arrogance* can be regarded as barriers to learning.<sup>3</sup>

### **9.2.3 Limits to absorptive capacity**

Absorptive capacity refers to the ability of an organisation to recognise the value of new, external information, to assimilate it and to use it to address business problems.

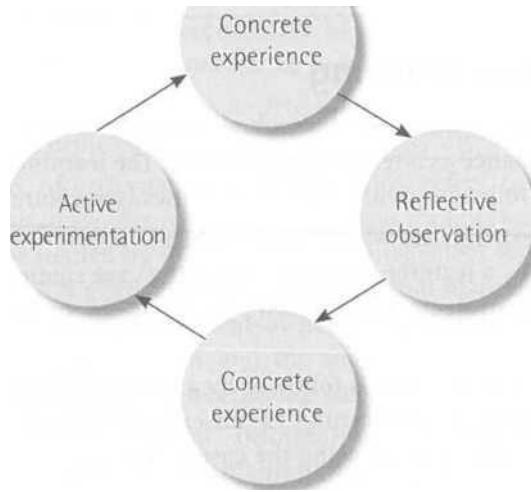


Figure 9.4 *The experiential learning cycle*

LO 4: Explain the transfer of knowledge to others.

#### 9.4 Transferring knowledge to others

Knowledge is broadly categorised as being explicit or tacit. *Explicit knowledge* is knowledge that can be written down or told to someone. For example, you can explain to someone how to get on a bicycle, how the pedals work and how the brakes work (although this will not necessarily mean that the person can then ride the bicycle). *Tacit knowledge* consists of personal beliefs, values and perspectives that people take for granted and that may be much more difficult to communicate.

While the two are quite often thought of as separate categories, it is perhaps more accurate to think of them as a continuum because often knowledge has aspects of both. Sometimes, the explicit aspect may be a much bigger component than the tacit, and other times, the reverse may be true. For example, complex tasks such as negotiating a merger between companies may consist mostly of tacit knowledge, while simpler tasks, such as operating a cash register, may consist mainly of explicit knowledge. This is illustrated in Figure 9.5.

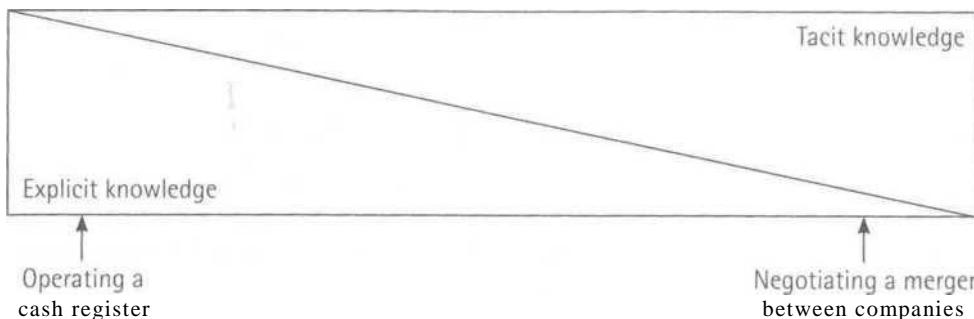


Figure 9.5 *The knowledge continuum*

Nonaka differentiated between four basic types of knowledge transfer, namely, socialisation, combination, internalisation and articulation.<sup>7</sup> These types of knowledge transfer are discussed below. Most types of knowledge are quite complex, and more than one type of transfer mechanism may be involved in conveying the full set of knowledge, skills and attitudes needed for a certain task:

1. Socialisation (tacit → tacit). This takes place when tacit knowledge is transferred from one person to another, but remains tacit. Behaviour is often learned by observing and imitating other people (think, for example, of a child mimicking her mother's behaviour), and, in the same way, managers and employees can learn certain behaviours when exposed to more experienced colleagues. For instance, a junior manager may learn by observing the CEO, finance director and legal representatives in action during merger negotiations.
2. Combination (explicit → explicit). This takes place when explicit knowledge is mixed and shared. For example, when experienced machine operators decide to write a how-to manual for younger and more inexperienced employees to avoid having to tell them again and again what to do, they are combining and transferring their explicit knowledge to their colleagues.
3. Internalisation (explicit → tacit). When explicit knowledge is used so often that it becomes part of the being of the person using it, it has become tacit knowledge. For example, when learning to drive, a person needs to be instructed on what to do and how to do it, but after a while, driving becomes almost automatic, in other words, it becomes an internalised skill.
4. Articulation (tacit → explicit). When an attempt is made to convert tacit knowledge to explicit knowledge to share it with colleagues, articulation is used. For example, a course in strategic management is an effort to teach a skill that is often tacit rather than explicit.

LO 5: Explain how an organisation can become a learning organisation.

## **9.5 Becoming a learning organisation**

Organisational learning is not as easy as putting in place a few people, processes and technologies. It requires a deep-seated change in the way the organisation and its leaders view the world. The following mechanisms, to be used in combination, are proposed to assist an organisation to become a learning one:

### **9.5.1 Leadership commitment to learning**

Problems within an organisation generally begin with top management and filter down, as does success. Thus, to generate a culture of organisational learning, leaders should demonstrate their own commitment by being models of learning, championing learning and using learning strategically for business results. In the case of Discovery, the innovation process was led by the founder and CEO, Adrian Gore.

### **9.5.2 Building shared visions**

Leaders need to develop genuine visions (not just pieces of paper) that can inspire employees. Visions cannot be dictated to employees; employees must believe and buy into them. Genuine shared visions will inspire employees in good times and bad, and have the power to bind an organisation together for the long term.

It is also important to empower people towards a collective vision, not only by involving them in setting the vision, but also by distributing responsibility in such a way that people are motivated to lean toward what they are being accountable to achieve. In the case of Discovery, the top 1,000 leaders are all part of the innovation and learning process, and all employees work on innovation projects. Because employees took part in this, they also bought into it.

### **9.5.3 Encouraging diversity**

People from similar backgrounds, for example, similar cultural groups and similar education, tend to see things in a similar way. Quite often, if the top management team is too similar in their backgrounds, it is easier for them to get caught up in a dominant management logic, and much more difficult to change. For this reason, diversity (for example, in terms of age, cultural background, educational background and gender) in the organisation and, specifically, in the top management team, should be encouraged. The more people have divergent views, the more they are likely to influence one another's mental models and effect change.

### 9.5.4 Encouraging double-loop learning

Single-loop learning occurs when individuals or organisations strive to achieve a goal and when they fail, they evaluate what went wrong. They may then try a different strategy, fail again, evaluate again, and so on, until they run out of ideas. This persisting failure may push the individual or the organisation into a situation in which the fundamental elements or rules governing the situation are questioned, causing them to re-evaluate their own mental models - the goals, values and beliefs they hold.<sup>8</sup> This questioning of the fundamental underlying assumptions is known as double-loop learning.

Challenging existing mental models is critical for a learning organisation, since our mental models can prevent new powerful insights and organisational practices from becoming a reality. The process of unlearning mental models begins with selfreflection which enables us to develop an understanding of our deeply held beliefs and generalisations, and how they influence the way we do things. Until we are prepared to challenge our own mental models, real change cannot take place. In the case of Discovery, double-loop learning was evident when the company challenged the long-held belief that drove the medical insurance industry and understood that by helping their customers to live healthier lives, the company and the customer could benefit.

### 9.5.5 Developing systems thinking abilities

Systems thinking refers to the ability to see the ‘big picture’, and to see patterns rather than isolated events. Systems thinking means that as an organisation, we understand how we are connected to the world, how we fit into our environment, how we are influenced by it and how we can influence it in turn.

### 9.5.6 Encouraging individual and team learning

Being committed to lifelong learning is an important element of a learning organisation. Learning should be incorporated into work so that people can be trained on the job, while ample opportunities should be provided for ongoing education and growth. Peter Senge promotes the idea of personal mastery by focusing on becoming the best person possible and striving for a sense of commitment and excitement in our careers to facilitate the realisation of our potential. Encouraging top managers to enrich their experience bases, for example, through sabbaticals and educational experiences, and rehearsing as a management team for a broad range of future industry scenarios are examples of such individual learning opportunities.<sup>9</sup>

Peter Senge also emphasises the importance of team learning. Modern organisations operate based on teamwork, which means that organisations cannot learn if team members do not come together and learn. This process requires teams to develop the ability to create desired results, to have a goal in mind and to work together to attain it.<sup>10</sup>

### 9.5.7 Legitimising dissent

Thinking is not the exclusive domain of top managers. In learning organisations, everybody should think and contribute ideas, and to this end, employees should be encouraged to question key business practices and assumptions. A culture of dialogue and debate is very important in a learning organisation. It is also important to encourage double-loop learning since it allows employees to challenge the mental models that organisations use in their decision-making.

### 9.5.8 Encouraging experimentation

Few people learn how to ride a bicycle without falling off several times. In fact, falling off and getting back up is an important part of the process, and in organisations, it is no different. Without failure, there is no learning. For this reason, it is important to encourage experimentation and to see the failures for what they are - learning opportunities. Prahalad and Bettis suggest that the economic evaluation of the organisation be separated from managerial evaluation, so that managers can be rewarded for experimenting, even when projects are unsuccessful.<sup>11</sup>

### 9.5.9 Establishing communities of practice

Communities of practice (CoPs) are the building blocks of learning systems. In our opening case study about Discovery, we saw how they used the idea of communities of practise creating management teams to work on innovative ideas. The idea of CoPs closely fits Senge's notion of 'team learning'.<sup>12</sup> CoPs can also exist across organisational boundaries. For example, a CoP on procurement practices may include suppliers and academics from outside the organisation.

One of the key roles of a CoP is to define what competence entails in its context, and there are three elements:<sup>13</sup>

There must be a sense of *joint enterprise*, meaning that members of the CoP need to have a shared understanding of what their community is about and how they can contribute to it. Members must be accepted and trusted, and able to interact with other members of the community. In other words, there should be *relationships of mutuality*. The community will, over time, develop a *shared repertoire* of stories, language, routines, rituals and processes, and the knowledge of how to use these appropriately. The value of CoP for organisations occurs when sharing of information takes place across the boundaries of the CoPs, either between individuals or with other CoPs as a whole. This can happen in the following ways:<sup>14</sup>

- People may form part of more than one community or be in a position to act as brokers between CoPs. For example, a manager in an organisation may be a part-time student at a leading business school, and, accordingly, may be able to act as a bridge between CoPs.

- Artefacts, such as documents, tools, processes and discourses, may act as bridges between CoPs. For example, the findings of a research project conducted by academics at a university may be used by a CoP in an organisation.
- Interaction can be a means of exchanging information directly between CoPs. For example, a conference on a specialised topic may attract business managers, consultants and academics representing several CoPs.

It is important for organisations to understand the role that CoPs can play in a learning organisation.

### 9.5.10 Collaboration

Collaboration with suppliers, customers and, even competitors, is becoming a more and more common means of fostering learning in organisations. However, it does require a specific mindset - organisations that cannot or will not trust their collaboration partners or share openly will not be able to learn. In the case of Discovery, they made customers their innovation partners by digitally gleaning information about customers' lifestyle choices and preferences and assimilating that into their wellness programme. Rather than just tolerating collaboration, collaboration should be valued and rewarded.

### **Practising strategy: Philip Morris to quit smoking?<sup>15</sup>**

Considering the increasing evidence of the harmful nature of cigarette smoke, Philip Morris International (PMI), one of the world's biggest tobacco companies, launched the Foundation for a Smoke-Free World, claiming that it wants to see a future in which people will stop smoking its cigarettes. The company sees its future in e-cigarettes and other smoke-free nicotine delivery systems, which it believes will drastically cut cigarette consumption. Anti-tobacco campaigners, however, were highly sceptical, pointing out that PMI had not stopped marketing cigarettes, and until they do so, their claims cannot be taken seriously.

PMI is collaborating with Derek Yach, a former senior figure at the World Health Organisation responsible for the launch of its global tobacco control treaty. According to Yach: *7 have been working with PMI to establish a foundation to accelerate the end of smoking and tackle the consequences for tobacco farmers. From the start, the intent has been to create an independent foundation that meets the very highest standards of legal and ethical norms and that addresses scientific verification in innovative and needed ways*'.

While only time will tell whether PMI is serious about its claims, it is clear that the company is questioning its own reason for existence and some of the fundamental assumptions about its markets.

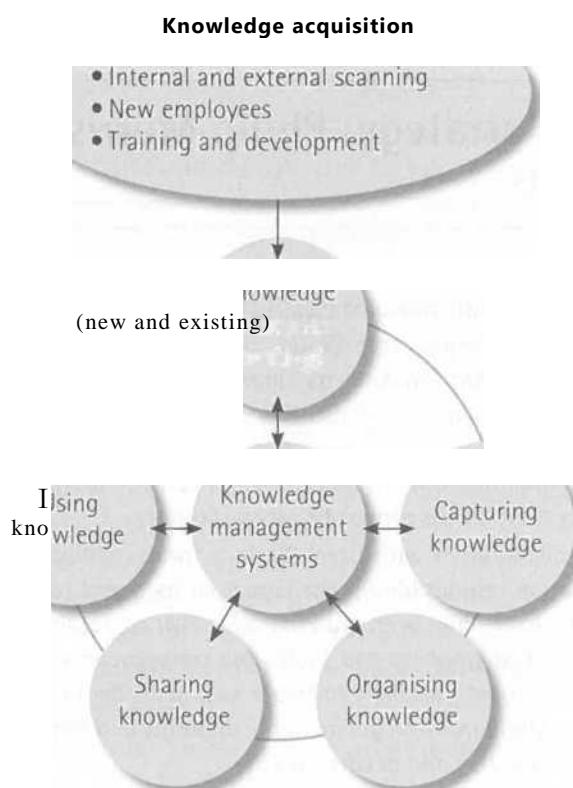
### 9.5.11 Knowledge management

*Knowledge management* is ‘[t]he management function that creates or locates knowledge, manages the flow of knowledge within the organisation and ensures that the knowledge is used effectively and efficiently for the long-term benefit of the organisation’.<sup>16</sup> In other words, it is a management system that shares organisational knowledge and supports organisational learning. The creation of an efficient knowledge management system can contribute to the creation of a learning organisation.

The process of knowledge management consists of the following four phases:

1. The discovery of knowledge in the organisation
2. Capturing the knowledge in a way that enables it to be shared across departments or other organisational units
3. Sharing knowledge throughout the organisation
4. Applying knowledge to solve business problems and make decisions.

The nature of a basic knowledge management system is depicted in Figure 9.6.



**Figure 9.6** A knowledge management system

### *Knowledge acquisition*

Existing knowledge in an organisation is constantly supplemented by knowledge obtained through external and internal scanning, and the addition of new employees with new knowledge. It can also be expanded through training and development.

### *Knowledge (new and existing)*

Knowledge is the sum of information in the organisation, consisting of both existing knowledge and new knowledge, which is constantly being added by environmental scanning and recruitment activities.

### *Capturing knowledge*

Some knowledge, such as training or product manuals, may be explicit and easy to capture, but much of the strategically useful knowledge may be much harder to capture. It could be argued that it will be impossible to capture all the tacit knowledge associated with a project. For example, a consulting project team may capture the steps they took in a complicated client project, describing the tools they used, the steps they followed and the presentations they made. However, it will be virtually impossible to describe exactly how they dealt with the negotiation process, difficult clients and internal politics on the client site.

### *Organising knowledge*

The purpose of this phase is to consolidate the knowledge and to capture it in a format and language that will be usable throughout the organisation.

### *Sharing knowledge*

Knowledge is of little value unless it is shared across different teams and departments, as a precursor to being used.

### *Using knowledge*

The crux of knowledge management is to enable the organisation and its members to use the knowledge in a business setting to solve problems, improve business performance and deal effectively with opportunities and threats in the external environment.

### *Knowledge management systems*

Information technology plays an increasingly important role in knowledge management systems as it enables their processes to take place, while, in turn, being populated and enabled by them. There is a myriad of different technologies that may be useful during each of the phases of the knowledge management process.

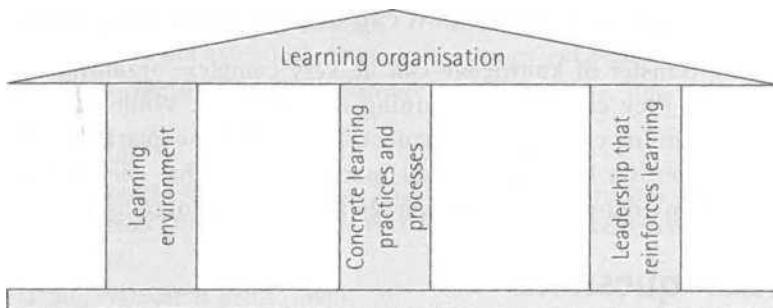
## **Practising strategy: Codify or personalise? Different strategies for managing knowledge**

Because of the need to capture the methodologies they use in different projects; consulting firms have traditionally been at the forefront of knowledge management. In a *Harvard Business Review* article, Morten Hansen, Nitin Noria and Thomas Tierney<sup>17</sup> found that there were two distinct models for knowledge management in consulting firms. In one model, the consulting team captured the knowledge in a document format, which was then shared with the rest of the firm through electronic means. This approach was described as the 'codification' approach. The other approach was based more on personal contact, with consultants finding and interviewing other consultants with relevant experience to devise a new methodology. This was described as the 'personalisation' approach. The authors suggested that the two approaches could not be easily combined and that care should be taken in selecting the best approach.

### **The big picture**

Strategic innovation and change is the goal of organisational learning. Without the ability to learn, these goals would not be achievable. However, organisational learning begins with the individual and his or her own ability to learn and change. From the individual, it moves to teams as individuals share their knowledge and insights and their teams apply the new insights to business problems. As teams apply new knowledge successfully, they may share the knowledge with the rest of the organisation for wider application.

From our discussion above, we may argue that there are three building blocks for a learning organisation<sup>18</sup> (see Figure 9.7). The first building block is an *environment that supports and encourages learning*. For example, legitimising dissent and encouraging experimentation are actions that create an organisational pace in which learning is not only tolerated, but actively encouraged. Second, the organisation also needs to establish *formal processes to share knowledge systematically*. Communities- of-practice and knowledge management systems are examples of activities that will form this building block. The third building block is *leadership* which actively stimulates dialogue and debate and encourages learning.



**Figure 9.7** The building blocks of a learning organisation

What we see from this chapter is that organisational learning is not a simple process. It may lead to success, but the journey will not be easy. A lot of thinking is required by management to instil a culture of learning. Even then it may fail, but if it works, the effects may be spectacular. It is evident from the chapter case study that Discovery increased their revenues and competitive advantage by applying the principles of organisational learning in their innovation efforts.

## Summary of learning outcomes

**LO 1:** Explain what a learning organisation is.

Just like human beings need to learn and adapt to their environment in order to succeed, organisations need to be able to do the same. In this chapter, we saw that organisational learning is dependent on the ability of the organisation to acquire, transform and use knowledge.

**LO 2:** Explain the barriers to organisational learning.

Just as human learning is often hindered by various factors such as the limited ability of individuals, or the environment that they learn in, various aspects can hinder learning in an organisation. The mindsets of managers (dominant general management logic), managerial ignorance and absorptive capacity are three such barriers that may prevent an organisation from learning effectively.

**LO 3:** Discuss how individuals learn.

Only individuals can learn knowledge, so organisational learning is ultimately dependent on how effectively individuals can learn and adapt.

**LO 4:** Explain the transfer of knowledge to others.

The transfer of knowledge between individuals is the cornerstone of organisational learning. However, transferring knowledge is not a simple matter, as the knowledge that needs to be transferred can be very complex and hard to share with others.

### **LO 5: Explain how an organisation can become a learning organisation.**

Given that the transfer of knowledge can be very complex, organisations need to think about how they can become learning organisations. While some aspects of organisational learning can occur spontaneously, there are no guarantees that it will, and in this chapter, we highlight several specific actions that can be taken by the management of an organisation to encourage and cultivate organisational learning.

### **Discussion questions**

1. Explain what a learning organisation is.
2. Explain why organisational learning is important.
3. Discuss the barriers to organisational learning.
4. Describe the nature of individual learning and why it is important in organisational learning.
5. Describe five mechanisms that organisations can use to become learning organisations.
6. Explain why communities of practice are important in organisational learning.
7. Explain what knowledge management is and identify the components of knowledge management.
8. Give an example of organisational learning in the case of Discovery.
9. Identify an organisation of your choice and interview two managers. In your view, is this a learning organisation? Why or why not?

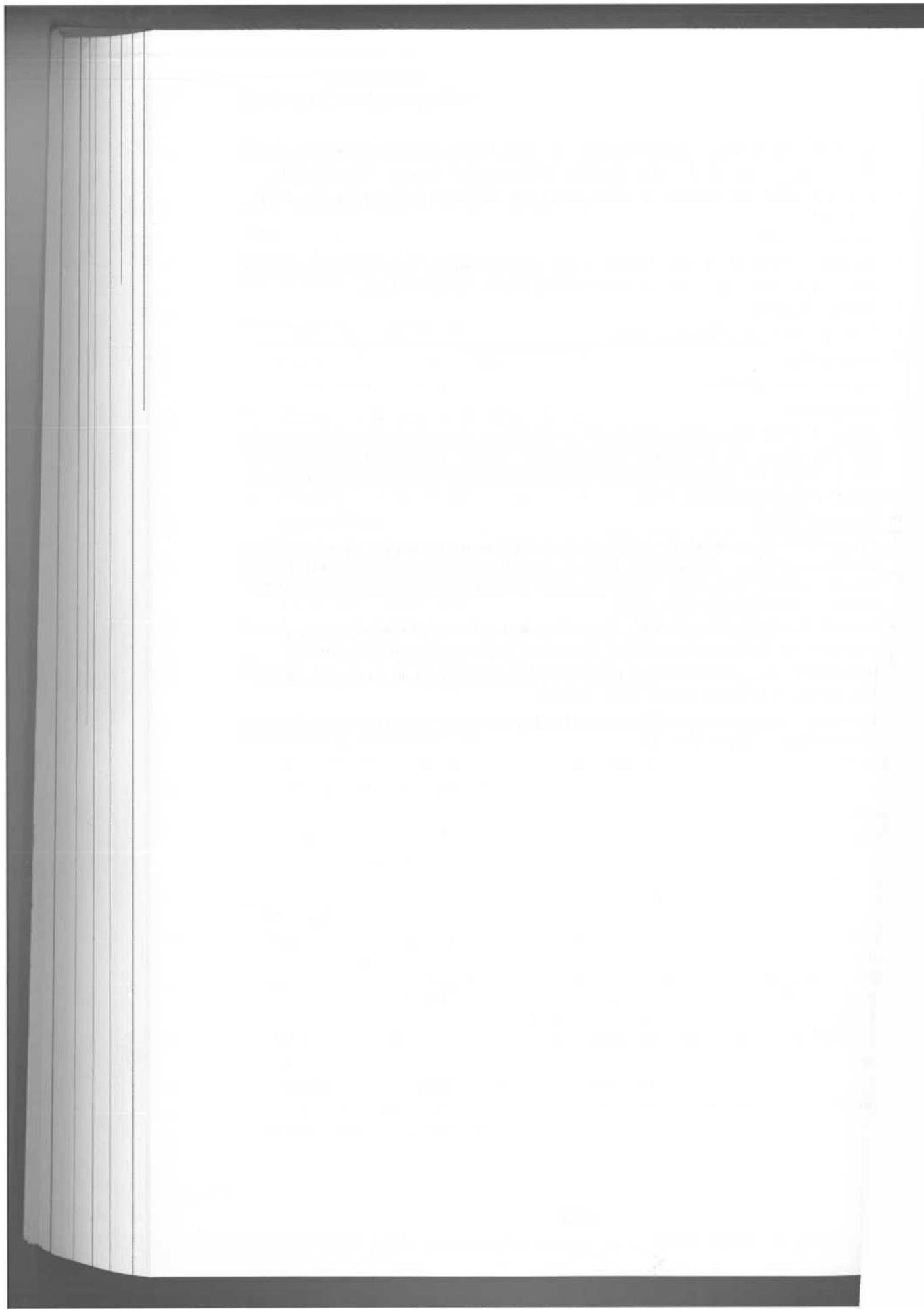
### **Learning activities**

1. Visit the Management Lab (<http://www.managementlab.org/>) and identify an example of organisational learning.
2. Visit the Management Innovation Exchange (<http://www.managementexchange.com/story>) and find three examples of what organisations are doing to encourage organisational learning.

### **Endnotes**

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# 10

# Resource allocation for strategy implementation

Peet Venter

## LEARNING OUTCOMES

After reading this chapter, you should be able to do the following:

- LO 1: Explain what resource allocation for strategy implementation entails.
- LO 2: Explain what the Strategic Execution Framework (SEF) entails.
- LO 3: Explain the management of strategic initiatives.
- LO 4: Explain the creation of an environment for effective resource allocation.

## KEY WORDS

Resource allocation

Strategic initiatives

Programme management

Strategy implementation

Project management

Strategic Execution

Framework

## CHAPTER ORIENTATION

Strategy implementation is about ensuring that all the components of the organisation (structure, culture and systems) are aligned with the chosen strategy (see Chapter 8). In addition to this alignment process, there is the question: *how do we make strategy happen?*

Typically, in strategy implementation, strategies are translated into projects that need to be completed as part of the organisation's day-to-day operational activities. Projects usually address a task or a problem, have outcomes that are clearly stated, and have well-defined boundaries, including a specific start and finish date. In a dynamic and complex environment, a new way to translate strategies is needed, such as by means of strategic initiatives. Refer to Chapters, Section 8.1, where portfolios and projects were explained in more detail.

Resource allocation for strategy implementation is a very complex matter, and there is no 'recipe'<sup>1</sup> or simple formula that will result in successful implementation. So, we can argue that resource allocation is more of an art than a science and that the organisation's efforts may be rather messy and based on trial and error, as much as on rational decision-making.

In this chapter, we briefly explore the evolution in management perspectives on resource allocation for strategy implementation. We look at an effective framework for resource allocation and at various practical steps that practitioners can use for resource allocation.

However, no plans can be implemented without resources such as money, skills, and technology; and in this chapter, we focus on the deliberate allocation and alignment of resources to implement strategies. Figure 10.1 depicts the focus of this chapter in the context of strategic management.

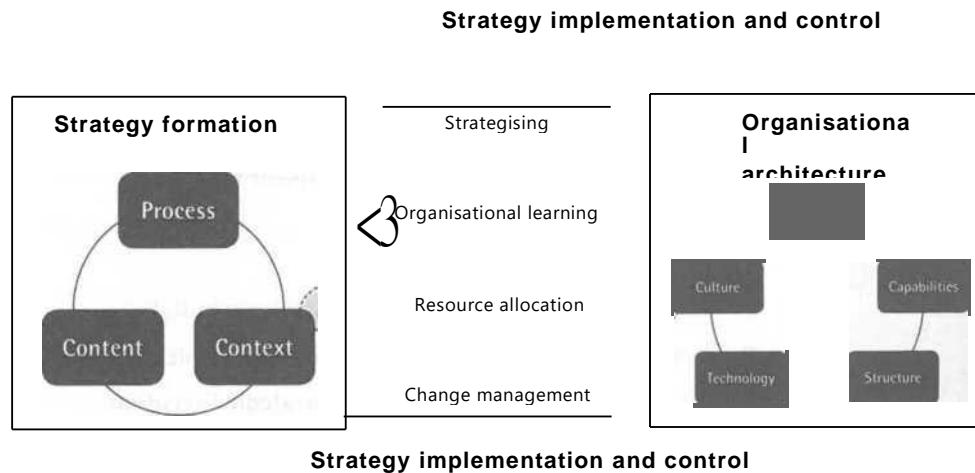


Figure 10.1: *Resource allocation for strategy implementation*

## Case study

### Poverty alleviation and the National Development Plan<sup>1</sup>

Statistics South Africa's, former chief statistician, Pali Lehohla, was a visibly frustrated man at the release of the report *Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2015*. The report found that poverty in the country had worsened substantially between 2011 and 2015 when 30.4 million (or 55.5 per cent) of citizens were classified as poor. Lehohla clearly felt the initiatives to implement the National Development Plan (NDF) were not forthcoming.

*What I see is things are turning against what the National Development Plan (NDP) wants - which is to reduce poverty, increase employment, decrease inequality. On the unemployment and poverty front, the country is going in the opposite direction and that is a big worry for those who are running the NDP.*

Organisations, like governments, have limited resources to execute their strategic plans, and have to allocate their resources to areas where it is going to have the biggest impact. Lehohla said government needed to use statistics (such as those provided by Stats SA) to come up with a comprehensive plan to give effect to their strategies, which should respond to market needs and provide education and skills for the poor. There is no short cut to good development. It takes time. It takes investment. It takes collective action. Jobs are a problem, but when people do not have skills to undertake the job, that's a problem too,' he said. 'In the absence of planning, this thing is not going to go anywhere ... Here in SA we are providing the numbers, but I don't think they are used adequately.'

**LO 1:** Explain what resource allocation for strategy implementation entails.

### 10.1 Resource allocation for strategy implementation

The transformation from the industrial to the information age has been accompanied by increasingly sophisticated customers, escalating globalisation, more prevalent and subtle product differentiation, and an emphasis on intellectual capital and enhanced employee empowerment. In this new world order, management perspectives and practices are evolving to meet contemporary needs. Successful strategy implementation has become ever more important and new frameworks are being developed to fill the gap between strategy planning and operational activities.

The business environment today also demands new and integrated management approaches for strategy implementation, other than the standard 'top-down' and silo-treated approaches, such as project management and performance management.

This is necessary so that someone at the lowest level in any function can answer the question: *what is the plan for the business over the next few years?* Another question to be answered: *what am I doing to contribute to this plan that will make a difference?* This represents a development from 'making strategy happen' to embodying strategy, and from traditional strategy implementation (the translation of a chosen strategy into organisational action to achieve strategic goals and objectives) to resource allocation (a process that aligns - both vertically and horizontally - an organisation's functions and activities with its strategic goals and objectives). Resource allocation can therefore be seen to consist of three key elements that should be considered as an integrated whole. These elements are first the successful implementation of strategic initiatives, second the successful alignment of organisational units with the strategic direction of the organisation and third, the successful alignment of individual behaviour with strategic direction. This integrated whole is depicted in Figure 10.2.



Figure 10.2 *The elements of resource allocation for strategy implementation*

In the following sections, these elements are discussed in more detail, starting with the alignment of organisational units with strategic direction.

### 10.1.1 Align organisational units with strategic direction.

Most large organisations will consist of several organisational units, such as strategic business units or departments. For successful resource allocation, all three dimensions in the hierarchy of strategy, namely, corporate, business and functional, should be aligned and should support one another (refer to Chapter 2, Table 2.1 for a clear understanding of the hierarchical levels). This means that the different business units in an organisation are able to draw on the overall corporate strategy. If we take the example of the food retailer, Shoprite, the group has a clear focus on reducing their cost and using a lower cost base to provide value for money to their customers. The businesses in the group draws on and is aligned to that strategy. Hungry Lion (a fast food business) provides larger portions at lower comparative prices to reinforce the strategy of value for money. It also means that all the functional area plans have to align with the concept of value for money. In the example below, we compare Woolworths, a high-quality retailer, with Shoprite on some key functional areas.

## Practising strategy: Woolworths versus Shoprite

	Woolworths	Shoprite
Corporate strategy	Differentiation (high quality at higher prices)	Cost leadership (low input cost is used to provide good value for money to customers)
Marketing	Focus on quality and environmental responsibility	Focus on price, and value for money
Store locations	Shopping malls and upmarket areas	Closer to transport hubs, more focus on accessibility
Buying	Focus on quality	Focus on purchasing volumes and price
Store layout and merchandising	Store layout and merchandising will support the concept of quality - appearance and in-store climate is important	Store layout and merchandising will support the notion of value for money - cost savings will be more important than appearance
Innovation	Innovation in products, packaging	Innovation in supply chain and cost reduction methods

In addition to aligning organisational units with strategic direction, the organisation also has to ensure that the behaviour of each individual employee is aligned with strategic direction. This is the focus of the next section.

### 10.1.2 Align individual behaviour with strategic direction.

One key element of resource allocation is to ensure that the behaviour and work of every employee are aligned with the strategy. In addition to the communication of the strategy, there are five tools that organisations can use to achieve this:

1. The process of alignment starts with the recruitment process. Organisations should recruit individuals who support their strategic direction.
2. Training and development may be required to ensure that the knowledge, skills and attitudes of employees match the strategic direction of the organisation.
3. Policies and procedures can be used to guide the behaviours of individuals. Changes may require old policies and procedures to be reviewed or new policies and procedures to be introduced.
4. The process of cascading objectives can be used as a framework for setting objectives lower down in the organisation, for example, by using the balanced scorecard in conjunction with a performance management system. In using this approach, strategic objectives will typically be used to derive annual objectives, which will, in turn, be used to define the actions and required performance levels of individual employees (see Figure 10.3).

5. Reward systems that are tailored to reward behaviours and achievements that are in line with the strategy may encourage individuals to behave and actively support the strategic direction (see the practising strategy box below).

## **Practising strategy: Adrian Gore on fostering an innovative culture at Discovery<sup>2</sup>**

We're often asked, 'Can you keep innovating?' The truth is, I find that the more you innovate, the more you can innovate. Most innovation in companies is event based. A competitor comes up with something, and the company responds. We do the opposite. Our leaders are always on a treadmill to create and launch new ideas. For example, every year we have a rock-star launch where we're presenting something new to thousands of our intermediaries who own sales. Our guys know the date is booked. The concert's happening. You just better write the music.

We have growth metrics for a lot of what we do. Our earnings per share have grown by 25 percent a year, compounded, for the last two decades, with little capital. But my personal view is that the rationales behind innovation and earnings targets are not really great bedfellows. You have to invest in innovation, even if you don't know where it will end up. But with a growth-target mind-set, you're always thinking, 'Oh, we can't do this, because it's going to undermine our margins' or whatever. You ought to do both well, but it's challenging to balance those two parts of your brain.

To push ourselves to find the next idea, we have an internal competition every year called Inspiring Excellence, where our top one thousand leaders break into teams of two to four people and work on new concepts. Throughout the year, we hold contests until we've narrowed down to the top five teams, who present at our annual management conference. Even ideas that don't win often prove to be winners later on, when we roll them out. This programme provides us with a strong inventory of possibilities, which are continually replenished.

Twice a year, our remuneration committee looks at each business and gives it an innovation score. So the take-home bonus of a thousand people is based on a subjective review of the success of their launches. But even beyond that pool, all our employees are involved in this time-based cycle, working on projects. Across the organisation, there's a natural metronome of our innovation.

I genuinely believe that the smartest people work for the organisations they believe are doing good. At Discovery, our people have built innovative businesses that are good, not only for the company, but also for our customers. I'm dedicated to Discovery's work in building South Africa and communities around the world. I want South Africans to look at Discovery with hope, to feel the future is certain.

Resource allocation can be seen as a continuum with deliberate planning at one end and a more open and fluid process approach at the other.<sup>3</sup> Prescriptive planning involves moving from strategies to actions through the process of setting objectives and performance controls, allocating resources and motivating employees. This approach uses ‘hard’ management practices (such as reward systems) and focuses on systems or practices that are analytical in nature. In contrast, process approaches emphasise people changing their behaviour. These approaches use ‘soft’ management practices which are people-oriented, cognitive or behavioural in nature. They focus on changing the assumptions and routines of people in the organisation, including those of managers.<sup>4</sup>

In the next section, we turn our attention to the third element of resource allocation for strategy implementation, namely, the successful implementation of strategic initiatives.

### 10.1.3 Implement strategic initiatives.

As we pointed out in Chapter 2, strategy is not about business as usual. It is rather about those chosen courses of action that will lead to positive changes in the performance of the organisation. To achieve these changes, the organisation will need to implement strategic initiatives successfully. Strategic initiatives refer to those key projects or programmes (multiple independent projects managed as a single unit) focused on achieving a specific objective or improving performance to achieve a performance target. The role of projects in resource allocation is discussed in more detail in Section 10.2.

### 10.1.4 Implement enablers of resource allocation.

Resource allocation is a challenging and complex process, and it is underpinned by three important enablers, namely, communication of the strategy, the ability of the organisation to learn and adapt, and the allocation of adequate resources.

#### *Communicate the strategy*

The most obvious way to deploy a strategy is to ensure that everyone in the organisation understands the strategy and what it means to him or her individually. This is necessary because not everyone can be equally involved in making strategic choices, but all employees do need to be aware of what the strategy entails and how it affects them. There are four main objectives for the communication of strategy:

1. To ensure that everyone in the organisation understands what the strategy is and how it will affect them
2. To resolve uncertainty about the strategy (for example, by allowing employees to ask questions and to clarify)
3. To explain the assumptions and judgements that were made during the analysis process and to explain the decisions that were made and backup plans
4. To ensure a common understanding of the strategy and co-ordination across all organisational units.

In most cases, simply enforcing a strategy will elicit resistance to change. For that reason, one of the key objectives of the communication process may be to ‘sell’ the strategy to the organisation, and to ensure that everyone understands why the decision was made and why it was the best decision under the circumstances.

The communication of the strategy may comprise of formal communication initiatives, such as presentations by management, ‘roadshows’ throughout the organisation detailing the strategy, and the use of company newsletters and intranets to provide the required information. However, it is also important for managers to ensure that they adopt the new strategy in their everyday language and in informal communication with their peers and subordinates, and even other stakeholders, such as customers.

## Practising strategy: Communicating strategic change<sup>5</sup>

In a typical strategic change process, there are several ways to communicate the strategy to the workforce:

- Face-to-face meetings or ‘roadshows’ can be used as platforms where employees can interact with management.
- Documents outlining the strategy can be developed and translated into all relevant languages.
- ‘Best’ or desired practices can be communicated using face-to-face and virtual communications.
- Success stories are published and publicly celebrated.
- Strategy principles and values can be distributed to employees on printed cards, screens and posters.

### *Organisational learning and adaptation*

In the industrial era, the creation and implementation of strategy was a kind of ‘ready, aim, fire’ process. This approach worked reasonably well in a relatively linear, stable and predictable environment. But today’s discontinuous environment rather requires a ‘ready, fire, steer’ approach. In other words, the organisation’s strategic direction is developed, implemented, and then repeatedly and continuously modified in response to changes in the environment and in the organisation’s own realities. Knowing when to change the strategic direction is the difference between success and failure. Successful organisations are those that have the discipline necessary to change when it is not working; to change the strategy without abandoning the whole vision. The changed strategies are deployed by adapting the organisation’s existing strategic initiatives or creating new ones.

Experimentation offers one key to making these adjustments successfully. A readiness to experiment, to learn from the results, and to adjust accordingly is a hallmark of adaptive organisations (see Chapter 9 for a discussion on organisational learning).

Although successful organisations are, by definition, organisations that do things right, not making mistakes can stifle learning. To learn from experimentation requires a mistake-friendly, knowledge-sharing culture and should be part of every resource-allocation process.

### *Allocate adequate resources*

All organisations have limited resources, so it logically follows that resources should be allocated first to those projects or activities that contribute most to the strategic success of the organisation. In considering requests for funding and in the budgeting process, organisations should take the following into account:

- The extent to which the proposal contributes towards the organisation's mission and long-term objectives.
- The extent to which the proposal supports the strategic direction and key strategic initiatives.
- The level of risk associated with the proposal and the extent to which it fits the organisation's risk profile.

The proposals that most contribute towards the strategic success of the organisation and best fits its risk profile should enjoy preference.

In the next section, we summarise the resource allocation process.

#### **10.1.5 Align strategy with the internal environment.**

In summary, we can regard resource allocation as a process for aligning all organisational units and employees with the formulated strategies. This alignment is depicted in Figure 10.3.

However, we should remember that it is not simply a matter of cascading objectives, metrics and strategies. The process is much more complex than that, and communication, resource allocation, managing strategic initiatives and change are all part of it. However, at the most basic level, resource allocation is about ensuring that all of the business unit goals, metrics and strategies are aligned with the corporate goals, metrics and strategies; that functional goals, metrics and plans support the business units, and that the functional level plans and tactics translate into individual measurements and tasks. The balanced scorecard is an example of a tool that can be used to align goals and metrics across the whole organisation.

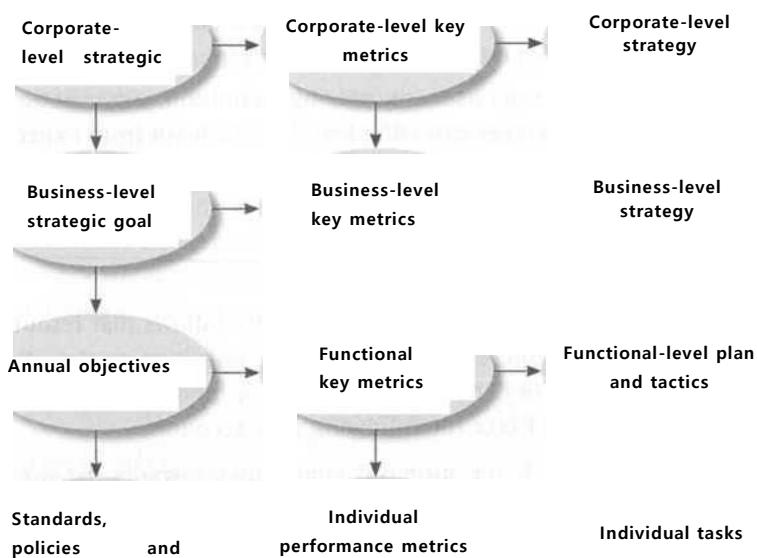


Figure 10.3 Aligning strategy with the internal environment

## Practising strategy: Resource allocation in a retailer

In this example, we try to illustrate how the cascading and alignment process may work in a retailing group focused on providing high-quality goods (think of a retailer like Woolworths). For such a retailer, the ability to buy and sell excellent quality products is a key element of their success.

At the same time, they may be looking to expand into new areas and shopping format. For instance, Woolworths have outlets in certain Engen forecourts. At the corporate level, the focus may be to grow by increasing revenue. The return on shareholders' equity may be an example of a metric related to this goal. As a strategy, the group may be looking to expand their investment into new shopping formats and geographical areas (for example, moving into more countries in Africa).

At the business level, the focus may be on differentiation - providing high quality at a relatively high price. The objective may, therefore, be to increase profitability. An example of a metric may be the gross profit margin (the difference between sales revenue and the cost of sales divided by sales).

The strategy for achieving this may be through innovation and quality management to provide higher quality products that contribute to environmental sustainability.

At the functional level, one area of focus may be to increase the percentage of products with environmentally friendly packaging. The strategy may be to work with and incentivise producers (suppliers) for 'greening' their packaging.

At the individual level, buyers may be required to actively source new environmentally friendly forms of packaging to use. There may be certain standards or policies, for example, that certain types of packaging may not be used. They may be measured, for instance, on the number of new innovations they introduce in this

In the next section, we explore a project-based framework for resource allocation.

LO 2: Explain what the Strategy Execution Framework entails.

## 10.2 A strategic execution framework

Much of the focus in traditional strategy literature has been on strategy formulation, while relatively few models widely accepted by practitioners have been developed for strategy implementation or deployment. Early frameworks of strategy implementation typically simply listed and described implementation factors. However, strategy implementation and deployment is the area where a strategy is most likely to fail, so a more coherent framework for resource allocation should be of considerable value.

The Strategic Execution Framework® (SEF)<sup>6</sup> is a resource allocation framework that helps to align an organisation's projects and programmes with its strategies. As we have argued already, strategy is about change, and for that reason, resource allocation is in essence project-based work (rather than merely aligning the day-to-day operations) which requires the selection of and investment in specific engagements, portfolios, programmes and projects, which we refer to as strategic initiatives. (Refer to Chapter 8, Section 8.1, where these concepts were explained.)

The purpose of the SEF is to help organisations to align activities and strategic direction better. According to this framework, there are six key aspects or domains of an organisation that must harmonise in respect of resource allocation. These are described in Table 10.1.

Table 10.1 The six domains of the Strategic Execution Framework

Ideation	<i>An organisation's identity, how it sees itself and how it wants to appear to the world.</i> This is expressed through statements of its purpose, identity and long-range intention. Companies with weak ideation will typically be reactive and focused on the short term. The basic elements of ideation were discussed in Chapter 3, Section 3.4.1, as 'strategic direction'!
Nature	<i>The physical and psychological manifestation of the organisation in the form of its culture (also see Chapter 11), its structure (also see Chapter 13) and its strategy (also see Chapter 7).</i> Together these elements create the internal context of the organisation. It is important that there is a good fit between these three elements. For example, if an organisation is dependent on innovation and quick response times, having a very hierarchical structure with rigid functional silos will not support its strategy.
Vision	<i>Where the organisation wants to be in the future.</i> In this case, 'vision' refers to more than just a vision statement (which is an expression of ideation), it refers to the organisation's key goals, strategies and measures (metrics) that drive its strategy. Again it is important to ensure that there is a good fit between the goals the organisation wants to achieve, its strategies and the key metrics it will need to measure progress. These aspects were also addressed in Chapter 3.
Engagement	<i>The engagement domain is central to strategic execution. During engagement, the strategy is actioned by selecting a portfolio of strategic initiatives that will move the organisation towards its strategic goals.</i> Therefore, the engagement domain is expressed through statements of strategy and portfolio. The ability to choose and fund the right projects and programmes is based on clarity in terms of goals, metrics and strategy (see Figure 10.4).
Synthesis	<i>Synthesis is when the portfolio culminates in specific strategic initiatives in the form of programmes or projects.</i> Our view of programme and project management, in this instance, refers to the strategic role of projects, rather than to the tactical role normally assigned to it.
Transition	<i>Transition is when the programmes and projects result in outcomes that then become part of the operations, ie the day-to-day activities of the organisation.</i> For example, a project may result in the development of a new product range, which is then absorbed into the organisation's value chain of production, sales and after-sales support.

All six of the domains outlined above are critical to the deployment process. Quite appropriately the six essential domains - ideation, nature, vision, engagement, synthesis and transition - combine to form the acronym INVEST. However, since the

aspects of ideation, nature and vision were discussed in other chapters in this book (see Table 10.1), in this section, we will focus on the aspects most closely related to deployment, namely, engagement, synthesis and transition.

Figure 10.4 depicts the Strategy Execution Framework®, incorporating the six domains, ideation, nature, vision, engagement, synthesis, and transition and the components of each of the six domains.

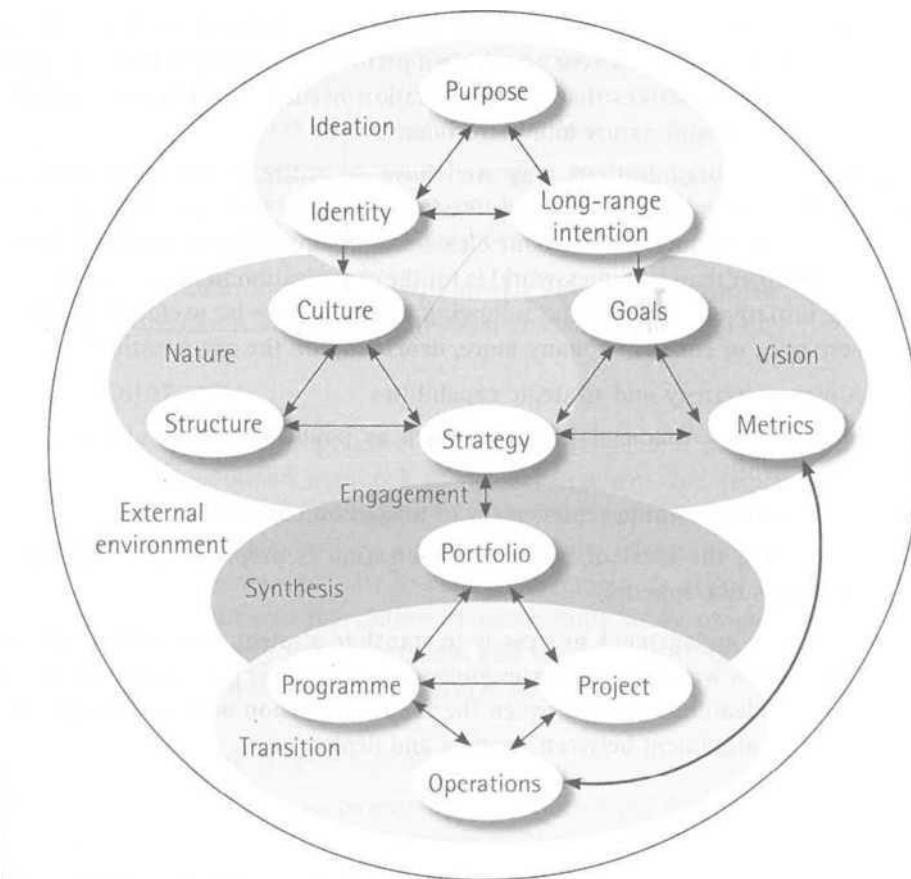


Figure 10.4 *The Strategic Execution Framework® (SEF)*

### 10.2.1 Engagement

The engagement phase is where the organisation decides how it is going to spend its money to its strategy and to attain its vision. This process requires a lot of discipline, as there are generally always too many projects and too few resources. The allocation of resources is always in danger of being 'hijacked' by powerful executives or board members with pet projects, and to prevent this, vigorous debate and clear decision criteria are required.

In the first instance, the organisation must understand what needs to be done as part of the roll-out of the strategy. In the engagement domain, strategy consists of understanding where we are (R), where we want to be (2B) and the path we need to follow to get to where we want to be (PATH). This can be expressed as R + 2B + PATH. ‘Knowing where we are’ requires the organisation to understand its current ideation, current nature and current progress towards vision (for example, understanding progress towards key metrics). On the ‘2B’ side, the organisation needs to understand what structural changes should be made, what change is required to align culture and what gaps exist between current and desired performance. The PATH is expressed through the specific initiatives that the organisation needs to implement to ensure alignment of strategy with nature and performance.

At this point, organisations may well have an entire potential portfolio of investments, but due to limited resources, it will not be able to invest in all of them, and will have to make tough choices. One element that may help to make this process more rigorous (rather than just guesswork) is for the organisation to have clear criteria for selecting initiatives. Some of the following elements may be useful as decision criteria (there may, of course, be many more, depending on the organisation):

- Aligning strategy and strategic capabilities
- Implementing financial measures (such as payback periods or return on investment)
- Contributing towards achievement of long-term objectives
- Determining the level of risk the organisation is prepared to accept(also known as risk appetite).

The purpose of the engagement process is to translate strategy into action, and to prioritise actions in a way that eliminates guesswork and power play in the allocation of resources. The clearer the link between the funding decision and the strategy, the better the level of alignment between strategy and deployment.

### 10.2.2 Synthesis

The investment portfolio of the organisation funds those activities that are strategic initiatives and not part of the normal day-to-day operations of the organisation. For that reason, it is managed by means of programme and project management, with a view to ultimately absorbing it into the operations of the organisation. The synthesis domain (see Figure 10.4) has three key performance areas:

1. The organisation must have a process methodology and structure for managing project-based work on a strategic level.
2. The organisation must have process maturity for these process methodologies - in other words, it must have the capability to manage the process.
3. Executive sponsorship of project-based work, to the extent that every project should have an executive sponsor.

These elements are discussed in more detail below.

### *Process methodology*

In the process methodology for programme and project management, there are two key concepts:

1. Programme management is the process of managing multiple, but interrelated projects. For example, in a large merger, there may be many different projects - some to integrate information technology (IT) systems, others to harmonise the human resource processes and still others to identify opportunities for cost reduction. The role of programme management will be to oversee all of the different projects, to track progress and to identify potential barriers to successful completion.
2. Project management requires a project team to set the scope of a project, to develop a project schedule, to obtain project resources, to implement the project phases and to track progress.

Project and portfolio management are almost universally regarded as core skills in today's organisations, and strategy implementation is no exception.

### *Process maturity*

Many organisations do programme or project management on a tactical level. For example, it is a common approach to the development and implementation of IT systems. However, not many organisations do it successfully at the level of strategy implementation. Maturity is best viewed on a scale where 'no formal approach' is the bottom of the scale and 'best-in-class performance' is at the top. The lower the level of maturity, the less the chance of successfully using programme and project management in strategy implementation, and the more work the organisation needs to do to develop maturity in these critical skills.

### *Executive sponsorship*

Without an executive sponsor to champion a project, it has little chance of succeeding. The role of the executive sponsor is to help overcome obstacles, to maintain visibility for the project and to help with investing in opportunities.

#### 10.2.3 Transition

The outcomes of programme and project management will ultimately become part of the day-to-day activities (operations) of the organisation. The transition domain is where the organisation's strategic efforts succeed or fail and result in achievement of metrics or not.

There are two types of transitional arrangements that have to be balanced by the organisation. First, existing systems and processes have to be maintained and continuously improved upon in order to reap the benefits from them. At the same time, the resource allocation process is about finding those breakthrough changes that will really alter the game and ensure a step-up in performance. For example,

when South African Breweries (SAB) acquired Miller Breweries in the US, it was important for SAB to maintain and improve their existing business while integrating Miller into the SAB fold. When the new organisation (SABMiller) emerged, it was a breakthrough change - SABMiller was now a global instead of just a regional player in the beer industry.

Second, during the transition process, it is vital that strategic control (see Chapter 14) ensure that the strategic metrics of the organisation are achieved. Metrics throughout the organisation must be aligned and work towards the same ultimate goal.

The complexity<sup>6</sup> of the strategy implementation process means that managers are simply unable to have a view of all strategic aspects continually and at the same time. For this reason, this framework provides a means of directing the attention of managers to key focus areas of strategy implementation to be addressed and managed.

In the next section, we will focus on management practices and tools in resource allocation, specifically in respect of managing strategic initiatives.

LO 3: Explain the management of strategic initiatives.

### **10.3 Managing strategic initiatives**

Determining the strategic direction for the organisation is the strategic leadership action that is perceived to play one of the most important roles in effective resource allocation. Strategic leadership is multi-functional, involves managing through others, and helps organisations to cope with change that seems to be increasing exponentially in today's globalised business environment.

Strategic leadership requires the ability to accommodate and integrate both the internal and external business environments of the organisation, and to manage and engage in complex information processing. Leadership practices (see Chapter 12 for a discussion on strategic leadership) for boards of directors in resource allocation include the following:<sup>7</sup>

- Ensuring a steady flow of strategic initiatives and projects to achieve the strategic objectives
- Developing decision frameworks for selecting strategic portfolio investments and for terminating unsuccessful initiatives
- Regularly evaluating the progress of strategic initiatives and strategy implementation.

The role of management is required in the resource-allocation process for planning and directing activities, and monitoring and taking corrective action where necessary.

Leadership and management are therefore emphasised differently in resource allocation (see Figure 10.5). The Strategic Execution Framework can be used to make the distinction between the role of leaders and managers in resource allocation.

Leaders, on the one hand, will have a strategic view and focus on the first three domains of the SEF in terms of resource allocation, namely, the nature, vision and engagement of the organisation. Managers, on the other hand, will have a more operational view and focus on the engagement, synthesis, and transition domains of the SEF. The focus in this section is on operational management, specifically the management of strategic initiatives and the process of making strategy part of everyone's job.

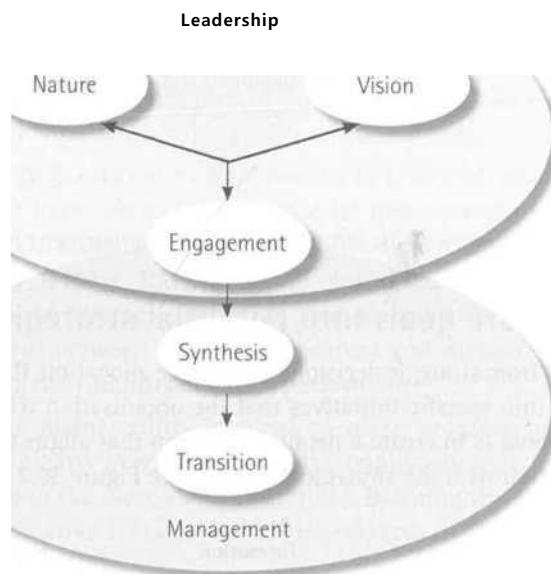


Figure 10.5 *Leading and managing for resource allocation*

The process of managing strategic initiatives consists of the following (see Figure 10.6):

- Developing strategic initiatives by translating strategic goals into strategic initiatives
- Prioritising strategic initiatives
- Defining and approving strategic initiatives
- Aligning individual behaviour
- Reporting on strategic initiatives and taking corrective action where required.

This process is discussed next.

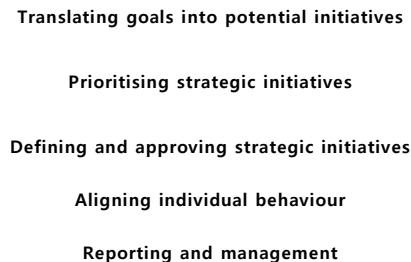


Figure 10.6 *A summary of the strategic initiative management process*

### 10.3.1 Translate goals into potential strategic initiatives

In transitioning from strategic decisions to resource allocation, the first task is to translate strategic goals into specific initiatives that the organisation will undertake in the near future. The purpose is to create a detailed roadmap that aligns the day-to-day activities of the organisation with the strategic direction (see Figure 10.7 for an example).



Figure 10.7 *An example of resource allocation from strategic objectives*

From Figure 10.2, we can see that the process of resource allocation starts with the identification of strategic objectives, the few key things that the organisation wants to achieve. If we use the example of a supermarket in a small rural town, the owner

of the supermarket may want to achieve ‘sustainable profitability’ as a key goal to ensure the survival of his business in the future. The next step is to identify how he is going to measure his success (or failure) in this regard, and the answer is relatively simple - the net profit of his supermarket is the most important measure. Next, he will set himself a performance improvement target. He is struggling at the moment and making a loss of R500,000 for the year (which prompted him to start thinking strategically!). He would like to be in a position in which he makes a net profit of R1 million per year three years from now. To achieve that, he will need to identify some strategic initiatives that are ‘new’ to his business. One example may be to develop a loyalty programme for his customers, which would encourage them to buy only from his supermarket in turn for some rewards. This will now be a project that he must manage, and will require him to, for example, do some research about loyalty programmes and what his customers want as a first step.

Successful strategy execution or deployment is achieved when the strategic initiatives realise the set improvement targets, the set improvement targets meet the set measures, and the set measures result in the attainment of the set objectives to achieve the strategy (Figure 10.7). Refer to our discussion of the top-down and bottom-up aspects of strategy formation and implementation in Chapter 8, Section 8.2. Misalignment between strategic initiatives and measures may result in wasted resource with no clear improvement in performance.

Initiatives are the major efforts required to make progress toward strategic goals, and they must be clearly described during the implementation process in order to facilitate the selection of the most viable initiatives. Defining the elements outlined in Table 10.2 for each initiative will enable decision-makers to compare and evaluate initiatives.

Table 10.2 *Defining initiatives*

- Deliverables: What will be the results of the initiative? How will ‘success’ be measured?
- Initiative leader and team: Who is responsible and involved in the work?
- Key activities: What action steps need to be undertaken to achieve the deliverable?
- Resource requirements: What investments (people, equipment, time, and finances) will be needed to carry out the initiative?
- Interdependencies: How will the initiative impact on other functions or areas of the organisation? How will it affect other initiatives?
- Milestones: What are the major events, accomplishments, or key decision points that are anticipated? How will you know when and if your initiative is on or off track?
- Performance metrics: What will you measure to gauge progress on your initiative? How will you utilise these performance metrics to tell if your initiative is on or off track?
- Timeline: When will the initiative begin and end? At what milestone will you judge if your initial timeline is correct?

### 10.3.2 Prioritising strategic initiatives

In the context of the planning process, organisations must identify strategic initiatives and prioritise them based on strategic impact. There will most likely be numerous initiatives competing for resource allocation. Rather than depending on individuals or a small group of individuals to make the decision, it is better to put together a multidisciplinary workshop or panel using clear selection criteria. Qualitative and quantitative information on each potential initiative should be distributed to panel members to enable productive discussions and decision-making. Good descriptions of the potential impacts of the initiatives will assist in understanding the trade-offs in the prioritisation process.

To ensure that everyone has an understanding of each of the initiatives, strategic initiative leaders should provide an overview of their proposed initiative. The briefing should include the following information:

- A description of the initiative
- How it supports the strategic agenda
- The expected impact or outcome (if possible, this should be linked to strategic goals and metrics)
- The capital and resource requirements
- Human resource requirements - people and skills
- Revenues and expenses.

Based on the briefings and documentation provided, projects can be prioritised. For example, a simple process for rating initiatives can be as follows:

Category A initiatives = committed (the organisation will allocate resources)

Category B initiatives = high strategic impact Category C initiatives = medium

strategic impact Category D initiatives = low strategic impact.

### 10.3.3 Define and approve strategic initiatives.

Ultimately only a few important projects should be selected, most likely only from categories A and B. The selected strategic initiatives should be considered holistically to ensure that they address the vision of the organisation and to give different executives an outline of how their work connects to the work of others in the organisation. The purpose of this step is to get a bird's eye view of the selected initiatives to get a sense of how they interconnect and how to integrate them into a strategic programme and project management framework.

#### 10.3.4 Communicate strategic initiatives.

The purpose of this phase is to ensure that all employees are aware of the strategy and strategic initiatives that will be funded. Resource allocation may require that employees do things differently, and to get them on board, they will need to understand why the change is required and what they must do differently.

It is also important to link strategic initiatives with individual performance agreements, so that there is an explicit relation between individual behaviour and strategic initiatives. This process is usually part of the performance management system.

#### 10.3.5 Strategic initiative reporting and management.

Organisations that are effective at resource allocation have effective processes in place for systematically measuring and evaluating progress towards their strategic goals. These processes help them to remain focused as they execute their strategies, all the time learning and adjusting as they go. As we have argued in the previous section, programme and project management processes are important tools for achieving this outcome.

There may also be a need to report to the board and senior management specifically on progress, and, in this regard, executive dashboards that provide a quick summary of progress will be most useful. Dashboards can take a variety of formats, but the format is less important than the content. Ultimately, when it comes to executive level reporting, fewer measures are better.

As we have seen in the preceding discussions, resource allocation is a complex process, and there are many potential barriers that may impede deployment. We discuss these barriers in the next section.

LO 4: Explain the creation of an environment for effective resource allocation.

### 10.4 Creating an environment for effective resource allocation

While strategy implementation will always be a complex process fraught with difficulties, there are some steps that an organisation can take to improve strategy implementation. We discuss three of these steps below.

1. Management development. Most managers will spend a great deal more time on the implementation and deployment of strategy than they do on planning. Yet, this is the area in which they most often lack skills. Managers need to learn the skills of strategy implementation (such as project management and performance management), managing change and communication.

2. A participative process for strategy development. Rather than being seen as the domain of a few top managers developing a strategy in their ivory towers, strategy should be an organisation-wide discussion to ensure that those who are involved in the implementation and deployment participate in the development of strategies. The value is that any potential implementation problems will be identified early on in the process, and the greater the participation, the less the resistance to change.
3. Developing a clear process for resource allocation. While the process for resource allocation is not the same for every organisation, it is important that the organisation spend some time thinking about how it will manage the implementation process. Questions that will need to be answered and addressed by the process include (but are not limited to) the following:
  - ◆ How do
  - ◆ How do
  - ◆ are worth investing in? do
  - ◆ How do
  - ◆ How do
  - once they have been implemented?

## The big picture

Strategy implementation and the alignment of organisational resources with strategy is a complex and unpredictable process that occurs in a complex and dynamic environment. These realities demand the evolution of management perspectives and new complementary management approaches.

In this chapter, we considered the requirements for successful resource allocation. We examined the interaction of strategy and resource allocation using the Strategic Execution Framework®, through which the complexities of the current business environment and the importance of programme and project management in resource allocation may be better understood. Leading practices for managing strategic initiatives for effective resource allocation were identified. We also focused on the potential barriers to resource allocation.

To come full circle, resource allocation must be supplemented and supported by strategy control activities - which will be addressed in Chapter 14. In the next chapter, we will look at organisational culture and strategy.

## **Summary or learning outcomes**

**LO 1:** Explain what resource allocation for strategy implementation entails and give appropriate examples of resource allocation in organisations.

Successful resource allocation rests on three pillars, namely, the alignment of different organisations units to ensure that they are all working towards the same goals, the alignment of the behaviour of all employees in the organisation with strategic direction, and the selection and implementation of strategic initiatives that will have the biggest impact in achieving strategic objectives.

**LO 2:** Explain what the resource allocation process using the Strategic Execution Framework (SEF) entails.

The Strategic Execution Framework (SEF) is a specific framework that facilitates the selection and implementation of strategic initiatives (through programme and project management) to ensure the achievement of strategic objective.

**LO 3:** Explain the management of strategic initiatives.

The implementation of strategic initiative requires the organisation to translate its goals into strategic initiatives; to prioritise strategic initiatives and select those with the highest impact; to communicate strategic initiatives and to link them with individuals' jobs where applicable, and to report on progress with regard to the implementation of strategic initiatives.

## **Discussion questions**

1. Differentiate between 'strategy implementation projects' and 'strategic initiatives'.
2. Differentiate between 'strategic implementation' and resource allocation'.
3. Explain the enablers of effective resource allocation with the help of examples.
4. Explain the Strategic Execution Framework® (SEF) with the help of the six INVEST domains.
6. Explain the role of programme and project management in strategy implementation.
7. List and briefly discuss the steps in the strategic initiative management process.

## **Learning activities**

1. Watch the video on the balanced scorecard (BSC) at <http://www.youtube.com/watch?v=AdXt8BfiGJg> and see if you can explain how the BSC fits into the resource-allocation process.
2. Study the strategy execution framework of Jeroen de Flanders at R <https://jeroen-deflander.eom/strategy-execution/#strategy-execution-framework>. Make a list of the similarities and differences between the SEF discussed in this chapter and the SEF explained on the web page.

## Endnotes

- <sup>1</sup> Adapted from: Msindisi Fengu. 27 August 2017. A generation of poor children. News 24 (online). Available at: <https://www.news24.eom/SouthAfrica/News/a-generation-of-poor-children-20170826> (accessed 21 October 2017).
- <sup>2</sup> Extract from: Adrian Gore. May 2015. How Discovery keeps innovating. McKinsey Quarterly (online). Available at: <https://www.mckinsey.eom/industries/healthcare-systems-and-services/our-insights/how-discovery-keeps-innovating>. (accessed 15 October 2017).
- <sup>3</sup> Max Saunders, M., Mann, R. & Smith, R. 2008. 'Implementing strategic initiatives: a framework of leading practices'. *International Journal of Operations & Production Management*, 28(11): 1095-1123.
- <sup>4</sup> Miller, S., Wilson, D. & Hickson, D. 2004. 'Beyond planning strategies for successfully implementing strategic decisions'. *Long Range Planning*, 37(3): 201-219.
- <sup>5</sup> Adapted from McCoy, S.P. and Venter, P. 2017. *Corporate branding and corporate strategic change: a study of selected South African companies*. Unpublished manuscript.
- <sup>6</sup> The Strategic Execution Framework is described in detail in the book *Executing your strategy: how to break it down and get it done* authored by Michael Morgan, Raymond E. Levitt and William A. Malek. Boston Harvard Business School Press 2007. The SEF is used in the Stanford Advanced Project Management Program, a partnership of IPS Learning, LCC, and the Stanford Center for Professional Development.
- <sup>7</sup> Max Saunders et al. (2008).

# 11

## LEARNING OUTCOMES

## CHAPTER ORIENTATIO N

# Organisational culture and strategy

Mari Jansen van Rensburg

After reading this chapter, you should be able to do the following:

- LO 1: Describe what organisational culture encompasses.
- LO 2: Explain the various layers of organisational culture.
- LO 3: Explain the use of the cultural web as an approach to assess an organisation's culture.
- LO 4: Explain how an organisation can instil an organisational culture that supports good strategy implementation.
- LO 5: Explain the various culture indicators that can be used to gauge the health of an organisation's culture.
- LO 6: Discuss the key considerations in organisational culture and strategy.

## KEY WORDS

Cultural web

Organisational culture

Can you recall a situation in which you got into an argument with someone and upon reflecting on the somewhat heated discussion, you still find it hard to understand how your opponent could take such an unreasonable position? In the role of student, researcher or employee, you may find it even more difficult to comprehend how a person in a position of authority, especially your immediate line managers or those we consider our leaders, can be so set in their ways. These different opinions, or ways of doing things, are often explained through different cultural backgrounds.<sup>1</sup>

Extending the concept of culture beyond differences found on a national or ethnical level, this chapter will argue that every organisation also has its own unique culture. We will furthermore propose that the essence of an organisation's work climate is a product of the core values and business principles that executives espouse, the standards of what is ethically acceptable, the work practices and norms of behaviour that define 'how we do things around here', and the approach to people management. These values and standards are expressed in the style of operating, the 'chemistry'

and the 'personality' that permeates the work environment and the stories that get told over and over to illustrate and reinforce the organisation's values, business practices and traditions, similar to what we see in the opening case study regarding Investec's senior management's statements. It is important to understand and assess organisational culture as it influences the organisation's actions and approaches to conducting business and the way in which strategy is implemented. In a very real sense, organisational culture is the organisation's automatic, self-replicating 'operating system' and can be thought of as organisational DIMA.<sup>2</sup>

In this chapter, we will demystify organisational culture and argue that the power of culture lies in the ability to bring employees together to work collectively towards achieving the same goal. According to a national survey conducted by Universum, Investec is rated by business and commerce professionals as one of South Africa's most attractive employers.<sup>3</sup> As we see in the case study, Investec aligns its strategy and corporate culture successfully to obtain positive business outcomes. Investec is known for its strong entrepreneurial spirit. The company fosters an open, competitive environment in which employees feel empowered, meritocracy is encouraged and the status quo questioned. Employees are discouraged from depending on leaders and encouraged to take ownership and find innovative solutions to business challenges. The company attracts driven individuals to provide superior service to clients<sup>4</sup> - a remarkable achievement in a very competitive industry.

Figure 11.1 depicts the focus of this chapter.

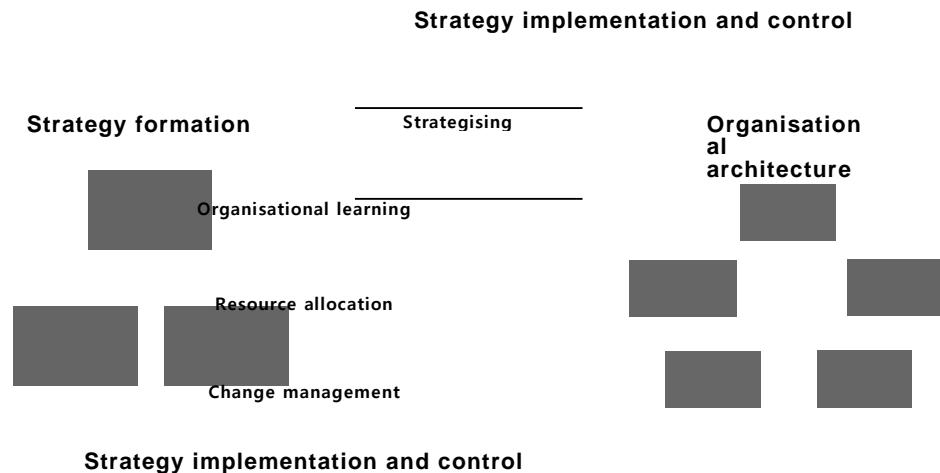


Figure 11.1: *Organisational culture and strategy*

## Case study

### Investec - Not a traditional bank

Investec is an international specialist banking and asset management group, providing a diverse range of financial products and services. The company was established in 1974, as a small finance company in Johannesburg, South Africa. Today, it is an international business managing approximately \$124 billion for clients all over the world.<sup>5</sup> The company's philosophy centres on client centricity and they maintain that if you look after your clients, your bottom line should look after itself. The company publicly states that there is no magic formula to explain their success. However, they consider contributing factors to success as the stability of their team, their enduring culture and their unwavering commitment to their clients.<sup>6</sup>

*It's all about the interest of our clients and achieving the investment returns they require.* - Hendrik du Toit, CEO

*Banking is about trust. Ownership and partnership are evident in our client interactions.* - Fani Titi, Group Co-CEO

*If you're not innovating, by definition, you can't give clients good results.* Kim McFarland - Chief Operating Officer

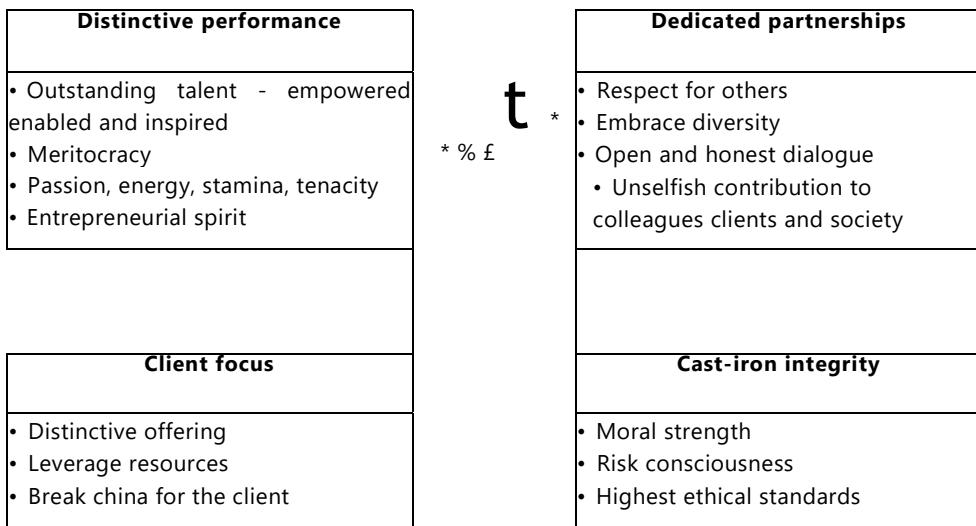
*A key part of our investment approach is respecting the freedom to create* John McNab - Co-chief Investment Officer

*It takes 25 years to create a lasting investment capability. So we build organically.* Domenico Ferrini - Co-chief Investment Officer

*Fundamentally it's about clients trusting us with their money.* John Green - Global Head of Client Group

Although the company acknowledges that culture manifests through values and principles that guide daily behaviours, attitudes and business practices, they consider values to only be the tip of an iceberg. Indeed, according to Marc Kahn, Investec Global Head of Human Resources, most of what makes a culture is below the surface. 'Whereas with your values, you can physically write them down and they can be copied, shared and learnt, culture itself is something you feel, something experiential. It is lived by employees. It is not something that is picked up immediately. To understand the culture of an organisation you need to be inculcated over time and immerse yourself in it.'<sup>7</sup>

Kahn maintains that 'culture is something a company is, rather than something a company has'. He is further of the opinion that culture cannot, and should not, be separated from strategy. Instead, culture should be regarded as the combination of the company's strategy, operating model and business activity. At Investec, behaviour is guided by four drivers which combine the company's mission, value and philosophy:<sup>8</sup>



Investec's culture is created around 'the freedom to create'. They believe that 'people work best when they're free to pursue and express their conviction.' They recruit dynamic individuals with original spirits who want to pursue their passions and interests.<sup>9</sup> In recruitment, the following characteristics are considered:<sup>10</sup>

- An entrepreneurial mindset
- A can-do style
- An innovative spirit
- The highest delivery and extraordinary standards
- Unconventional thinking
- Goal-driven
- A willingness to go the extra mile
- Natural confidence
- A strict moral code.

At Investec, strategy is aligned with culture. Investec offers a non-hierarchical workplace and encourages honesty and discussion. This company inspires diversity of perspective and empowers teams.<sup>11</sup> Employees are not scared of authority, happy with ambiguity and challenging the status quo, and they don't shy away from conflict. This supports the business model which is grounded in an entrepreneurial culture, balanced by a strong risk management discipline, client-centric approach and the ability to be nimble, flexible and innovative.<sup>12<sup>13</sup></sup> At Investec, success is not achieved by individuals. The organisation is driven by individuals who collaborate within and across business units.<sup>14</sup>

LO 1: Describe what organisational culture encompasses.

## 11.1 Organisational culture

There are many definitions of organisational culture. Most definitions refer to the taken-for-granted assumptions and beliefs that are shared by members of an organisation, often expressed as *the way we do things around here*. It is these assumptions that determine how groups of people respond and behave in relation to issues that they face.<sup>15</sup> More formally, organisational culture is defined as ‘the accumulated shared learning of that group as it solves its problems of external adaption and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel, and behave in relation to those problems’.<sup>16</sup>

From the above definition, it becomes clear that culture evolves over time and is the result of accumulated and shared learning. With time, learning gets incorporated in what a group believes, its values and behaviour and simply become part of everyday thinking and doing. When learning becomes part of being and doing, it is taken for granted and subsequently drops out of awareness. However, although it drops out of awareness, it becomes part of the identity of an organisation. It will be taught to newcomers as ‘this is who we are, this is what we do, and these are our beliefs.’<sup>17</sup>

LO 2: Explain the various layers of organisational culture.

## 11.2 The layers of organisational culture

Edward Hall (an American anthropologist) developed the iceberg analogy of organisational culture in 1976. He reasoned that if culture is an iceberg, there are some aspects which are visible and can be seen (above the water), and a larger aspect which is hidden beneath the surface (below the water).<sup>18</sup> The tip of the iceberg typically consists of tangible manifestations that you can see and feel. The layers below the water, however, become more intangible and less visible. These aspects include espoused values and norms and taken-for-granted assumptions as illustrated in Figure 11.2.

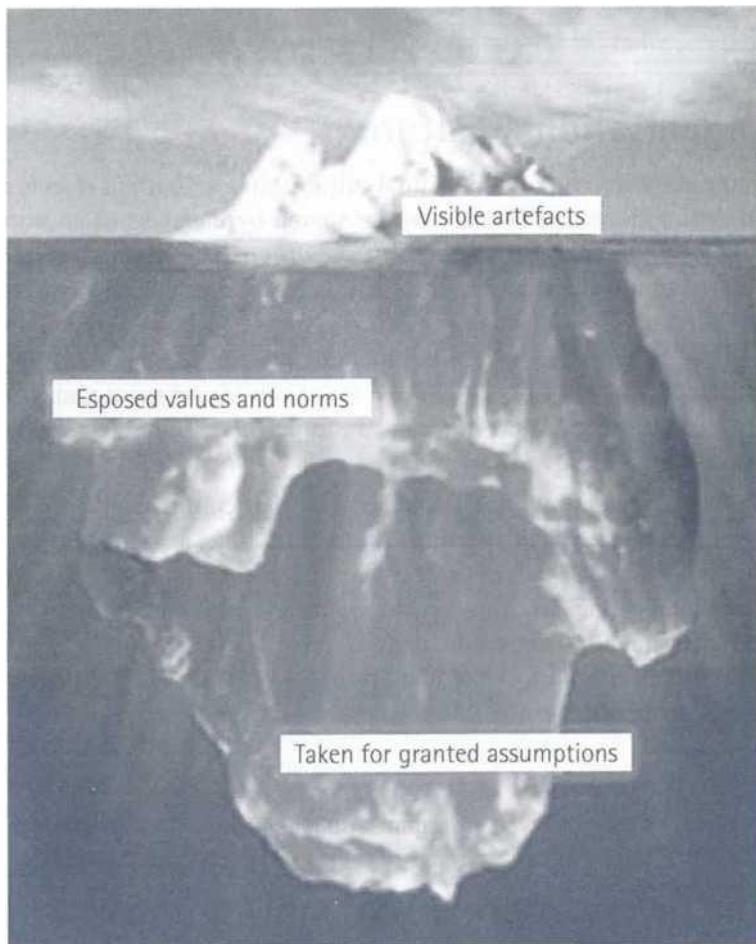


Figure 11.2: *Organisational culture as an iceberg*<sup>19</sup>

### 11.2.1 Visible artefacts

The English Oxford Living Dictionary defines an artefact as 'an object made by a human being, typically one of cultural or historical interest'.<sup>20</sup> In organisations, artefacts prevail in how offices are decorated, the language used, and branding elements ranging from logos to stationery, how employees dress. Artefacts are everywhere and are visible throughout the organisation. Artefacts can be seen in the name of an organisation, its employees, its products, its buildings, its processes, as well as in its contracts.<sup>21</sup>

Artefacts have three important dimensions which we need to consider: instrumentality, aesthetics and symbolism.<sup>22</sup> The instrumentality of an artefact refers to the extent to which an artefact can help or hinder organisational performance. In other words, it considers the efficiency and effectiveness of structures, processes, procedures and infrastructure within organisations. Aesthetics focus on the look **and**

feel of the artefact and on the sensory experience it elicits. Symbolism considers the associations or meaning of an artefact. To put this in practice, we will consider how Standard Bank incorporated artefacts in designing their retail branches.<sup>23</sup>

When Standard Bank realised that digital technology has revolutionised the way consumers conduct their financial affairs, specifically banking, they had to rethink the role of a traditional bank with walk-in branches. As a result, this bank introduced a new store design in 2015 intended to help move the bank's refreshed customer experience forward and reflect its commitment to innovation. The bank appointed a specialist retail design agency, Design Partnership, to assist in this process. To inform its design, the agency gained an understanding of the needs of Standard Bank's clients when they visit a bank. First, they realised that the branches comprised a series of spaces that needed to be easily identified by customers so that they know where to go. Second, they realised that they needed spaces that facilitated a handful of basic activities - mostly people having, or waiting to have, conversations. These insights informed the layout of the branch.

For most clients, the first conversation they have in a branch is with the help desk. In the new design, the help desk was renamed as the 'Hello Desk'. This desk was well signposted and located in front of the branch so that it is the first place a client encounters. Unlike other help desks that face outwards, the desk was turned 90 degrees to prevent a possible service breakdown and to ensure that someone was watching the clients. Following international design trends, a Service Bar was introduced to consolidate all queries and enquires at one counter. Studies have found that a single queue was more effective in eliminating the possibility of queuing in the wrong place and dramatically reducing the time to service. In order to maximise space and atmosphere, a Self-Service Lounge combined waiting with the option to 'help yourself'. In this area, clients are helped by a staff member to get to grips with the new self-service tools.

In terms of aesthetics, the bank followed applied experiences from hospitality and retail sectors which show that comfy booths are the most popular seats in any South African restaurant. As such, these seating arrangements were introduced in all the sit-down chat spaces. Traditional queues requiring clients to stand while waiting were replaced with long benches and stools at standing counters to enable clients to be seated while waiting.

According to Callie van der Merwe, Design Partnership CEO, a core part of the design brief was the visual language of the makeover.

*One of the key requirements was to create 'conversation capital'; a visual reference that would do the one thing that banks traditionally have never done, which is appeal to all ages, profiles and personalities. So in other words, create a visual bank representation that would be extremely strong in breaking perceptions of what a bank conventionally looked like (or perhaps even, should look like) but without polarising opinions.*

Branding thus became a key consideration and while Standard Bank has always been the blue bank, it was decided that the trading colour would be used sparingly in the branches.

*I/Ve wanted customers to recognise the brand, but we also wanted them to stop and look twice; interrupt their normal pattern. Too much blue and the shift that we needed would not be evident. Too little blue, and people might miss it. Blue has been used as the call-out on the signage, the shop front and the blue wall of the ATMs. This is how you recognise the bank. But once inside, customers don't need to be reminded that they were in Standard Bank. Here we wanted to show them something different. We chose clues and archetypes, colours and finishing palettes that were tranquil, calm and considered - all the things that a good conversation about your finances should be... not just blue!*

Although the branch design considered the instrumentality, aesthetics and symbolism of artefacts, the bank acknowledged that each space had to accommodate the human factor. Clients come to banks to interact with people, not with screens. Artefacts in Standard Bank branches provide visual anchors to support the bank's overall position as a bank that is innovative, forward-thinking and has an interest in the well-being of their clients.

### 11.2.2 Espoused values and norms

The second layer of organisational culture refers to a collection of values and norms shared by people and groups who work together. These values and norms are often contained in value statements which outline the organisational values (beliefs and ideas about what kinds of goals the members of an organisation should pursue) and the appropriate kinds or standards of behaviour organisational members should use to achieve these goals.<sup>24</sup> Such values and behaviour have an important influence on strategy formulation and implementation as they govern how groups of people will respond to envisaged changes. To fully understand organisational culture, we thus need to be familiar with agreed values, beliefs and behaviours.

- **Values.** The values of an organisation are the beliefs, traits and behavioural norms that management has determined should guide the pursuit of its vision and mission.<sup>25</sup> In many organisations, these values are explicit and written down in value statements. In Chapter 12 (Responsible strategic leadership), values will be discussed in more detail.
- **Beliefs.** Beliefs reflect someone's sense of what ought to be and can typically be discerned in how people talk about issues the organisation faces,<sup>26</sup> that is, a belief not to trade with certain countries who are known to demand bribes in exchange for local contracts.
- **Behaviours.** Behaviours are the day-to-day ways in which an organisation operates, including work routines, and how the organisation is structured and controlled. These behaviours may become taken-for-granted 'ways we do things'

around here' that are potentially the basis for inimitable strategic capabilities. However, such behaviours also have the potential to create significant barriers to achieving strategic change.<sup>27</sup>

We acknowledge that individual employees are guided by their own meaning systems, but in an organisational context, we are interested in the collective, rather than individual reactions. Consider, for example how Vodacom Lesotho expresses their values and norms in a statement, entitled the Vodacom Way, that guides employee behaviour.

## The Vodacom Way<sup>28</sup>

To be ADMIRED, our customers need to see a company that is:

- Customer obsessed. We are passionate about exceeding our customers' expectations. We show concern for the customer and take personal accountability for the customer experience.
- Innovation hungry. We create and deliver new products, services and ways of working that delight our customers. We are constantly looking for improvements and better ways of doing things.
- Ambitious and competitive. This is about bringing both energy and passion to our work and setting the bar high by delivering products and services that are best in class. We constantly review our own performance and then improve on it.
- One company, local roots. We value our diversity and act inclusively. We communicate and use best practice, and we ensure that we make the best decision for Vodafone (our parent company).

For our customers to be able to look at Vodacom and see these four things, we need to have a consistent way of operating.

We strive to operate with:

- Speed. This is about driving speed to market and relentlessly prioritising and pursuing the outcomes that matter to our business. We analyse fast, execute faster and deliver with urgency. We won't deliver things quickly at the expense of quality and safety.
- Simplicity. We make things simple for our customers, partners and colleagues. We seek out simple solutions, focus our effort and stop ineffective activity. It is about challenging complexity and providing simpler solutions.
- Trust. We are reliable and transparent to deal with. We act with honesty, integrity and fairness. We value the confidence that people place in us as a company.

### 11.2.3 Taken-for-granted assumptions

Organisational artefacts, values and norms give rise to assumptions that determine how employees operate within an organisation. When a solution to a problem works repeatedly, it becomes taken for granted. Such assumptions then become the core of an organisation's culture as they define what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations.<sup>29</sup> Taken-for-granted assumptions are ordinarily outside immediate awareness and thus difficult to identify. This is one of the reasons why so many change programmes fail to make an impact beyond the surface.

To conclude this section, it is important to note that although surface-level artefacts are highly visible, observers may interpret it differently when they apply their personal frames of reference. For example, if staff members dress, casually one observer may interpret it as sloppy, whereas another may see it as an indication of open-mindedness and creativity. When artefacts are considered in combination with stated values and beliefs, a greater level of awareness can be achieved. However, organisational culture can only be fully understood if the underlying patterns of assumptions have been exposed and made sense of.<sup>30</sup> In the next section, we explore the cultural web as a tool to understanding the nature of cultural patterns and assumptions in organisations.

LO 3: Explain the use of the cultural web as an approach to assess an organisation's culture.

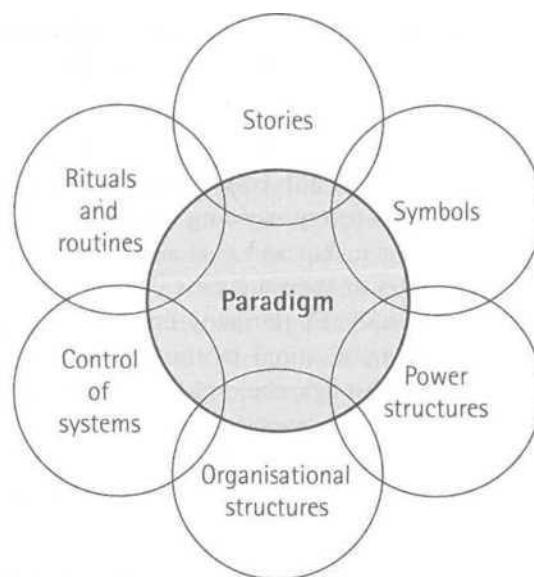
## 11.3 Cultural assessment

Findings from a survey conducted by Deloitte in its 2016 Global Human Capital Trends Report, highlights the challenges that organisations face when assessing their culture. Results indicated that although 86 per cent of respondents rate organisational culture as important, a mere 12 per cent of respondents believe that their organisation is driving the right culture. Assessing culture can be challenging given that most organisations 'consist of multiple subcultures that vary from one operating region, business unit, or working team to another'. 'Even when organisations gain a snapshot of their culture, it isn't static as culture evolves'.<sup>31</sup> Diagnosing and managing cultures are further complicated by the number of layers within the organisational strategy as the 'tone at the top' may not always correspond with the 'tone in the middle' or the 'tone below'. In many cases, meaning may get lost in translation when statements, goals and expectations are conveyed through the different layers or levels of management within the organisation. In some cases, middle managers may choose to 'either amplify or block upward and downward communications, and either resist or support programmes initiated by senior management'. Global operations may furthermore require local adaptations of strategic objectives and core values. Tension can also be created by the changing demographics in the workforce. An example

here would be the impact of generational difference on employee interaction in the workplace.<sup>32</sup> A recent study has found, for example, that intergenerational conflict in the workplace occurs as a result of different values, cognitions and behaviour expressed by baby boomers, generation X and generation Y who are all required to work together to achieve organisational goals.<sup>33</sup> Other demographic difference such as gender, race, sexual orientation, and religion may also impact on culture because they impact on the behaviours and styles of workers and leaders. In addition, digital technologies and robotics are disrupting the world of work in terms of changing work processes and the way people interact with each other.<sup>34</sup>

Despite the fact that organisational culture can be elusive, various approaches have been developed to help us look at it in a systematic way. A better understanding of cultural assumptions and practices can contribute to formulating strategy, as well as implementing strategic actions.<sup>35</sup> A well-accepted approach to analysing an organisation's culture is the cultural web. The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.<sup>36</sup> The elements of the cultural web are illustrated in Figure 11.3 and will be discussed in more detail next.

The cultural web is a useful tool for uncovering the taken-for-granted assumptions that inform the day-to-day behaviour of employees. Through assessing the elements contained in the web, management can determine where blockages to strategy implementation may occur.



*The cultural web of an organisation<sup>37</sup>*

The elements of the cultural web are as follows:

- The paradigm forms the core of the cultural web as it represents all the assumptions taken for granted in the organisation. At the most basic level, the paradigm represents the way of doing business. For example, much of First National Bank's (FNB) success is attributed to an ingrained culture, based on innovation. This culture permeates through all staff members, encouraging them to explore new ways to offer and support financial services.<sup>38</sup> According to S'onthqoba Maseko, Head of FNB Innovators, '*innovation at FNB is not simply a slogan; it is a primary way of working in the bank. It challenges ideas and seeks new ways of banking*'.<sup>39</sup> as they recognise and reward innovations that could shape the future of finance and enhance the features that could ensure that their products and systems are truly innovative and enduring for their customers. The FNB Innovators Programme is testament to the bank's commitment towards driving innovation. Jacques Cilliers, CEO of FNB, says that since the introduction of this programme in 2004, over 9,000 innovations have been implemented. '*Leveraging and focusing on new-age technologies, engineering and analytical tools in support of our timeless purpose of ‘helpfulness’ and putting customers first (business and personal), is at the centre of everything we do and stand for. It’s incredible to be part of an innovative organisation where people continuously look for new and creative ways of doing things. I believe that creating a culture of continuous learning, encouraging people to think out of the box and driving a culture of innovations benefits our customers, our brand and contributes to the industry as a whole. This mindset of collaboration, integration and innovation is one that will continue driving us.*'<sup>40</sup>
- Routines are the ways things are done on a day-to-day basis within an organisation. Site inspectors at a construction company may, for example, inspect construction sites every morning before work commences in order to assess quality workmanship and evaluate the site's safety. In contrast, rituals refer to activities or special events that reinforce what is important in the culture. For example, EY (formerly Ernest & Young, a multi-national professional services organisation) reinforce the expression of values in employees' behaviour through their global awards programme, entitled 'Better begins with you'. This award recognises and celebrates individuals and teams within EY who consistently live the organisation's values and bring the organisational purpose of building a better working world to life through their everyday behaviour.<sup>41</sup>
- Stories typically centre on important events and personalities. Similar to any good storyline, these stories include heroes, villains, mavericks, successes and disasters. Most importantly, each story has a lesson and is told to let people know what is conventionally important in an organisation. For example, stories often told in the Shoprite group have to do with the challenges they had to overcome on the African continent. Whitey Basson,

a former CEO of the group, relates a story of when Shoprite needed to send a consignment of goods from South Africa to Maputo, they had to fill in 1,600 forms. To deal with this enormous challenge of bureaucratic red tape, the organisation adopted an approach of being Afro-optimists' as opposed to Afro-pessimists'.<sup>42</sup>

- Symbols refer to objects, metaphors, events, acts or people that convey meaning over and above their functional purpose. In the navy, for example, a metaphor often used is 'the navy is a man's world'. This refers to both identity (where people do masculine things) and to space (a place for males only) and has manifested as part of the navy's culture. As it is closely linked to notions of male dominance, it creates challenges for gender integration. One woman officer responded as follows to the question, 'Is the navy still a man's world?': 'No, but more than 50% of the men still think so'. Another symbol used in the navy is found in the way officers are addressed.<sup>43</sup>
- Power is defined as 'the ability of individuals or groups to persuade, induce or coerce others into following certain courses of actions'.<sup>44</sup> Power is not always associated with formal positions on the organisational structure but tends to belong to those closely associated with the paradigm.
- Organisational structure relates to the formal roles and reporting relationships in an organisation, which will be addressed in more detail in Chapter 13.
- Control systems are the formal and informal ways of monitoring and supporting people within an organisation. Strategic control systems specifically will be discussed in more detail in Chapter 14.

It is important to note that the substance within the elements contained in the cultural web can come from anywhere in the organisational hierarchy. Key influences can be founders, strong leaders or staff members. Indeed, a healthy organisational culture is characterised by a willingness, on the part of all organisational members, to accept change and take on the challenge of introducing and executing new strategies. However, strong strategic leadership, which will be discussed in Chapter 12, remains the single most visible factor that distinguishes successful culture-change efforts from failed attempts.<sup>45</sup> In the next section instil an organisational culture that supports good strategy implementation.

LO 4: Explain how an organisation can instil an organisational culture that supports good strategy implementation.

#### **11.4 Instilling an organisational culture that supports good strategy implementation**

Organisational culture is central to management in general but specific to achieving strategic objectives.

*Both strategy and organisational culture are embedded in dynamic environments and cope with complexity. They seem to be two sides of the same coin - combining stability from the past and flexibility for the future. But strategies cannot be implemented without culture being considered.<sup>46</sup>*

When organisations consider organisational culture, they typically do so from one of two perspectives. The first perspective is to proactively shape a desired type of culture, for example, being highly innovative or having an entrepreneurial approach, which could, in turn, support and maximise their ability to achieve strategic objectives. The other perspective deals with identifying potential risks associated with their current culture, which could undermine their ability to achieve their strategic goals.<sup>47</sup>

To shape a desired type of culture, Jeremy Bloom uses lessons from failures to reveal how organisational culture can create a thriving business.<sup>48</sup> This entrepreneur and philanthropist argues that a strong culture within a team is at the core of business success. Such a culture needs to recognise and embrace shared values, attitudes, standards, and beliefs that characterise the goals of the organisation. The culture should suit employees who work at the company while making a positive impression on customers and anyone else associated with the business. A strong culture is furthermore built by a realisation that it is people who make a business successful, and not only business operations. Emphasis should thus be on the contributions by employees to the realisation of the organisation's vision. It is furthermore important that the founders, leaders and executives uphold the core values of the organisation from the very beginning. These values should be woven into the DNA of the team and inform the recruitment criteria of new employees.

The cornerstones of a solid business culture include:<sup>49</sup>

- Transparency. All employees need to know their responsibilities and the key metrics used to measure performance. Employees should also be allowed to share ideas and give feedback, no matter who they are.
- Time to disconnect. Companies need to recognise work-life integration and the significance to allow employees a balanced lifestyle.
- Empowerment and a sense of freedom. In many 21st century companies, employees are given guidelines, instead of explicit and detailed directions. Innovation and ownership are not encouraged through micro-managing but rather by the freedom to take on tasks, finding solutions and being connected to and woven into the company's culture.
- Physical space. It is important to consider the comfort levels and work requirements of employees before office layouts are planned. Today, many employees are more productive in a virtual environment and do not need physical office space.
- Talking to customers and employees. Learning what works and what went wrong requires insight from customers and employees. Talking to customers can help in refining approaches and improving market value propositions.

Talking to employees can help executives to get a pulse on how the culture is doing. Making personal connections makes a difference.

- Organisational design. If organisations are designed well, everyone in the business can do his or her job more effectively. The key is to clarify authority, responsibility and accountability.

Unfortunately, not all cultures are strong positive cultures as organisational cultures can also become highly toxic. Organisations need the ability to recognise the indicators of a culture at risk. Culture is at risk when ‘the organisation’s values and beliefs are not embedded or the ones that are embedded are not the right ones, resulting in behaviours that fail to respect stakeholders’.<sup>50</sup> Warning signs include:<sup>51</sup>

- When financial, sales, production, or other performance measures become the primary business purpose.
- When undue pressure is placed within the organisation on achieving those metrics. These pressures may result in unethical or overly risky activities by employees.
- When leaders fail to uphold the organisation’s values creating discord between the organisation’s image and how it operates.
- When performance and talent systems that reinforce desired behaviours are misaligned.

To gauge the health of an organisation’s culture, various indicators can be employed as discussed in the next section.

LO 5: Explain the various culture indicators that can be used to gauge the health of an organisation’s culture.

## 11.5 Culture indicators

In addition to understanding the elements that comprise organisational culture, organisations would benefit from considering a variety of indicators that provide a dashboard of the organisation’s culture and various subcultures. These indicators include:<sup>52</sup>

- Performance statistics. Unexpected variations in sales results, growth, product orders or cancellations may provide indicators of cultural pressures on performance.
- Human resource-related statistics. Analytics on employee turnover, absenteeism, and the percentage of staff on extended leave may provide indications about the health of the organisation’s culture.
- Feedback from other internal and external parties. Observations from the organisation’s internal auditors, external auditors, legal advisors, and other groups could indicate whether the organisation’s culture is at an optimal level.

- Customer surveys. Information about the quality of customer service and the customer's overall satisfaction with the organisation may provide insights into the culture of the organisation.
- Whistle-blower programme. Important insights into the organisation's culture can be obtained through the whistle-blower programme or helpline.

These indicators should be tracked over time and alarm mechanisms need to be in place to identify unacceptable variances. The chapter concludes with an overview of the key considerations in organisational culture and strategy.

LO 6: Discuss the key consideration in organisational culture and strategy.

## 11.6 Key considerations in organisational culture and strategy

Ultimately, culture comprises seven aspects and each organisation needs a clear position on each one. These aspects are:<sup>53</sup>

1. The marketing orientation of the company, in other words, the priority given to customers.
2. The relationship between employees employed on different layers within the organisational hierarchy. This includes participation in decision-making, communication channels and the level of feedback between management and staff.
3. The extent to which employees are target orientated and their commitment towards achieving performance goals.
4. Attitude towards innovation. This is expressed in the company's approach to taking risk and how they treat the success and failure of new initiatives.
5. Attitude towards cost and cost reduction.
6. Staff loyalty as expressed through attitude and behaviour.
7. Reactions towards technology and technological changes and development.

Each of these aspects has advantages and drawbacks on business paradigms but taken together, they confirm that there can never be one best or ideal culture. Culture needs to be flexible and adaptable to changing circumstances.

Key considerations of culture, which are grounded in actions, agreed behaviours and work practices that are beneficial to strategy implementation, include the following:

- Matching the organisational culture with the requirements of the strategy execution effort. This action can focus the attention of employees on what is most important to successfully implement the strategy.
- Using strong group norms to create culture-induced peer pressure which can shape employee behaviour to do things in a manner that aids the cause of good strategy implementation.

- Accepting that an organisational culture that is consistent with the requirements for good strategy execution can energise employees, deepen their commitment and enhance worker productivity.

A strong and supportive organisational culture can thus promote good performance as almost all managers share a set of relatively consistent values and methods of doing business. New employees adopt these values very quickly and the shared values and institutionalised practices can affect goal alignment, motivation and control positively.

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## The big picture

This chapter extended the concept of culture beyond differences found on a national or ethnic level to consider cultures unique to organisations. Organisational culture explains how the taken-for-granted assumptions (or paradigm) shape the acting, sensing and sense-making done by organisational members within the internal environmental context. Each organisation builds its own culture by adopting unique values, beliefs, principles and behavioural norms.

The chapter furthermore recognised challenges organisations face when assessing culture, taking into account the various sub-cultures within an organisation as well as the intangible nature of taken-for-granted assumptions. Hence, the cultural web was reviewed as a useful framework through which to assess various cultural elements that may support or block strategy implementation. To instil a strong positive culture, it was found that different approaches would apply as there can never be one best or ideal culture. Culture needs to be flexible and adaptable to changing circumstances. Organisational cultures vary widely in strength and influence. Some companies have deeply rooted values, behavioural norms and operating approaches that are widely shared. These standards are then used to regulate the conduct of employees and compliance is a key consideration during the strategic planning and implementation phases. In strong-culture companies, values and behavioural norms are so ingrained that they can endure leadership changes and are key considerations in strategic choices and implementation guidelines.<sup>54</sup>

In direct contrast to strong-culture companies, weak-culture companies lack values and principles that are consistently preached or widely shared. While individual employees may have some bond or loyalty towards the company, colleagues and/or managers, there is typically no clear employee allegiance to what the organisation stands for, nor is there a good understanding about how things are done. In such a company, employees often merely view the organisation as a place to work and their job as just a way to make a living. As a consequence, there are no traditions, beliefs, values or norms that management can use as leverage to mobilise commitment to the execution of the strategy. Without a supportive work climate, managers are often left with no other option but to use compensation incentives or other motivational devices. In these circumstances, a strong emphasis on controlling behaviour is often used to manage the lack of individual commitment.<sup>55</sup>

## **Summary of learning outcomes**

### **LO 1: Describe what organisational culture encompasses.**

Organisational culture can be defined as the accumulated shared learning of that group as it solves the problems of external adaption and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel, and behave in relation to those problems. An organisation's culture is not something that will develop overnight

- culture evolves over time and it is the end result of accumulated and shared organisational learning.

### **LO 2: Explain the various layers of organisational culture.**

Layers of organisational culture includes the following:

- Visible artefacts
- Espoused values and norms
- Taken-for-granted assumptions.

### **LO 3: Explain the use of the cultural web as an approach to assess an organisation's culture.**

The cultural web consists of the following elements:

- Paradigm. This forms the core of the cultural web as it represents all the assumptions taken for granted in the organisation.
- Routines. These are the ways things are done on a day-to-day basis within an organisation.
- Stories. These centre on important events and personalities.
- Symbols. These refer to objects, metaphors, events, acts or people that convey a meaning over and above their functional purpose.
- Power. This is the ability of individuals or groups to persuade, induce or coerce others into following certain courses of actions.
- Structure. This relates to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.
- Control systems. These are the formal and informal ways of monitoring and supporting people within an organisation.

### **LO 4: Explain how an organisation can instil an organisational culture that supports good strategy implementation.**

A culture that supports good strategy implementation is a culture that (1) recognises and embraces shared values, attitudes, standards and beliefs that characterise the

goals of the organisation; (2) recognises that it is people who make a business successful and not only its business operations; and (3) weaves its values into the DNA of its teams and informs the recruitment of new employees.

**LO 5: Explain the various culture indicators that can be used to gauge the health of an organisation's culture.**

The following indicators should be tracked over time and alarm mechanisms be put in place to identify unacceptable variances that can be used to determine the health or a change in the health of an organisation's culture:

- Performance statistics
- Human resource-related statistics
- Feedback from other internal and external parties
- Customer surveys
- A whistle-blower programme.

**LO 6: Discuss the key considerations in organisational culture and strategy.**

Finally, there are three key considerations in terms of organisational culture and strategy.

These include the following:

- Matching the organisational culture with the requirements of the strategy execution effort. This action can focus the attention of employees on what is most important to successfully implement the strategy.
- Using strong group norms to create culture-induced peer pressure which can shape employee behaviour to do things in a manner that aids the cause of good strategy implementation.
- Accepting that an organisational culture that is consistent with the requirements for good strategy execution can energise employees, deepen their commitment and enhance worker productivity.

### **Discussion questions**

1. If you were to start up your own organisation, what would you tell new employees about the kind of organisational culture you would like to have?
2. What core values would you engrain in your organisation's culture? Why?
3. Draw a cultural web for a company you are familiar with.
4. Discuss the differences between strong and weak organisational cultures.
5. Identify indicators that could provide insight into organisational culture.

## Learning activities

1. Visit Countries and their Cultures (<http://www.everyculture.com/>) and read more about cultural differences in different countries.
2. Consider the criteria used to certify top employees at <https://www.top-employers.com/en-ZA/certified-top-employers/>

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PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

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# 12

# Responsible strategic leadership

Tersia Botha

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- LO 1: Define leadership and differentiate between leadership and management.
- LO 2: Define strategic leadership and explain the role of strategic leadership in strategy implementation.
- LO 3: Explain responsible strategic leadership with specific reference to the three pillars thereof.
- LO 4: Explain the practice of responsible strategic leadership.
- LO 5: Differentiate between sustainability and sustainable development and explain the phases of commitment to sustainability.

## ■ Absorptive capacity

- Adaptive capacity
- Leadership
- Managerial wisdom
- Personal value

## ■ Responsible strategic leadership

- Strategic leadership
- Sustainability
- Sustainable

## KEY WORDS

## CHAPTER ORIENTATION

No textbook on strategic management will be complete without referring to Steinhoff International, possibly the biggest case of corporate fraud in South African business history, and the best chapter to address the issue of corporate fraud is the chapter that addresses responsible strategic leadership.

In presenting the Steinhoff case, we can find no joy in knowing that a company with a once clear vision, established by its founder Bruno Steinhoff, could end so catastrophically resulting in significant financial losses, not only by institutional investors and leading business personalities, but by millions of ordinary people as well, such as the government employees who had pension funds

invested in the company, employees, families, suppliers. The misery caused to people around the globe by the swift financial decline and uncertain future of the company and the painful effects of the company's reputational loss to many stakeholders is manifold.

Strategic leaders have a number of responsibilities towards all its stakeholders and in this chapter, we address this vital aspect of strategic management. We commence the chapter by differentiating between leadership and management, after which we address the role of strategic leadership in strategy implementation. Then we focus on responsible leadership and the practice thereof. We conclude our discussion of the topic by also referring to sustainability and sustainable development. Figure 12.1 depicts the focus of this chapter with regard to the broad field of strategic management.

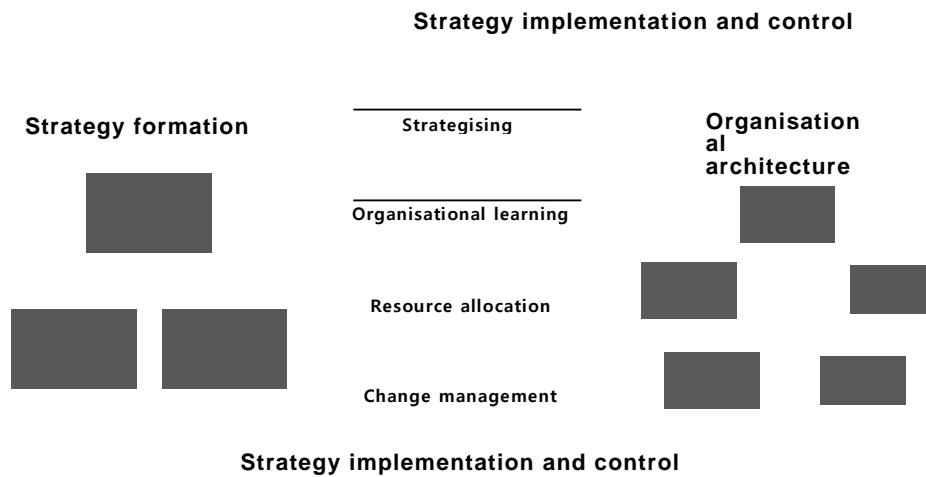


Figure 12.1 *Responsible strategic leadership*

## Case study

### Steinhoff International

Steinhoff was founded in 1964 by Bruno Steinhoff, a West German, who saw an opportunity to procure low-cost furniture from East Germany and to sell it to his wealthier countrymen in West Germany. It was a game of arbitrage that helped shape Steinhoff as a core business strategy and it was one that the company vigorously pursued, enabling it to

become one of the biggest retailers in the world. Steinhoffs business was doing well, and he decided to diversify into furniture production, in line with his vision to grow, expand and own the supply chain and by 1980, the company's sales network included sales representatives in Germany, Austria and Switzerland and exhibitions were held in England, the Netherlands, Belgium and Switzerland. During the global recession in the 1980s, the company started importing furniture from China, again in line with Steinhoffs preference to source low-cost furniture. The fall of the Iron Curtain in November 1989 presented the company with the opportunity for expansion in Europe - Europe became a continent without borders enabling the free movement of goods and services across borders and a united Germany. The new German government offered incentives for businesses to invest in the former East Germany, where manufacturing facilities were mostly outdated and faced closure. Given its knowledge of and experience in East Germany, Steinhoff was in an extremely favourable position and the company bought out its East German suppliers - seven upholstery factories and one bedding factory at very attractive prices. The result was that Steinhoff became one of the largest producers of upholstered furniture destined for the German market.<sup>1</sup>

With the collapse of apartheid and the lifting of sanctions against South Africa in the 1990s, many international companies saw an opportunity to invest in the country. In 1993, Claas Daun, through Daun Ft Kie, bought a controlling interest in the ailing JSE-listed Victoria Lewis furniture manufacturing company. In 1995, the same company invested in another two furniture companies, namely, Gommagomma Holdings and Bakker Et Steyger. It was then that the paths of Bruno Steinhoff and Marcus Jooste crossed. Steinhoff and Daun had been acquaintances in Germany and Jooste was Daun's CEO. In 1997, Bruno Steinhoff acquired a 35 per cent share in Gommagomma from Daun Et Kie. In 1996, Jooste floated the idea of merging the South African assets of Daun with Steinhoff Europe and by 1998, Steinhoff Europe and Steinhoff Africa (formerly Gommagomma) had consolidated their operations. Steinhoff International listed on the JSE in 1998. A few months after the listing, the company acquired the struggling Pat Cornick Company, making Steinhoff International one of the largest furniture manufacturers on the JSE. For the next five years, the company developed into a vertically integrated furniture and household goods business.<sup>2</sup>

Steinhoff International was the epitome of a successful, global retail business. In its short 50-odd-year history, it was able to make the transition from a small-time furniture company, which sourced low-cost furniture from eastern Europe and sold it into West Germany, to a truly global retail giant, boasting a fully integrated supply chain covering sourcing, manufacturing, distribution, logistics and retail. This was the result of decades of conscious decisions to expand, diversify and vertically integrate the business - a vision set by Bruno Steinhoff in 1964. Steinhoff operated in various business categories - decoration; furniture; consumer electronics; bathroomware and quick-fix essentials; kitchenware and appliances; clothing and footwear; beds and mattresses. Its brands were well recognised in the UK, Europe, Australia, and New Zealand. Its headquarters were in South Africa and it was registered in Amsterdam with the majority of the company's operations being situated in Europe. One of the company's acquisitions that made news headlines was that of Pepkor from Christo Wiese, which served to accelerate growth and

to ensure the profitable transfer of the Pepkor business model into the Steinhoff network. In 2015, the company also acquired the Kika-Leiner Group and, in July 2016, entered into a 50/50 joint venture with Cofel and acquired Poundland. Indirectly, in 2016, Pepkor also acquired GHM! and Tekkie Town. The most significant deal concluded by the company was the merger with Mattress Firm in the US. This merger created the world's largest multi-brand mattress retail distribution network and afforded Steinhoff the opportunity to enter into the coveted US market.<sup>3</sup>

At its peak, and after making many acquisitions and takeovers, Steinhoff was part of the JSE Top 40 Index, the JSE Top 25 Industrial Index and the JSE Socially Responsible Investment (SRI) Index. In 2015, the company added to its financial credentials by securing a listing on the Frankfurt Stock Exchange (FSE). By 2016, Steinhoff was selling more than 40 different brands in more than 32 countries across four continents. Globally, it had 26 manufacturing facilities, 2,500,000 m<sup>2</sup> of warehouse space, 12,000 retail outlets covering 9,000,000 m<sup>2</sup> of retail space and a 4,000,000 m<sup>2</sup> property portfolio. It was also shipping 150,000 containers annually and employed approximately 130,000 people<sup>4</sup>. In 2016, the company posted revenue of €8.645 million and a net profit of €1.510 million, representing a year-on-year growth rate of 11.8 per cent. On 23 May 2017, its share price on the JSE was valued at R50.25, equating to a market capitalisation of R240.5 billion.<sup>5</sup>

On the evening of 5 December 2017, the empire came tumbling down when Steinhoffs CEO, Markus Jooste, announced that he would step down from his position with immediate effect. The Steinhoff board announced that the company had become aware of accounting irregularities requiring further investigation and subsequently appointed PricewaterhouseCoopers to conduct an independent investigation into the alleged irregularities, which had originally been identified by Deloitte. These irregularities related to off-balance sheet items and possible misrepresentations of earnings, although the extent and details of exactly what was meant by 'irregularities' have yet to be determined.

Over the last few years, the dizzying pace of Steinhoffs acquisition drive aroused suspicions. What concerned many observers were the high levels of complexity associated with these acquisitions and the ability of the company to acquire ailing businesses and (nearly instantaneously) show improved results once these businesses had been incorporated into the group. More concerning, Steinhoff acquired businesses with no product disparity and had appeared to make no effort to integrate these businesses into their portfolio.<sup>6</sup>

Currently, the company faces investigations or legal action instituted by numerous bodies and authorities, including the Johannesburg Stock Exchange (JSE), the Financial Services Board (FSB), the Department of Trade and Industry (DTI), and the Companies and Intellectual Property Commission (CIPC). The company is also facing two different class action lawsuits in Germany and in Netherlands. Furthermore, executives of the company were brought before Parliament's oversight committee on finance and its Standing Committee on Public Accounts (Scopa). German authorities are also continuing their investigations into current and former managers of the group for accounting fraud.<sup>7</sup>

The repercussions of the December 2017 announcements, including the launch of various probes into Steinhoffs financial affairs, have been catastrophic for the company. According to media reports, in the days that followed the dropping of the initial bombshell,

the company's share price fell by 85 per cent and by 11 May 2018, it was R1.60 per share. At the time of writing, many new developments - including the instituting of substantial financial claims against the company - were being reported. Whether Steinhoff will survive in its current or an altered form - or at all - remains to be seen.

LO 1: Define leadership and differentiate between leadership and management.

## 12.1 Leadership versus management

Leadership is a topic that has fascinated researchers for a very long time. Consequently, various definitions of leadership are found in literature. Should you Google the term, you will find thousands of different definitions. For the purposes of this book, we will define leadership as a process by which an individual influences his or her follower or followers to achieve a common goal. In this simplistic definition, we are able to identify a wide range of implications of what makes a person a leader, as well as about the nature of leadership.

- First, to be a leader, there need to be followers. Without followers, the term 'leader' is just an empty title. Being a leader does not depend on a formal appointment in a formal hierarchy or structure.
- The second implication of this definition is that a leader is out front, setting the pace, determining the standard and direction of movement.
- Third, the leader strives to build authentic relationships between people.
- Fourth, the definition also implies that a leader is not necessarily an individual - it can be a group, a corporate body, an industry, or even a country. Lastly, the definition implies that the leader and the followers have a common goal. How often do we hear that the South African Breweries is the 'leader' in the brewing industry, or that Apple is the 'leader' in the smartphone industry? Even countries can be considered leaders. For instance, Iceland is currently the leading country in the world in terms of renewable energy as it obtains 100 per cent of its energy from renewable sources, with 87 per cent coming from hydropower and 13 per cent from geothermal power.<sup>8</sup> Finland is famous for its high-tech projects and education systems.<sup>9</sup> These companies and countries are leaders in exactly the same way as individuals are leaders - they have followers, they set the pace and direction, and they are going to where other companies and countries want to go. In other words - they lead.

The definition of leadership points us to the primary difference between leadership and management - it has nothing to do with being a manager appointed in a formal position. To be a leader, you do not need to be appointed in a formal position in a formal organisational structure. Some managers do lead their followers well, other managers do not lead at all. Being a manager does not necessarily mean that the Person is a leader. Also, the definition says nothing about having to be a subordinate

to be a follower. Following a leader is an act of choice or free will, as opposed to being pushed, pulled or prodded. Positions of authority in an organisational setting are often called ‘leadership positions’, and thereby create confusion between management authority and leadership. However, leadership and management are not the same.

How does leadership differ from management? Management and leadership share many similar characteristics and outcomes. However, the two terms also differ in many ways. Management and leadership are complementary qualities that are inevitably linked to each other. The manager, on the one hand, is a person appointed in a formal position in a formal organisational structure or hierarchy. A manager commands subordinates because the position gives him or her the right to command. A subordinate obeys the manager because he or she is contractually obliged to obey. Leadership, on the other hand, relates to the relationship between a leader and a follower. A leader may command because the follower allows him or her to command. A leader influences, inspires, motivates and has various responsibilities.

John Kotter is regarded as a leadership and organisational change guru. Kotter<sup>10</sup> contends that organisations need both managers and leaders to be successful. Managers are needed to deal with the complexity in their organisations, by performing the essential managerial functions of planning, organising and controlling. Leaders are needed to deal with and cope with change. In our definition of leadership provided earlier, one of the key aspects of leadership that we highlighted was the fact that leaders are in the front, providing movement and direction. In other words, leaders guide organisational change. Table 12.1 lists the most important differences between leaders and managers in an organisational context.

*Table 12.1 Differences between leaders and managers*

Leaders ...	Managers ...
cope with change	cope with complexity
set directives	plan and budget
align people with the vision and strategic direction of the organisation	organise and staff the organisation
motivate and inspire people	control and solve problems
develop new direction and movement	maintain processes and procedures
challenge the status quo	accept the status quo
take calculated risks	minimise risks
focus on a clear vision for the organisation	focus on goals and objectives

Leadership, on the one hand, is strategic, focused on the vision of the organisation and involves a strong element of building trust and emotional engagement with followers.

Management, on the other hand, is operational, focused on goal achievement, and more directive of those who are managed." Leadership plays a key role in strategy implementation. The next section elaborates on this statement.

LO 2: Define strategic leadership and explain the role of strategic leadership in strategy implementation.

## **12.2 The role of strategic leadership in strategy implementation**

Strategy implementation involves organisational change (refer to Chapter 8 for a detailed discussion of organisational change). As explained in Chapter 8, organisational change may be incremental, but in some instances, revolutionary or 'big bang' changes are necessary (see Figure 8.5 in Chapter 8).

Organisational leaders fulfil an important role in guiding organisational change and, thus, in strategy implementation. It is only through effective strategic leadership that organisations are able to apply the strategic management process successfully. This brings us to the question of what strategic leadership is.

Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision. Because strategy is about making choices, it is difficult to separate strategy from strategists. Kets de Vries<sup>12</sup> identified two key roles that most successful strategic leaders perform in organisations. These include:

- The charismatic leadership role. This role involves setting up and gaining support for a vision and direction for the organisation. It also involves energising people and gaining energetic support for the causes that the leader, as a strategist, believes are important and worthy of being done. However, it is imperative that the causes that the leader believes are important, be moral, ethical and to the benefit of all stakeholders of the organisation - an issue that we will address in more detail in Section 12.3. Marcus Jooste, CEO of Steinhoff International at the time of the scandal covered in the opening case study, was described in retail circles as a 'retail star' who was 'charismatic'. To his credit, he led an aggressive international expansion and acquisition drive at Steinhoff International to build a giant which was unsurpassed in the history of South African business. He had loyal followers, such as Steinhoff fund managers and directors, who failed to remain alert to and exercise proper oversight. Typical of a charismatic leader, Jooste had fiercely loyal insiders who enjoyed social and other financial privileges through their close association with him.<sup>13</sup> Sadly, the causes that he believed were important, were not moral, nor ethical, nor were they to the benefit of all stakeholders of Steinhoff.

- The architectural role. This role entails building an organisation and an appropriate organisational structure, a controlling and rewarding system. The architectural role of a strategic leader, according to De Vries, overlaps with the responsibilities of a strategic manager, as discussed in previous chapters of this book, which emphasise the point made in Section 12.1 that an organisation needs both - leaders and managers - to be successful.

For a leader to be considered as operating on a strategic level, six requirements must be met:<sup>14</sup>

- A leader must have the ability to build knowledge of the environment in which the organisation operates.
- A leader must portray personal (or authentic) leadership, in other words, leaders need to possess a keen insight into their own self and be aware of their own strengths, weaknesses, values and principles, and be consistent in their application of these principles, despite pressures that may encourage them to act in other ways.
- A leader must have an understanding of the organisation and its processes.
- A leader must have the ability to create a shared understanding and build learning and high-performance teams in the organisation.
- A leader must feel comfortable with change and enjoy the paradoxes that change entails.
- A leader must have a rooting in functional skills, such as marketing, procurement, human resources, operations, information technology, and so on.

Researchers have differing viewpoints about the essence of strategic leadership. Boal and Hooijberg<sup>15</sup> regard strategic leadership as involving the creation and maintenance of absorptive capacity, adaptive capacity and managerial wisdom.

- Absorptive capacity. Absorptive capacity was explained in Chapter 9 in an organisational learning context, where it was defined as the ability of an organisation to recognise the value of new, external information, in order to assimilate it and to use it to address business problems. In the context of strategic leadership, absorptive ability refers to the ability of a leader to learn - to absorb and understand new developments, and to be able to see how they can be used in the organisation. Leaders must be able to learn in the process, and to change and reinforce the organisation's actions. It is therefore important for strategic leaders to recognise that change occurs and that they must adapt to it.
- Adaptive capacity. This refers to the leader's ability to change in response to some change in the environment.
- Managerial wisdom. Managerial wisdom combines properties of understanding what is changing in the environment and the significance that it holds for the organisation. The extent to which strategic leadership is important in determining the performance and success of the organisation is dependent on the amount of latitude that the strategic leader has in his or her decision-making.

This influences the potential for the strategic leaders' decisions to impact on organisational outcomes and for the timing of their decisions to coincide with strategic crises points in the organisation's life cycle.

The term 'responsible strategic leadership' is becoming increasingly common across the global corporate community. In the following section, we address this topic.

LO 3: Explain responsible strategic leadership with specific reference to the three pillars thereof.

### **12.3 Responsible strategic leadership**

In our discussion thus far, our focus has been on the relationship between strategic leaders and their followers, where followers are mostly subordinates. Responsible strategic leadership goes beyond this notion and entails interaction with many followers as stakeholders, both inside and outside the organisation. Therefore, we can define responsible strategic leadership as the art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

Responsible leadership is about making business decisions that take into account stakeholders, such as shareholders, employees, business partners, suppliers, the environment, the community and future generations. Responsible leadership is a social-relational and ethical phenomenon, occurring in social processes of interaction.

The Steinhoff case study highlighted a situation affecting the lives of numerous individuals, organisations, shareholders, clients, business partners, industries, countries and various other stakeholders across the globe. Disasters like these force us to think about the responsibility and accountability of strategic leaders towards all stakeholders. Today's leaders act in a global stakeholder society, in which organisations are expected to be responsible and accountable, not only to shareholders for financial performance, but also to be accountable and responsible to all stakeholders for the organisation's impact on the economy, the environment and society at large. In order to be viable and sustainable over the long-term, leaders need to ensure that they act responsibly and build (or in some cases re-build), not only the trust of shareholders, but also the trust of all other stakeholders. Responsible strategic leaders should be delivering on the 'triple-bottom-line' and create value for all stakeholders. The triple-bottom line is an accounting framework with three dimensions - social, environmental and financial. In this context, the environmental dimension refers to the physical or natural environment. This can also be referred to as the pillars of sustainability, as depicted in Figure 12.2.

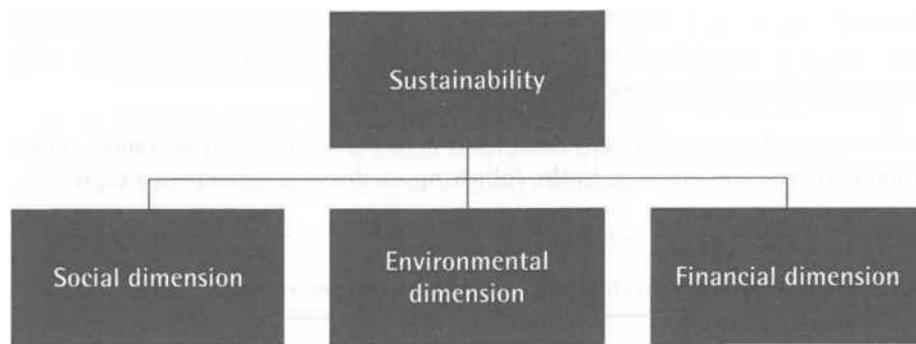


Figure 12.2 *The pillars of sustainability*

Such a view on the responsibility of strategic leaders, which is often also referred to as ‘stakeholder theory’, starts with the assumption that values are necessary and explicitly a part of doing business. In the section that follows, we first focus on values and value creation in organisations. We then discuss the responsibilities of strategic leaders toward the key stakeholders of an organisation. Thereafter, we investigate the various roles that the responsible strategic leader needs to play in successful organisations.

### 12.3.1 Values and value creation in organisations

A personal value can be described as an individual’s absolute or relative and ethical value, the assumption of which can be the basis for ethical action. Value statements are grounded in personal values and define how people behave. A value system is a set of consistent values and measures. Personal values provide an internal reference for what is good, beneficial, important, useful, beautiful, constructive, and so on. Values generate behaviour and help to solve human problems. Over time, the public expression of personal values that groups of people find important in their day-to-day lives lay the foundations of law, custom and tradition. An organisation can be such a group and needs to identify and define a set of values that represent the ethical ideals of the organisation.

Strategic leaders play an essential role in determining the values and a value system for their organisations. The values of the organisation should be the basis upon which the vision, mission, goals and strategic direction of the organisation are built. Effective and efficient organisations identify and develop a clear, concise and shared meaning of values/beliefs, priorities and direction so that everyone understands and can contribute. Once defined, organisational values will impact on every aspect of the organisation, every decision that is made, and every action that is taken. What is even more important, is that a strategic leader should ensure that organisational values are supported and nurtured.

The values of an organisation will contribute positively to the success of the organisation, only if the following occur:

- The vision, mission and goals are grounded in its identified values.
- All members of the organisation demonstrate the organisational values in action in their personal work behaviours, in every decision that they make, in every contribution that they make, and in all their personal interactions.
- The personal priorities in the daily working life of every person are guided by the organisation's values.
- Organisational rewards and recognition are structured to reward and recognise those people whose outputs embody the organisational values.
- All members of the organisation actively participate in an organisation-wide, value-based, shared culture.

From the discussion above, it should be clear that strategic leaders play a vital role in creating value systems in organisations. They are also responsible for maintaining the value system and in aligning all other systems and the organisational culture with its values.

### 12.3.2 Leadership responsibilities with respect to key stakeholders

The strategic leader has a responsibility towards a number of key stakeholders, namely, employees, clients and customers, business partners, the social environment, the natural environment, shareholders and government.

- Employees. Responsible strategic leaders mobilise people and lead teams across business, countries and cultures to achieve performance objectives derived from the strategic objectives of the organisation. In doing so, they coach and mentor employees to achieve objectives in an ethical manner. They ensure the implementation of employment regulations and standards; that working conditions are humane, safe, healthy and non-discriminatory; that the needs of employees for recreation, work-life balance and meaningful work are addressed.
- Clients and customers. Responsible strategic leaders ensure that the products and services meet the needs of their customers, that they are safe and that real and potential risks are openly and transparently communicated.
- Business partners. In their day-to-day activities, strategic leaders are in contact with various business partners. A business partner is any individual or organisation who has some degree of involvement in the organisation's (or leader's) business dealings, such as the organisation's suppliers. Responsible strategic leaders ensure that their business partners adhere to ethical, environmental and labour standards. Moreover, responsible strategic leaders ensure that their business partners are treated fairly and ethically. Woolworths is an excellent example of an organisation that ensures that their suppliers adhere to ethical and environmental standards. Woolworths acknowledge that 87 per cent of the world's fish stocks are either overexploited or fully fished (according to the 2012 United Nation's Food and Agricultural Organisation report). The state

of the ocean's fish stocks is a worldwide concern and overfishing will continue to affect marine life unless action is taken. Therefore, Woolworths is committed to procuring all their seafood from sustainable fisheries and from responsible farming operations. Woolworths is working with local and international seafood sustainability and certification programmes to ensure that all their seafood is responsibly sourced and traceable back to the ship that caught it, or the farm that raised it. Furthermore, Woolworths has various programmes aimed at increasing awareness of these issues and at assisting customers to make informed choices when they buy these products.

- The social environment. Responsible leaders foster contributions to society. This can be in the form of passive actions (such as charity and corporate donations), or active engagement in the well-being of communities. Responsible leaders should also endeavour to train and develop their staff in their understanding of the responsibilities of their organisations in society. Investec is an example of an organisation that is actively engaged in the well-being of their community. Investec's Corporate Social Investments (CSI) are central to the group's philosophy of making an unselfish contribution to society. Their approach to CSI focuses on education and entrepreneurship. They believe initiatives in these two areas are the most effective way to create employment, wealth creation and socio-economic growth in South Africa. Their overall aim is to create opportunities for young people to become active participants in society. To achieve this, they recognise that there needs to be a continuum of initiatives, starting from high school, moving to tertiary education and continuing through to young adult learning. Their strategy can therefore be shown on a progressive timeline, spanning three stages of personal learning and growth. They are passionate about empowering talented, hardworking individuals and in enabling them to realise their potential.<sup>16</sup>
- The natural environment. Responsible strategic leaders are sensitive to the world in which they operate and assess the impact their organisation's decisions and actions will have on the natural environment. They ensure that production processes are environmentally friendly, that they use 'green' technology wherever it is possible, that they recycle material and save energy. In South Africa, the Business Green Award recognises a business organisation that provides a service, product or programme that supports the growth of the Green Economy in the country. Five businesses stand out for their care for their environment: Cape Flats LIFE, a green business and micro non-profit organisation that encourages the planting of locally indigenous and endemic flora; GreenFin Financial Services, which financed solar installation for households; GreenTower™ - Eco-V, which designed an appliance that combines water conservation with energy efficiency, which is affordably priced to replace geysers; Locomute, which offers a membership-based car-sharing network that offers short-term access to vehicles; Woolworths Good Business Journey, which focus on water, energy, sustainable farming, waste, transformation, social development, ethical sourcing and health and wellness.<sup>17</sup>

- Shareholders. In Chapter 1, we distinguished the terms ‘shareholder’ and ‘stakeholder’. In the context of responsible strategic leadership, further clarification is necessary. A shareholder, on the one hand, is a person or entity that owns shares in an organisation. Shareholders are entitled to vote for the board of directors as well as for a small number of additional issues, they receive dividends from the organisation and share in any residual cash should the organisation be sold or dissolved. Stakeholders, on the other hand, represent a substantially broader group, including anyone with an interest in the success and failure of the organisation. This group can include shareholders, but goes beyond shareholders to also include creditors, customers, employees, members of the local community and the government. Since shareholders own shares in an organisation, responsible strategic leaders protect the investment capital of their shareholders and ensure an adequate return on their investment. They respect the rights of shareholders, and provide them with timely information on the performance of the organisation. Furthermore, they show due diligence with respect to their own and others' insider knowledge. They prevent any moral wrong-doing and act responsibly with regard to their own compensation packages. Since the 1980s, executive pay relative to that of an average worker’s wage has risen dramatically in the USA, as well as in many other countries. Some observers are of the opinion that this rise is a natural and beneficial result of the competition for scarce managerial talent that can add to shareholder value. Others believe that this phenomenon is socially harmful which and has been brought about by social and political changes that give business executives greater control over their own remuneration. Executive remuneration is an important part of corporate governance, and the responsible strategic leader should acknowledge that. In 2016, Fin24 compiled a list of the Johannesburg Stock Exchange Top 40’s highest- earning CEOs for the 2015/2016 financial year. This list considered the total remuneration package of South African CEOs, including performance incentives. At the top of the list was Alan Clark from SABMiller, earning a total of R 122.8 million for the 2015 financial year, before the group merged with Anheuser-Busch InBev in 2016.<sup>18</sup>
- Government. In any country, the government tries to preserve the community and improve its conditions. In this respect, organisations have to extend their co-operation to government. The responsible strategic leader will obey laws as determined by government, pay taxes, provide inputs to government in terms of technical economic-financial or political importance for framing appropriate policies, take up governmental projects and contracts, offers its leaders to assist government and work on different governmental committees. Lastly, responsible strategic leaders can also participate in politics. One of the most renowned successful business people, is probably President Cyril Ramaphosa. President Ramaphosa studied law and obtained a B Proc degree in 1981 at the University of South Africa.

After completing his articles, he joined the Council of Unions of South Africa (Cosatu) as an advisor in the legal department. In 1982, Ramaphosa started the National Union of Mineworkers (NUM). He became the Secretary-General of the African National Congress (ANC) in 1991 and head of the ANC's negotiating team that negotiated the end of apartheid with the National Party (NP) government. Following the first fully democratic elections in 1994, Ramaphosa became a member of parliament; he was elected the chairperson of its Constitutional Assembly on 24 May 1994 and played a central role in the government of national unity. After he lost the race to become president of South Africa to Thabo Mbeki, he resigned from his political positions in January 1997 and moved to the private sector, where he became a director of New Africa Investments Limited. Ramaphosa was appointed Deputy President by Jacob Zuma on 25 May 2014. He was made Leader of Government Business in the National Assembly, responsible for the affairs of the national executive in Parliament; the programming of parliamentary business initiated by the national executive, within the time allocated for that purpose and ensuring that cabinet members attend to their parliamentary responsibilities. Following Jacob Zuma's resignation as president in February 2018, he was elected unopposed as president of South Africa by the National Assembly on 15 February 2018.

LO 4: Explain the practice of responsible leadership.

## 12.4 Practising responsible strategic leadership

Contemporary strategic leadership is embedded in a global stakeholder society (in other words, a society in which leaders take into consideration stakeholders around the globe), and in which organisations act as good corporate citizens. In order to do so, responsible strategic leaders play various roles. Maak and Pless identified the following roles that the responsible leader should play:<sup>19</sup>

- The responsible leader as a steward. A steward is a person that is employed to look after the passengers of a ship, an aircraft or a train. Contemporary organisations need to perform and survive in a more complex and fast-changing environment than ever before and require the stewardship of responsible leaders to look after them. These leaders must have a global perspective on managerial challenges, and a social and moral radar to assess the social, ecological and cultural environment to steer the organisation through challenging waters. They also need to cope with conflicting stakeholder expectations and ethical dilemmas. For example, shareholders might prefer better financial results, while customers might prefer them to take care of the natural environment. Lastly, the leader as steward needs to safeguard the values and value system of the organisation and protect the personal and professional integrity of the organisation.

- The responsible leader as citizen. Organisations are expected to use minimum input to create maximum output, to be effective and efficient and perform financially well. At the same time, organisations are expected to contribute to a thriving community and a good society. Therefore, organisations need leaders as active citizens that recognise that both these goals are connected to each other. A thriving community needs flourishing' businesses and businesses can only flourish in a healthy community and healthy customer base.
- The responsible leader as visionary. Leaders play an indispensable role in formulating the vision, or desired future, of their organisations. There is nothing more powerful for the success of an organisation than a shared vision that appeals to followers and all stakeholders. A responsible leader will ensure a responsible vision and build on an ethically sound notion of balanced values that will lead to a sustainable business, ensuring financial success and the well-being of nature and society.
- The responsible leader as servant. A servant leader is someone who shares his or her power with his or her followers, puts the needs of others first and helps followers to develop and perform at as high a level as possible. Servant leadership has profound implications for the responsible leader. A responsible leader should serve others. This requires attentiveness, humility and modesty on the one hand, and on the other, a willingness and desire to support others and to care for their needs and interests.
- The responsible leader as coach. Coaching can be defined as any training and development in which a person, called the coach, supports a learner in achieving a specific personal or professional goal. Coaching also implies the existence of an informal relationship between two people, of whom one has more experience and expertise than the other and offers advice and guidance as the latter learns. In times of ongoing change, the responsible leader needs to facilitate the development of their followers, enable them to learn, and support them in achieving their objectives. The responsible leader needs to integrate and motivate followers from various backgrounds to work together and to share and realise a common vision.
- The responsible leader as architect. In the same way that architects do, the responsible leader needs to plan, design and construct organisational structures that support the ethical and effective achievement and monitoring of the triple-bottom-line and the realisation of the organisation's shared vision. For example, they design and implement a moral infrastructure by adhering to an ethics code, policies, guidelines, business principles and audits; they ensure that human resources management systems such as recruitment, remuneration, promotion, disciplinary and grievance procedures, are based on moral values. Lastly, responsible leaders ensure that all systems are integrated, co-ordinated and aligned to the organisation's shared vision and overall goals and objectives.

- The responsible leader as storyteller and meaning enabler. An effective tool to support the creation of meaning and sense-making in organisations is storytelling. Leaders can use storytelling widely to spread the organisation's vision of a socially, culturally and environmentally friendly business that aims to make a difference in the world.
- The responsible leader as change agent. Leaders have the responsibility to act as change agents, by initiating and supporting change by becoming value-conscious and sustainable businesses.

Being a responsible strategic leader, also entails ensuring the sustainability of the organisation and contributing to sustainable development. These two concepts will be addressed in the next section.

LO 5: Differentiate between sustainability and sustainable development and explain the phases of commitment to sustainability.

## 12.5 Sustainability and sustainable development

According to the global Footprint Network, humanity is currently using Earth's resources 1.7 times faster than its ecosystems can regenerate, which is equivalent to using 1.7 Earths.<sup>20</sup> Our current demands on the natural environment are increasing at an accelerating and unsustainable rate. Biodiversity is frequently used as an indication of the state of the natural environment since it refers to the diversity of micro-organisms, plants and animal species, as well as to the ecosystems within which they interact and live.<sup>21</sup> Biodiversity has dropped below a threshold that some scientists consider safe.<sup>22</sup> But what does a decrease in biodiversity really mean for the natural environment, the economy, humanity and organisations? As societies and the economy develop, we eat into our natural capital, which makes it more difficult to sustain the needs of future generations. Organisations transform the inputs they receive from the environment into products and services, which are then returned to the environment. Thus, organisations use scarce and limited resources to create products and services that meet the unlimited needs of society. Unfortunately, the entire process comes at a price by damaging the environment and increasing the possibility that future generations will not be able to access the same natural resources as we do. This section focuses on sustainability and sustainable development as another area of importance for responsible strategic leadership in organisations.

What is sustainability in a business context? We can define sustainability as the ability of an organisation to continue to do business over the long term - and possibly indefinitely. But, most importantly, sustainable business is tied up with the impact that the organisation has on the environmental resources of the world that it consumes in the process. Sustainability suggests that strategic leaders need to critically consider how their organisations can reduce and minimise their impact on the natural resources they use. By doing this well, business leaders can help to ensure

that their businesses will be around in the future, and that future generations will continue to be able to support themselves and to flourish, thanks to the impact of current business strategies and practices.

Sustainable development refers to economic development that is conducted without the depletion of natural resources. Sustainable development has three core elements, namely:

1. Society. This refers to people living in a particular country or region as a nation, where they share customs, common traditions, values, laws, activities and interests.
2. The environment. In the context of sustainability and sustainable development, the environment refers to the natural environment, the biosphere in which humanity and all other life on Earth exists.
3. The economy. This refers to a community's system for using its resources to produce wealth.

These three elements of sustainable development are all interconnected. Furthermore, these elements should be balanced - an organisation cannot pursue a profit maximisation goal at the expense of the environment or to the detriment of society. By the same token, an organisation will not be able to survive in the long term (that is, be sustainable) if it does not make a profit to sustain its business. Every decision that the strategic leader makes, every project that is considered, should be done in a sustainable manner. This means that the leader should link the economic, social and environmental components to strengthen it in totality.

Organisations respond to the challenges of responsibility and sustainability, either by taking a position on or by moving through, six levels or phases of commitment:<sup>23</sup>

- Phase 1: Rejection. During this phase, an organisation will focus on exploiting all resources (human and ecological) for the sake of maximising its profit. Strategic leaders here will not accept responsibility or listen to sustainability arguments, and will work actively against possible regulation or activism.
- Phase 2: Non-responsiveness. Organisations in this phase are characterised by a lack of awareness or ignorance of sustainable or social issues, rather than by active opposition to these issues.
- Phase 3: Compliance. Organisations in this phase are characterised by complying with laws and regulations to avoid risk, or by complying with self-regulatory measures to avoid legislation, which may limit their activities.
- Phase 4: Efficiency. In this phase, sustainability is seen as a cost-reduction and efficiency strategy. Principles of sustainability are incorporated into the everyday business practice of the organisation.

- Phase 5: Strategic pro-activity. In this phase, sustainability is viewed as potentially achieving competitive advantage, as well as ensuring cost efficiencies. Strategic leaders view sustainability as a strategic route to taking a position of leadership in an industry and thus maximising the returns of the organisation.
- Phase 6: The sustaining organisation. In this phase, the organisation is committed to the principles of social and ecological sustainability, that are maintaining returns, but are focused on meeting the needs of the present, without compromising the opportunities of future generations.

These six phases are summarised in Figure 12.3.

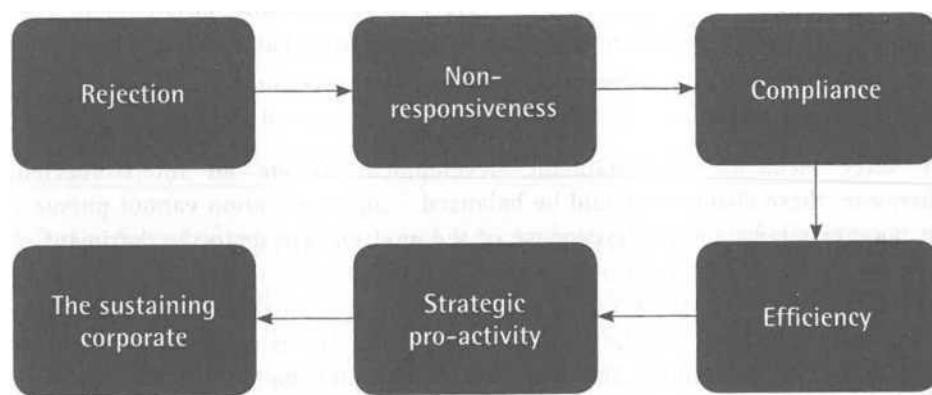


Figure 12.3: *Phases of commitment to sustainability*

The level that an organisation achieves in its commitment to sustainability reflects the manner in which it treats the human and ecological resources that it utilises in the process of conducting business. An organisation does not necessarily progress through this continuum in a linear way, but may jump from one phase to another, or may regress depending on internal and external pressures. Obviously, the ideal for any organisation is to stay in phase 6, and to remain committed to the principles of social and ecological sustainability, to maintain financial performance while staying focused on meeting the needs of the present, without compromising the opportunities of future generations.

Being a responsible strategic leader entails accepting that you have obligations to the health of the organisation, to its employees, customers, the community and nature. Furthermore, a responsible strategic leader also recognises the challenges in terms of sustainability and sustainable development.

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## The big picture

Organisations need strategic managers and leaders - managers to cope with organisational complexities and leaders to cope with change. All business decisions should be taken with the view to creating value for all stakeholders, delivering on the triple-bottom line, the sustainability of the organisation and sustainable development.

## Summary of learning outcomes

### **LO 1: Define leadership and differentiate between leadership and management.**

Leadership is a process by which an individual influences his or her follower or followers to achieve a common goal. Management and leadership are complementary qualities that are inevitably linked to each other. A manager is a person appointed in a formal position in a formal organisational structure or hierarchy. A manager commands subordinates because the position gives him or her the right to command. A subordinate obeys the manager because he or she is contractually obliged to obey. Leadership originates from a relationship between the leader and the follower. A leader may command because the follower allows him or her to command. A leader influences, inspires, motivates and has various responsibilities as a leader. Organisations need both managers and leaders to be successful. Managers are needed to deal with the complexity in their organisations, by performing the essential managerial functions of planning, organising and controlling. Leaders are needed to deal with and cope with change.

### **LO 2: Define strategic leadership and explain the role of strategic leadership in strategy implementation.**

Strategic leadership is a process by which a strategic leader influences a follower or followers to achieve the strategic vision of the organisation. Strategic leaders play a charismatic and architectural leadership role in organisations. The essence of strategic leadership is the creation and maintenance of absorptive capacity, adaptive capacity and managerial wisdom.

### **LO 3: Explain responsible strategic leadership with specific reference to the three pillars thereof.**

Responsible leadership is about making business decisions that into consideration all stakeholders, including shareholders, employees, business partners, suppliers, the environment, the community and future generations. Responsible strategic leaders should be delivering on the ‘triple-bottom-line’ and creating value for all stakeholders. The triple-bottom line is an accounting framework with three dimensions - social, environmental and financial. In this context, the environmental dimension refers to the physical or natural environment. These dimensions are also called the pillars sustainability.

**LO 4: Explain the practice of responsible strategic leadership.**

In practising responsible strategic leadership, the leader has various roles to play. These roles include:

- The responsible leader as a steward
- The responsible leader as citizen
- The responsible leader as visionary
- The responsible leader as servant
- The responsible leader as coach
- The responsible leader as architect
- The responsible leader as storyteller and meaning enabler
- The responsible leader as change agent.

**LO 5: Differentiate between sustainability and sustainable development and explain the phases of commitment to sustainability.**

Sustainability is the ability of an organisation to continue to do business over the long term - and possibly indefinitely. Sustainable business is tied up with the impact that the organisation has on the environmental resources that it consumes in the process. Sustainability suggests that strategic leaders need to critically consider how their organisations can reduce and minimise their impact on natural resources. By doing this well, business leaders can help to ensure that their businesses will be around in the future, and that future generations will continue to be able to support themselves and to flourish, thanks to the impact of current business strategies and practices.

Sustainable development refers to economic development that is conducted without the depletion of natural resources. Sustainable development comprises three core elements: society, the natural environment and the economy. Organisations respond to the challenges of responsibility and sustainability by taking either a position on, or by moving through six levels or phases of commitment, namely, rejection, non-responsiveness, compliance, efficiency, strategic pro-activity, and the sustaining organisation.

### **Discussion questions**

1. Differentiate between the concepts of leadership and management and justify the statement that organisations need both of these.
2. Investigate the key roles that most successful strategic leaders perform in organisations and discuss how leaders can use these roles to the detriment of an organisation.
3. Explain the essence of strategic leadership.
4. Discuss the pillars of sustainability.

5. Explain values and value creation in an organisation.
6. Strategic leaders have responsibilities towards a number of key stakeholders. Explain this statement and provide examples to illustrate your explanation.
7. Organisations respond to the challenges of responsibility and sustainability either by taking a position on, or by moving through, six levels of commitment. Depict these levels by means of a diagram.

## Learning activities

On 10 August 2014, the Governor of the South African Reserve Bank announced that the Registrar of Banks and the Minister of Finance had decided to place African Bank Limited under curatorship. The concerns that they expressed particularly focused on the bank's liquidity, the bank's impairment and provisioning policy, the rapid credit growth, and the need for a strategic rethink of the business model. Access the internet for the Myburgh report on the collapse of African Bank (<http://www.politicsweb.co.za/documents/on-the-collapse-of-african-bank—adv-jf-myburgh>) :

1. What, according to the Myburgh report, were the main reasons for the collapse of African Bank?
2. Identify all the stakeholders of African Bank who were affected by its collapse.
3. From inception until 6 August 2014, Mr Kirkinis was CEO of African Bank. Would you regard Mr Kirkinis as a charismatic strategic leader? Substantiate your answer.

## Endnotes

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PRACTISING STRATEGY: A SOUTHERN AFRICAN CONTEXT

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# 13

# Organisational structure and strategy

Tertia Botha

## LEARNING OUTCOMES

After reading this chapter, you should be able to:

- LO 1: Explain what organisational structure entails and the role of top management in organisational design.
- LO 2: Explain the various organisational structure alternatives.
- LO 3: Explain the various applications of organisational structure.

## KEY WORDS

- **Divisional structure**
- **Entrepreneurial structure**
- **Functional structure**
- **Holding company structure**
- **Horizontal structure**
- **Hybrid structure**
- **Network structure**
- **New venture units**
- **Organisational chart**
- **Organisational restructuring**
- **Organisational structure**
- **Virtual network structure**

The brief history of South African Airways (SAA), which you will read about in the case study in the chapter, highlights various changes (internally as well as externally) that impacted directly on the organisation and organisational structure, starting with the South African government's acquisition of Union Airways in 1934.

During times of growth at the airline, for instance, during the 'jet age' when SAA acquired 23 brand new Jumbo jets, the structure of the airline changed. For example, new appointments were made and when new routes were introduced routes were restructured.

However, during the era of political sanctions, flights had to be reduced and inevitably, further restructuring took place. When sanctions were lifted and SAA experienced times of regrowth, its services to former destinations were reintroduced, which once again led to restructuring. Since 2003, SAA has undergone several major restructuring programmes.

SAA's structural adjustments, such as the most recent plan to operate the airline through three separate departments, were the result of changes in its internal and external environments. Internally, SAA had made a number of acquisitions, formed alliances and agreements with external companies, and expanded its fleet of aircraft a number of times. Externally, it was influenced by political sanctions that had a negative effect on the airline. Environmental changes led to changes in strategy, and changes in strategy led to restructuring.

In this chapter, we explore organisational structure and its role and place in the strategic management process. Organisational structure is dynamic and depends on changes in the environment. In the opening case study, we have seen how SAA underwent, especially since 2003, various major restructuring processes. In this chapter, we will also highlight the various organisational structure alternatives and applications of organisational structure. Figure 13.1 depicts the focus of this chapter.

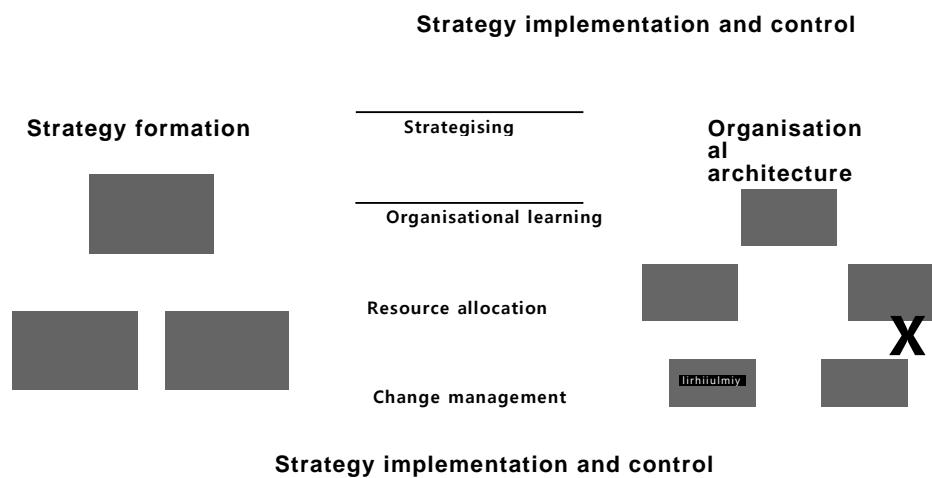


Figure 13.1: *Organisational structure and strategy*

## Case study

### **South African Airways<sup>1</sup>**

South African Airways (SAA) is South Africa's national carrier and largest airline. Its headquarters are in Airways Park on the grounds of the OR Tambo International Airport in Kempton Park, Gauteng. Currently, SAA flies to 35 destinations worldwide from its

hub at the same airport. A brief history, highlighting the major changes and advances developments that affected the structure of the airline, is given below.

The airline was established on 1 February 1934 when the South African government acquired Union Airways. Forty staff members and eight aeroplanes were engaged to form SAA, which was controlled by the South African Railways and Harbours Administration (now Transnet). SAA started charter operations in the same year. In 1935, the carrier acquired South West African Airways and also expanded its fleet. In the same year, SAA moved its operations to Rand Airport as it had become obvious that Johannesburg would become South Africa's aviation hub. In 1936, SAA took over all Rand-Cape Town services from Imperial Airways and again expanded its fleet.

The period from 1946 to 1952 was a period of extreme growth. The first intercontinental service was introduced and there was a spike in the number of passengers and the cargo carried, as well as an increase in fleet and staff. Air hostesses were first introduced in 1946. In 1948, Palmietfontein Airport became SAA's hub, taking over from Rand Airport. At the time, a host of changes were implemented with respect to its operations and services, and during that year, moves were introduced for the first time on its Skymaster aircraft.

The period from 1953 to 1973 is known as the jet age in aviation. SAA's first jet arrived on 3 May 1952 in Palmietfontein after a 24-hour journey, with five refuelling stops en route. In the 1980s, SAA acquired 23 brand new Jumbo jets, including the long-range Boeing 747SP, which was obtained specifically to overcome the problem of many countries prohibiting SAA from using their airspace due to the country's political environment at the time. In the 1980s, international condemnation of South Africa's apartheid regime presented SAA with many difficulties. For instance, the airline faced hostility, with their local and foreign offices being attacked. The US banned all flights by South African-owned carriers, including SAA. SAA's flights to Perth and Sydney in Australia were also stopped.

With the demise of apartheid in the early 1990s, SAA was able to restore its services to former destinations, introduce new destinations and expand into the rest of Africa and Asia. On 1 June 1990, an important date for SAA, South African companies signed a domestic air travel deregulation act. Flights to New York's JFK International Airport resumed in November 1991 when the US dropped the economic sanctions imposed on South Africa in 1986, and South Africa's planes were able to fly for the first time over Egypt and the Sudan. Flights to Milan were introduced for the first time and services to Athens were re-introduced. In 1992, the airline entered the Miami market and re-entered Australia, flying directly to Perth.

In 2003, media reports started surfacing about the South African government's plan to restructure and overhaul the state-owned enterprise Transnet (SAA's parent company), due to dismal financial performance. This included splitting SAA from the company to operate under a separate identity.

In May 2007, SAA launched an 18-month comprehensive restructuring programme. The main purpose was to ensure that the airline would become profitable. SAA's business was streamlined, and employees were reskilled in a bid to improve worker morale and management/worker relations. SAA's business was divided into seven subsidiaries, allowing

SAA to concentrate on its core business of passenger and cargo transport; rationalising international routes (for example, Paris was dropped); reducing 30 per cent of the airline's managers, as well as implementing other employee retrenchments. The restructuring programme was expected to save SAA R2.7 billion. By June 2009, R2.5 billion was saved.

It is no secret that SAA is in financial difficulty as it frequently makes news headlines as a result of mismanagement, its inability to settle debt with various banks and the implementation of further restructuring programmes to save the airline. In 2017, for example, SAA required yet another bailout and once again introduced drastic route restructuring. The airline reduced flights on its most profitable route Cape Town - Johannesburg, which allowed it to scale back its fleet from 50 aircraft to only 40.<sup>2</sup> Sadly, restructuring plans such as these proved to be insufficient, and until 2019, SAA was still struggling financially. By February 2019, their Chief Executive revealed plans to operate the airline through three separate departments, as part of a new major restructuring plan. The proposed units SAA plan to operate are domestic (which will focus on flights that operate solely through South Africa); regional (which will focus on routes and destinations across the continent with a heavy focus on southern Africa); and international (which will focus on the big, longer-haul flights that cross continents and travel the furthest afield).<sup>3</sup> The success of the latest major restructuring plan remains to be seen.

LO 1: Explain what organisational structure entails and the role of top management in organisational design.

### **13.1 Organisational structure and the role of top management in organisational design**

Organisations exist to achieve their strategic goals. These goals can be broken down into goals for various business units. The goals are often then further broken down into goals for the functional departments/areas/units of the organisation. Within each department, distinctions can be found between the jobs that people perform. Departments are linked to form the organisational structure of an organisation. The organisation's structure gives it the form to fulfil its function in the environment. The term *organisational structure* refers to the formal configuration between individuals and groups with regard to the allocation of tasks, responsibilities and the authority within an organisation.<sup>4</sup> Organisational structure has three important components:<sup>5</sup>

1. Organisational structure designates formal reporting relationships, including the number of hierarchical levels and the span of control (the number of people reporting to a specific manager or supervisor).
2. Organisational structure identifies the grouping of individuals in departments and of departments in the organisation.
3. Organisational structure includes the design of systems to ensure effective communication, co-ordination and integration of all efforts and outputs across all departments.

These three elements of organisational structure refer to both the vertical and horizontal aspects of organising. The first two elements are the structural framework, which includes the vertical hierarchy, whereas the third element pertains to the horizontal and vertical aspect, namely, the pattern of interaction among organisational employees and departments.

The organisational chart is the (usually top-down) visual representation of the organisational structure, showing what positions exist, how they are grouped, and who reports to whom.

Like organisational culture, organisational structure is an integral part of the nature and architecture of an organisation. If the organisational culture is considered the soul of the organisation, the organisational structure can be considered the body, which together with the bones, muscles, blood vessels and other physiological systems, enable the body to function. The organisational structure assists the organisation in distributing resources and in delivering its core products and services as effectively and efficiently as possible (refer to Chapter 1, Section 1.2, for a differentiation between the concepts *effectiveness* and *efficiency*).

It is a widely held view that the primary responsibility of top management is to determine an organisation's goals, strategies and structure, thereby enabling the organisation to adapt to a changing environment. Middle managers are considered to do much the same thing for major departments within the guidelines provided by top management. The role of the top management team in terms of strategic direction, organisational structure and the effectiveness and efficiency of the organisation is illustrated in Figure 13.2 and explained in more detail below.

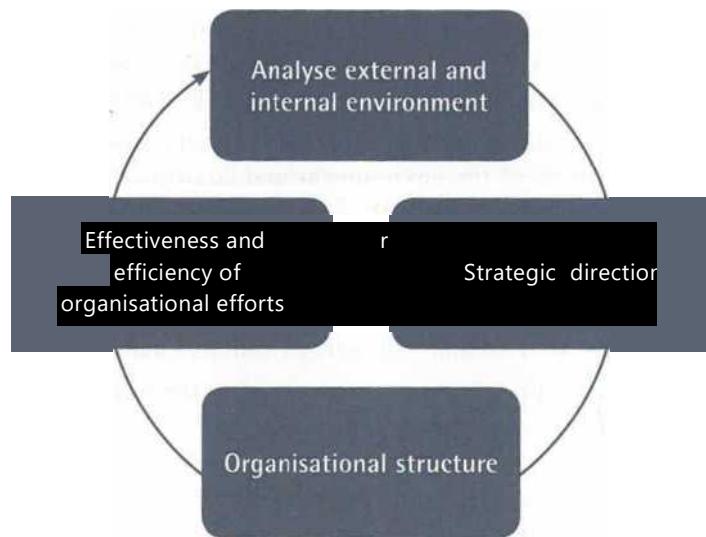


Figure 13.2 *The role of top management in terms of strategic direction, organisational structure and the effectiveness and efficiency of the organisation*

The strategic direction-setting process involves an assessment of the opportunities and threats in the external environment (these issues were explained in Chapter 5). Also, it involves an assessment of the internal capabilities and strategic resources available to the organisation (explained in Chapter 6). The process of defining, reaffirming and/or changing the mission and goals is a matter of determining the best fit between external opportunities and threats, on the one hand, and internal competencies and capabilities on the other. In this light, specific goals and strategies are formulated by top management to define how members of an organisation are going to accomplish what is identified in their overall mission. The organisational structure reflects the way that goals and strategies are implemented. The strategic direction is achieved through decisions about structural form.

This simplistic illustration of the design of an organisational structure by top management, supports the notion that structure follows strategy, which is often attributed to the landmark work of Alfred Chandler. Chandler traced the historical development of large American corporations such as DuPont, Sears and General Motors. His research indicated that strategy determines the various activities and tasks performed in an organisation, the technology used in an organisation and the environment in which the organisation operates, and each of these influences the structure of the organisation. Therefore, an organisation should adapt its structure to fits its strategy, rather than the other way around. However, in practice, it sometimes happens that structure can constrain or even dictate strategy. For example, in the South African Broadcasting Corporation (SABC), retrenchments that were scheduled as part of the turnaround strategy were put on hold due to pressure from, *inter alia*, unions.

Lastly, Figure 13.2 illustrates the effectiveness and efficiency of organisational efforts as an important element of the process. Top managers need to evaluate the extent to which the goals of the organisation are realised. This can be measured in various ways, which we will address in more detail in Chapter 14.

It is important to note that in Figure 13.2, there is an arrow from organisational efforts back to an analysis of the environment and strategic direction setting. This means that strategies are often made within the current structure of an organisation. It may happen that the current structure does not support the new or changed strategies, of constrains or puts limits on goals and strategies. This will then lead to the need to restructure an organisation - a change in its structure for the purpose of a better fit between the internal and external environment and strategic direction.

It is important to caution the tendency to represent the design of an organisation as a highly rational process which progresses smoothly through a series of steps such as those indicated in Figure 13.2. In practice, the design of an organisational structure is a messy, political process in which established routines and vested interests are challenged and often defended. Uneasy compromises are often found. Also, there might be considerable discrepancies between how the design of an organisation is presented by its top management, for example, as a neat organisational chart, and how organisations operate on a day-to-day basis. In the opening case study, we saw the number of restructuring processes that SAA underwent, and still goes through. Why? SAA still needs to find a structure that will lead to the effectiveness and efficiency

of its efforts, a structure that will get SAA out of its turbulent financial failures. The factfinders at *Africa Check* conclude that between 1999 and 2017, R29 billion was spent on SAA. The single biggest payment made to SAA during that time was R6.5 billion. A further R10 billion in bailouts by the South African government has been secured since then, taking the total to R39.3 billion.

There are also examples of organisations with a strong strategic focus that, with an appropriate organisational structure, achieve organisational effectiveness and efficiency. In Chapter 10, we used the example of Woolworths Holdings, a high-quality retailer which follows differentiation strategy. The practising strategy box below, highlights the group's 'strategic focuses', clearly indicating how they implement the differentiation strategy. It also emphasises structure, which further supports its strategy.

## Practising strategy: Woolworths Holdings Limited<sup>6</sup>

Woolworths Holdings' vision is to be one of the world's most responsible retailers. The group's values inform and underpin the way that they do business across the group. Their values state that they are customer-obsessed, inspirational, responsible, collaborative and committed to quality. As a group, Woolworths focus on the following, 'strategic focuses' that they drive at a group level:

- Building stronger and more profitable customer relationships
- Offering customers inspiring, engaging and relevant digital and in-store journeys, helping staff deliver a consistent, brand-aligned customer experience and connecting their customers seamlessly from physical stores to digital platforms and vice versa
- Being a leading fashion retailer in the southern hemisphere and differentiating themselves on quality fashion that is relevant to their customers through clearly segmented, design-led, quality ranges and innovation
- Becoming a big food business with a difference, focusing on providing customers with consistently superior quality, flavour, safe and innovative food at great value
- Driving synergies and efficiencies across the group through ongoing interaction across business operations
- Embedding the Good Business Journey throughout the business. The Good Business Journey is the group's plan to make a difference for their people, in their communities, and for their environment. It encompasses the issues which matter most to their stakeholders and enables a consistent approach to managing sustainability issues across their global supply chain. It helps them to achieve their vision to be one of the world's most responsible retailers.

The 'strategic focuses' of the group are clearly supported by its three major operating divisions:



WOOLWORTHS SA	DAVID JONES	COUNTRY ROAD GROUP
WOOLWORTHS •		COUNTRY ROAD
WOOLWORTHS .X		TRENERY
WOOLWORTHS:™ SISVOS		MIMCO
		WITCHERY
		POLITIX

Its first division, Woolworths South Africa, comprises Woolworths Fashion, Beauty and Home; Woolworths Food and Woolworths Financial Services, is based in South Africa and operates across another 11 countries in sub-Saharan Africa. The second division is David Jones, based and trading in Australia and New Zealand. The third division is the Country Road Group, based in Australia and trading in Australia, New Zealand and South Africa. This division comprises County Road, Trenery, Mimco, Witchery and Politix.

LO 2: Explain the various organisational structure alternatives.

## 13.2 Organisational structure alternatives

Organisational structure evolves and changes over time - it is not static (we can again refer to the opening case study and recognise the many major restructuring processes mentioned since 2003). In the start-up phase of a new business venture, it may have a simple structure. As the organisation grows, it may make gradual changes to its structure until it starts to experience crises in terms of who is responsible for what. Also, co-ordination and control problems may start to emerge, decisions may take too long and more mistakes may be made. When this happens, the growing organisation needs to be restructured - it needs to move towards a new organisation design. In a mature organisation, a change in strategic direction will create the need to change its structure. Such a process will repeat itself several times during the lifecycle of an organisation.

In order to satisfy its particular needs, the organisation will need to adapt a number of its structural types. Organisational structure involves more than simply charting where businesses, products, services, people and other resources fit in relation

to one another. Organisational structures are dynamic and also involve behaviour patterns. The following forms are discussed:

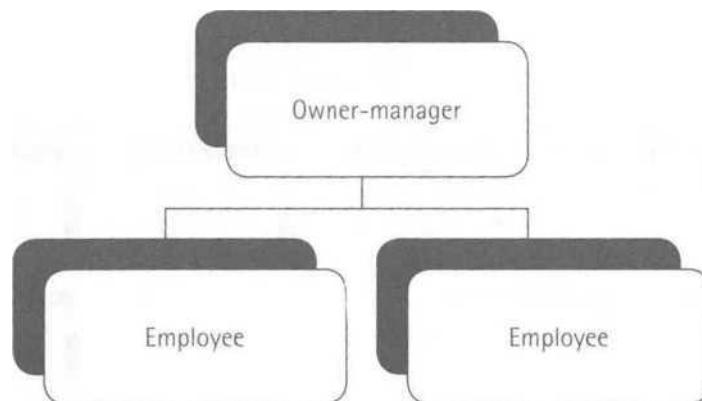
- The entrepreneurial structure
- The functional structure
- The divisional structure
- The holding company structure
- The matrix structure
- The global structure
- The network structure
- The new venture units
- The virtual network structure
- The horizontal structure
- The hybrid structures.

In studying these organisational forms, you should bear the following in mind:

- It is unlikely that you will find ‘pure’ forms of each of the structures discussed below, as organisations are more likely to use a hybrid or combinations of structural types to suit their needs.
- There is no such thing as a perfect structure - as organisations change in pursuit of their strategy or continuous improvement, structures will always be in flux.

### 13.2.1 The entrepreneurial structure

The entrepreneurial structure is typically built around the owner-manager. This form is usually utilised by small organisations in the start-up stages of their development. Figure 13.3 illustrates the entrepreneurial structure.



**Figure 13.3** The entrepreneurial structure

The entrepreneurial structure is entirely centralised and there is no division of responsibility. All strategic decisions are made by the owner-manager, and employees refer everything significant back to the owner-manager. All power, responsibility and authority lie with the owner-manager.

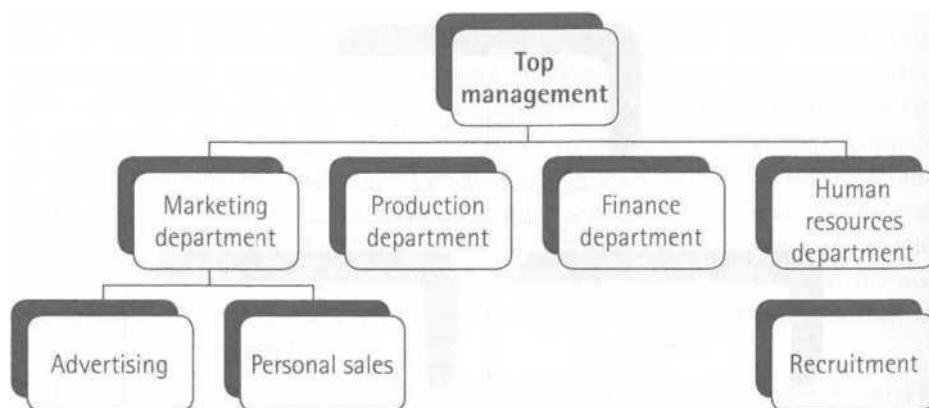
The advantage of such a structure during the start-up stage of a new organisation is that it enables the founder, who understands the business, to control its early growth and development. However, there are also limitations, such as the owner not having sufficient knowledge of certain areas. For instance, an attorney starting a new practice may not have sufficient knowledge of the financial side of his or her practice.

Such a structure will only be appropriate up to a certain stage and size, and will then develop into other more appropriate structures.

### 13.2.2 The functional structure

In this structure, the activities belonging to each functional area are grouped together into a unit or department. One set of activities, for example, comprising advertising, market research and sales, will belong together under the marketing department. Another set of activities, for example debtors and creditors, will be grouped under the financial department.

A functional structure is often used by organisations that have a single product focus. In order to build competitive advantage in their products or services, such organisations require well-defined skills and areas of specialisation. Dividing tasks into specialist areas enables personnel to focus on their areas of expertise only. However, this structure poses major challenges in terms of co-ordinating the specialist functions. Specialists may view the organisation solely from their own perspective. The marketing manager, for instance, may see an opportunity or threat exclusively from a marketing perspective, whereas the financial manager may approach the same issue from a purely financial perspective. To overcome potential conflict between the different departments, top management must ensure that proper co-ordination mechanisms are in place. Figure 13.4 illustrates an example of the functional structure.



**Figure 13.4** The functional structure

Decision-making in a functional structure is centralised. Advantages of this structure are that control resides with the top management of the organisation. This structure is also associated with relatively low overhead costs, clearly defined relationships, and relatively simple lines of authority and control. Such a structure can also promote competitive advantage through the various functions.

However, there are also limitations attached to this structure. The organisation may experience succession problems since specialists are not generalists and have to be created and nurtured. Specialised functions are unlikely to become entrepreneurial and the organisation may also experience co-ordination problems between the various functions.

Once an organisation has gone through the entrepreneurial stage and thereafter the functional stage, its choice of future corporate growth strategies will have a major impact on further structural developments.

### 13.2.3 The divisional structure

An organisation that chooses a divisional structure can use product groups or geographic regions as a means of divisionalising, or even a combination of product and geographic divisionalisation. Figure 13.5 illustrates the divisional structure.

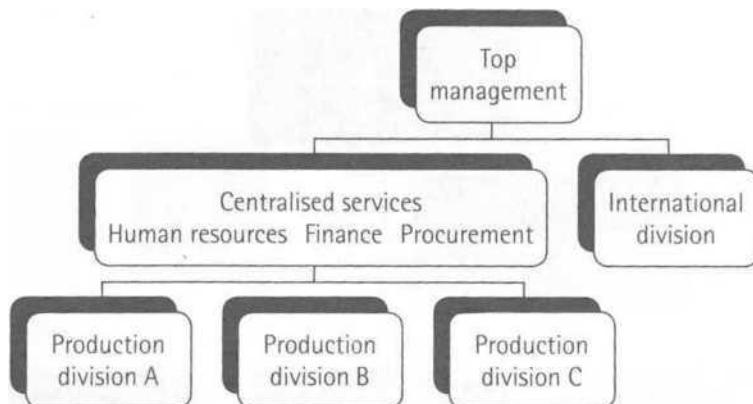


Figure 13.5 *The divisional structure*

In the opening case study, the Chief Executive of SAA revealed plans made in February 2019 to operate the airline through three separate divisions (domestic, regional, and international), as part of their new major restructuring plan.

In the previous practising strategy box, the organisational structure of Woolworths Holdings was cited as an example of a divisional structure. The term M-Form (multi-divisional form) is often used to describe such a divisional and holding company structure, which aligns an organisation according to individual divisions that are based on geographic divisions, products or services. Figure 13.5 illustrates a divisional structure as a combination of product and geographical divisions. In this structure, divisions are likely to be seen as individual profit centres

and strategic business units for planning and control purposes. Decision-making is decentralised. This divisional structure is appropriate when an organisation, such as Woolworths Holdings, grows in size and complexities, operates in a turbulent environment, offers a diverse range of products and/or services, and employs a variety of production processes. It is also appropriate when an organisation performs business internationally.

The main advantage of the divisional structure is that profit responsibility is decentralised. This enables an organisation to assess the effectiveness and efficiency of various activities and functions. It also enables an organisation to adapt to changes more effectively and to foster an entrepreneurial climate.

Such a structure also comes with limitations. Conflict may develop between various divisions in their competition for limited resources, efforts and resources may be duplicated, and the evaluation of the relative performance of the divisions may be difficult. As organisations grow and expand their business globally, structural changes may again be necessary.

### 13.2.4 The holding company structure

An example of a holding company structure is illustrated in Figure 13.6.

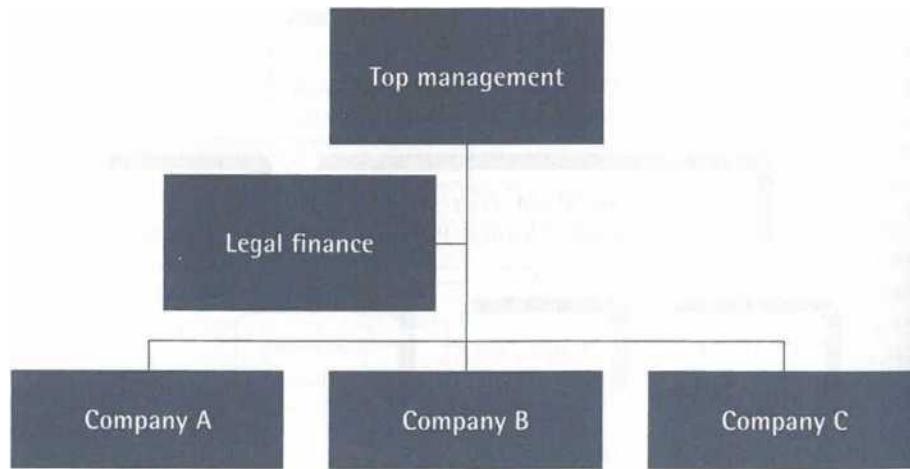


Figure 13.6 *The holding company structure*

In a holding company structure, the headquarters of the organisation or the corporate centre largely acts as an investment company. The operations of the various individual companies (companies A, B and C in Figure 13.6) are largely independent. This structure is appropriate for organisations pursuing a restructuring strategy, buying, selling or taking over other organisations. It is usually effective in the case of diverse independent businesses in a conglomerate.

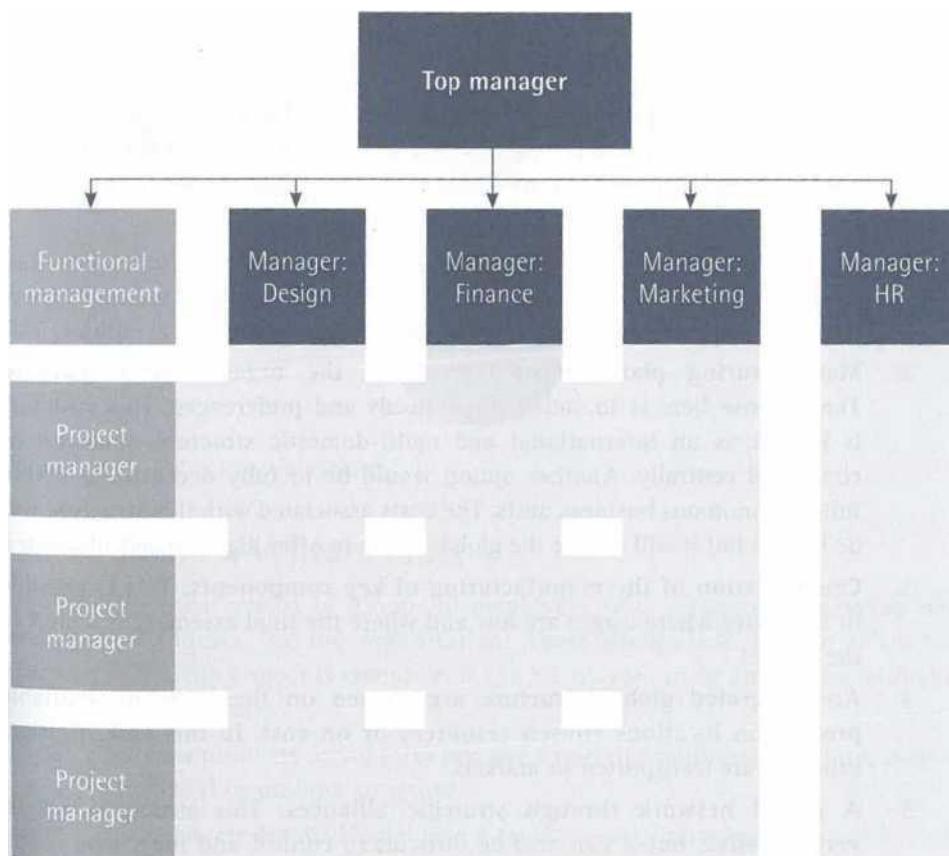
There are financial advantages attached to the holding company structure. It usually involves relatively low central overhead costs and the holding company is

thus able to finance subsidiaries at a favourable cost of capital. Other advantages associated with this structure are that risks are spread between companies, it allows for cross-subsidisation between profitable and less profitable companies, and it facilitates acquisition, divestment and decentralisation.

The main limitation associated of this structure is that there are no centralised skills to support the organisation. Furthermore, there is no synergy and also a possible lack of organisational culture and strategic control.

### 13.2.5 The matrix structure

A matrix organisational structure is a structure with a strong form of horizontal linkage in which both product and functional structures (horizontal and vertical) are implemented simultaneously. The matrix structure combines the advantages of decentralisation with those of co-ordination. This structure requires dual reporting by managers. One manager can, for instance, report to a functional manager (such as finance) and a project manager. Figure 13.7 illustrates an example of a matrix structure.



**figure 13.7** The matrix structure

As can be seen from Figure 13.7, the marketing specialist reports to both the marketing manager and project manager, the finance specialist reports to both the financial manager and the project manager. It shows the permanent and dual control of operating units. Authority and accountability are defined in terms of particular decisions.

This structure is appropriate in large, multi-product and multi-national organisations with significant interrelationships and interdependencies. The advantages associated with a matrix structure are first and foremost that decisions can be decentralised within a large organisation which might otherwise be very bureaucratic. The structure makes optimal use of scarce skills and resources, and enables control over growth and increasing complexity normally associated with growth. It also offers an opportunity for managers to develop and reach a certain level of maturity.

Like all other structures, the matrix structure also has certain limitations. It is difficult to implement and the dual-reporting lines may create confusion among employees. Potential conflict may exist between various managers, it has high overhead costs and decision-making can be very slow. It is, nonetheless, a power structure to implement in organisations that have more than one profit centre.

### 13.2.6 The global structure

Becoming a global organisation is usually associated with multiple strategies. Multiple strategies need to be backed by a global structure that will enable the global organisation to sustain and maintain its competitive advantage. There are essentially five possible global structures:

1. A globally centralised organisation. Such an organisation is remote from its global markets, but relying on exporting. This is likely to be a cost-effective structure, but possibly too out of touch for contemporary global entities.
2. Manufacturing plants located close to the organisation's markets. The purpose here is to satisfy local needs and preferences. This **structure** is known as an international and multi-domestic structure, and can be controlled centrally. Another option would be to fully decentralise it into fully autonomous business units. The costs associated with this structure will be higher, but it will enable the global entity to offer higher levels of service.
3. Centralisation of the manufacturing of key components. This is possible in a country where wages are low and where the final assembly is nearer to the market.
4. An integrated global structure are chosen on the basis of **available** production locations chosen resources or on cost. In this case, **finished** products are transported to markets.
5. A global network through strategic alliances. This structure can be very effective, but it can also be difficult to control and may have costly overheads. The network structure is discussed in the following section in more detail.

### 13.2.7 The network structure

The network structure involves an interrelationship between different organisations. A network organisation usually performs the core activities itself, but subcontracts some or many of its non-core operations to other organisations. One of the big challenges for a network organisation is to co-ordinate its network partners' activities to ensure that they contribute to the network organisation's mission and goals. Figure 13.8 illustrates the network structure of Nike, Inc., the American multinational company selling footwear, apparel, equipment, accessories and services. The middle central hub represents the company that performs core activities only, and subcontracts non-core operations to a designer, human resources agency, manufacturer and marketer.

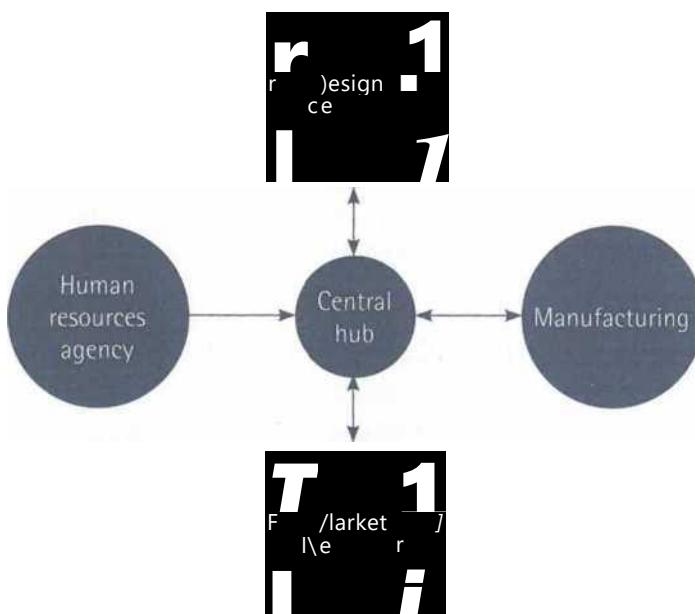


Figure 13.8 *The network structure*

### 13.2.8 The new venture units

New venture units consist of groups of employees who volunteer to develop new products or ventures for the organisation. These groups use a form of matrix structure. When the project is complete, it can be adapted to fit any of the following organisational structures:

- The new products or ventures become a part of traditional structure, such as functional or product structure
- The products are developed into a totally new department
- The new products grow into divisions.

### 13.2.9 The virtual network structure

The virtual network structure builds on the features of the network structure. It becomes no longer necessary for the organisation to have all its employees, teams, departments and subcontractors in one office or facility. Information technologies enable the organisation to integrate its internal employees, teams and departments with its external network of subcontractors in order to achieve specific goals. In the virtual organisation, people, who are spread out in remote locations, work as though they were in one place. Therefore, we define a virtual network structure as a structure whereby an organisation subcontracts many or most of its major processes to separate companies and co-ordinates their activities from a headquarters organisation.

The virtual organisation is a streamlined model that fits the rapidly changing environment. It provides flexibility and efficiency because partnerships and relationships with other organisations can be formed or disbanded as needed. However, a disadvantage associated with the virtual organisation is that the levels of reciprocal and sequential interdependence are much higher than those of the network organisation. They tend to be instantaneous - that is, at any time and in any place - for the networked employees, teams, departments and subcontractors. The boundaries of the virtual organisation are also more open than in a network organisation because of the use of advanced information technologies that seamlessly knit all partners together.

### Practising Strategy: Remote control<sup>7</sup>

Remote working is rapidly spreading beyond its traditional heartland of sales teams and field engineers. But what are the benefits of remote working and how can managers manage e-workers effectively?

Both employees and employers can benefit from remote working. For employers, cost savings are very attractive (fewer desks mean smaller offices and lower overhead costs). Also, there is growing evidence of improved productivity and improved job satisfaction for remote-working staff. Fast, reliable broadband connections, remote security systems and web-accessible applications and network systems have never been cheaper and more available, making the practicalities of remote working easier than ever for employers and employees. For many employees, remote working provides them with flexibility, greater fulfilment, high levels of job satisfaction and a better work/life balance. On the downside, remote working can cause remote workers to struggle with work/no-work boundaries, so switching off can be an issue for employees.

The big unanswered question about remote working is whether remote workers can wave goodbye to promotion opportunities. Despite enthusiasm for remote working, some managers confess that visibility is important, as is being able to coach and mentor and influence decisions. It seems that managers need to understand that it is about the output of their employees and not about

### 13.2.10 The horizontal structure

A recent approach to organisational types is the horizontal structure - a structure that virtually eliminates both the vertical hierarchy and departmental boundaries by organising teams of employees around core work processes or projects. Organisations may be prompted to move toward a horizontal structure as a consequence of an intervention such as re-engineering. Re-engineering, or business process reengineering, involves the redesign of core business processes with the aim to achieve substantial improvements in performance, productivity and quality. The business process refers to the set of interlinked tasks or activities performed to achieve a specified outcome. It may involve the redesign of a vertical organisation along its horizontal workflows and processes, or projects. Re-engineering aspires to change the way that managers think about how work is done. Rather than focusing on narrow jobs structured into distinct functional departments, re-engineering emphasises core processes that cut horizontally across the organisation to involve teams of employees who work together to serve customers.

An example of a horizontal structure is depicted in Figure 13.9. It applies to an organisation that has been re-engineered horizontally in terms of two processes, namely, new product development and sustainable procurement. Each of the two processes has a process owner. Each process will be conducted in various steps. For example, new product development will follow the traditional route of market research, product planning and design, product testing and then the manufacturing of the product for delivery to the customer. A number of teams will be involved in the various processes. Market research will be conducted by a team, product planning will be done by a different team, and so forth. Eventually, all the efforts of all processes need to contribute to the overall strategic direction of the organisation. Teams are selfdirected, meaning that people on the team are given the skills, tools and motivation and authority to make decisions that are central to the team's performance. Team members are cross-trained to perform one another's jobs and the combined skills are sufficient to complete a major organisational task such as new product development.

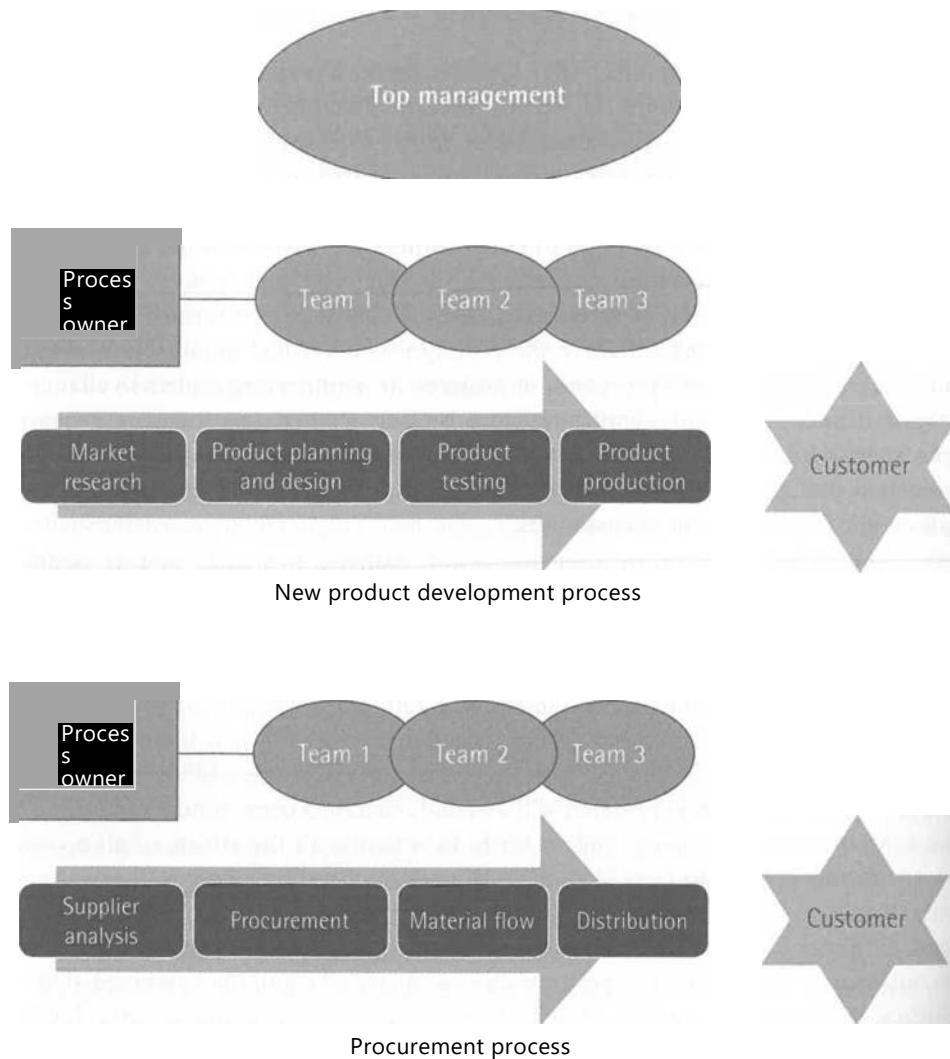


Figure 13.9 *The horizontal structure*

A horizontal structure is a suitable structure for a project-based organisation. Project-based organisations are organisational forms that create temporary systems for carrying out their work. Organisations that need and expect fast innovations are most likely to be suited to project-based organisations. Many organisations, like those in construction and aerospace, organise their work by dividing it into various projects. In a functional structure, departments are created to organise work based on specialities such as marketing and finance. However, in a project-based organisational structure, most of the business functions are organised in projects. In a project-based organisational structure, projects are the main units involved in conducting undertakings. Typically, there will be a CEO at the top and managers of

various departments reporting to the CEO. Reporting to these managers will be project teams consisting of various members, such as the analyst, architect, developer, and so on. Project-based organisations can be formed by different types of organisations including functional, matrix or projectised organisations.

### 13.2.11 The hybrid structure

In the real world, organisational structures do not exist in the pure forms we have outlined in the previous section. Organisations often use a hybrid structure that combines characteristics of various approaches tailored to the specific strategic needs of the organisation. Most organisations combine characteristics of functional, divisional, geographical, horizontal or network structures to consider the relative strengths and weaknesses of these structures and the specific character of their organisation. One type of hybrid often found in practice is to combine the characteristics of the functional and the divisional structures. When an organisation grows large and has several products and/or markets, it typically organises itself into self-contained divisions. Functions that are important to each product or market are decentralised to the self-contained units. However, some functions that are relatively stable and require some economies of scale and in-depth specialisation, are centralised at headquarters.

The next practising strategy box illustrates the various changes in organisational structure that one of the world's most famous companies, Microsoft, underwent between 1974, when it was founded, and 2013. From the information provided, it should be clear that, although organisational structure is important and needs to fit with the competitive needs of an organisation, it is only one determinant of its success.

## Practising strategy: Microsoft<sup>8 9</sup>

In 1975, Bill Gates and Paul G Allen founded Microsoft, deriving the name from the words *microcomputer* and *software*. They built the company into one of the world's most powerful and profitable companies in American history. The company was initially organised on a functional organisational structure. As it grew bigger, this structure proved to be too slow and inflexible for operating in a fast-changing technological environment. During this time, employees complained about a growing bureaucracy and slow decision-making processes, which led to a restructuring process in 2002 when seven business units were created. These were created around Microsoft's major products and each was managed by a general manager. Each division contained most of the functions of a stand-alone company, including product development, sales, marketing and finance. Seven years later, the company was restructured again when the seven units were replaced by three core divisions. This restructuring programme was revolutionary because it gave division heads the freedom and authority to manage the businesses and to spend their budgets as they saw fit to meet their division's goals. Despite the restructuring, the company was still losing ground to other major role-players such as Apple, which was famously centralised in the hands of Steve Jobs, and to Google, which operates a loose structure with substantial employee discretion. In 2013, Microsoft embarked on another restructuring programme by dissolving its divisions and creating 'One Microsoft' - with the hope that this structure would enable the company to leverage its competitive advantages across different product categories.

In the following section, we focus on the various applications of organisational structure.

LO 3: Explain the various applications of organisational structure.

### 13.3 Applications of organisational structure

Each of the organisational structure alternatives highlighted in the previous section, is applied in different situations and is intended to address different organisational demands. Each type of structure can be viewed as a tool that can make an organisation more or less effective, depending on the exigencies of the situation and the capacity of the structure to respond effectively to the demands. In the discussion that follows, we will focus on two important aspects in this regard, namely, structural alignment and symptoms of structural deficiency.

### 13.3.1 Structural alignment

One of the most important roles that top management has when designing of an organisational structure is finding the right balance between vertical control and horizontal co-ordination, depending on the changing needs of the organisation. Vertical control is associated with goals of efficiency and stability. Horizontal coordination is associated with learning, innovation and flexibility (refer to Chapter 9, where organisational learning is addressed).

An organisation with a dominant vertical structure will have the following characteristics:

- specialised tasks
- a strict hierarchy with many rules
- vertical communication and reporting systems
- few teams and task forces
- centralised decision-making
- a focus on control, efficiency, stability and reliability.

An organisation with a dominant horizontal structure will have the following characteristics:

- shared tasks and empowerment of individuals
- a relaxed hierarchy and few rules
- horizontal communication and lots of face-to-face communication
- many teams and task forces
- decentralised decision-making
- a focus on co-ordination, learning, innovation and flexibility.

A functional structure is appropriate when management believes that efficiency in meeting organisational goals can be achieved through co-ordination by means of a vertical hierarchy. Divisional and matrix structures will provide a good mix between efficiency and learning, while a horizontal structure is more appropriate for when innovation and learning are priorities. The horizontal structure enables an organisation to differentiate themselves and respond quickly to changes, but often at the expense of short-term efficiency. The virtual network structure offers even greater flexibility and the potential to respond rapidly to meet changing demands and challenges, as well as searching for lower costs and increased productivity.<sup>10</sup>

### 13.3.2 Symptoms of structural deficiency

Periodically, top management needs to evaluate organisational structure to determine whether it is still appropriate to a changing environment and its strategic direction (refer to Section 13.1, and the discussion of Figure 13.2). Many organisations test one organisational structure, then restructure in an effort to develop a better fit between

its strategic, internal reporting relationships and the environment. The following factors are symptoms of structural deficiency:<sup>11</sup>

- Decision-making is delayed or lacking in quality. Decision-making may be delayed due to too many managerial layers, decision-makers may be overloaded or delegation to lower levels may be insufficient. Decisions may lack quality because information may not reach the correct people or information linkages in either a vertical or horizontal direction.
- The organisation does not respond quickly and innovatively to a changing environment. One reason for the lack of quick responses and a lack of innovation is that departments are not co-ordinated horizontally. All the efforts of all departments must be co-ordinated horizontally to ensure optimal functioning of the organisation and ultimately, the attainment of strategic goals. In the context of organisational structure, ambidexterity refers to the ability of an organisation to be equally good at exploiting existing opportunities using existing capabilities while exploring and searching for new opportunities and new capabilities. In most organisations, the existing way of doing things tends to dominate management thinking, which makes it very difficult for them to be truly innovative and to develop new capabilities. In their research on this topic, O'Reilly and Tushman<sup>12</sup> found that companies that are successful at both exploiting existing opportunities and exploring new opportunities (that is, are ambidextrous) separate their new, exploratory units from their traditional, exploitative ones, allowing for different processes, structures, and cultures. At the same time, they maintain tight links across units at the senior executive level. In other words, they manage organisational separation through a tightly integrated senior team. This supports Clayton Christensen's<sup>13</sup> notion that organisations will find it very hard to harbour activities that are disruptive to their existing business in the existing organisation - the dominant management logic will simply suppress those innovations and new ways of doing business. Christensen argues that it would be better to position such ideas and activities in a spinoff business that is not fully under the control of the old business and that is permitted to explore and be innovative. This is a prime example of an instance in which structure can directly support strategy.
- Employee performance declines and goals are not being met. Employee performance may decline because the organisational structure does not provide clear goals, responsibilities, and mechanisms for coordination. Also, individuals may not even know what the vision and strategic direction of the organisation are and where they fit into the 'big picture'. The organisational structure should reflect the complexity of the environment in which the organisation operates. At the same, it should also be straightforward enough for employees to effectively work within.

- Conflicting departmental goals. In principle, organisational structure is intended to combine departmental goals into a single set of goals for the entire organisation. When departments are in conflict, or departmental priorities are out of alignment with those attributed to the wider organisation, it may be that the structure has incorporated insufficient horizontal integration linkages and co-ordination mechanisms.

## The big picture

It is important that there be alignment between the strategy of the organisation and the organisational structure it follows. However, it is also naive to think that there will be a pure and direct relationship between strategy and structure and that changes in strategy will lead unconditionally to structural changes.

It is important to note that organisations are generally inert until there are forces that necessitate change, and if these forces are not perceived as strong enough, large scale structural changes are not likely to occur. Developing an organisational structure is a complex matter. In fact, there are very few organisations that would claim that they have an ideal structure. Structure is always a work in progress, and is, therefore, always evolving.

## Summary of learning outcomes

### **LO 1: Explain what organisational structure entails and the role of top management in organisational design.**

Organisational structure (1) designates formal reporting relationships, including the number of hierarchical levels and the span of control (the number of people reporting to a specific manager or supervisor); (2) identifies the grouping of individuals in departments and of departments into the organisation; and (3) includes the design of systems to ensure effective communication, co-ordination and integration of all efforts and outputs across all departments.

Top managers are responsible for analysing the external and internal environment and based on that, determining the strategic direction of the organisation. Then, they need to design the organisational structure, and determine the effectiveness and efficiency of organisational efforts in attaining organisational goals.

### **LO 2: Explain the various organisational structure alternatives.**

The following forms are discussed:

- The entrepreneurial structure
- The functional structure
- The divisional structure

- The holding company structure
- The matrix structure
- The global structure
- The network structure
- The new venture units
- The virtual network structure
- The horizontal structure
- The hybrid structures.

**LO 3: Explain the various applications of organisational structure.**

Two aspects are important in this regard, namely, structural alignment and symptoms of structural deficiency. In terms of structural alignment, organisations should find a balance between vertical control and horizontal co-ordination, depending on the changing needs of the organisation. Vertical control is associated with goals of efficiency and stability. Horizontal co-ordination is associated with learning, innovation and flexibility.

Symptoms of structural deficiency are usually the following: (1) decisionmaking is delayed or there is a lack of quality decisions; (2) the organisation does not respond quickly and innovatively to a changing environment; (3) employee performance declines and goals are not being met; and (4) there are conflicting departmental goals.

### **Discussion questions**

1. Explain the concept *organisational structure*.
2. Discuss the role of top management in organisational design.
3. Differentiate between the various organisational structure alternatives.
4. For each of the organisational structure alternatives discussed in the previous question, explain the advantages and disadvantages of each.
5. Explain the various application of organisational structure.

### **Learning activities**

1. Conduct an interview with a manager in any organisation of your choice. The purpose of the interview is to get a sense of what organisational structure the organisation is using, and what the benefits and frustrations of their chosen structure are.

2. Consider these statements: ‘In practice, the design of an organisational structure is a messy, political process in which established routines and vested interests are challenged and often defended. Uneasy compromises are often found. Also, there may be discrepancies between how the design of an organisation is presented by its top management, for example, as a neat organisational chart, and how organisations operate on a day-to-day basis.’ Do you agree with this statement? Substantiate your answer.

## Endnotes

- <sup>1</sup> <https://www.flysaa.com/about-us/leading-carrier/about-saa/brief-history> [Accessed 18 January 2019]
- <sup>2</sup> <https://www.southafrica.to/transport/Airlines/SAA-flights/SAA-news-offers.php> [Accessed 16 July 2019]
- <sup>3</sup> <https://www.thesouthafrican.com/news/saa-split-three-details-how-will-it-work/> [Accessed 16 July 2019]
- <sup>4</sup> Greenberg, J. 2011. *Behaviour in organisations*. 10th ed. Upper Saddle River, NJ: Prentice Hall.
- <sup>5</sup> Daft, R.L.; Murphy, J. Et Willmott, H. 2017. *Organisation theory and design: an international perspective*. 3rd ed. Hampshire: Cengage Learning, p.96.
- <sup>6</sup> <https://www.thesouthafrican.com/news/saa-split-three-details-how-will-it-work/> [Accessed 16 July 2019]
- <sup>7</sup> <https://www.woolworthsholdings.co.za/> [Accessed 17 January 2019]
- <sup>8</sup> Daft, R.L.; Murphy, J. Et Willmott, H. 2017. *Organisation theory and design: an international perspective*. 3rd ed.
- <sup>9</sup> <https://www.britannica.com/topic/Microsoft-Corporation> [Accessed 18 January 2019]
- <sup>10</sup> Daft, R.L.; Murphy, J. Et Willmott, H. 2017. *Organisation theory and design: an international perspective*. 3rd ed. Hampshire: Cengage Learning, p. 113.
- <sup>11</sup> Daft, R.L.; Murphy, J. Et Willmott, H. 2017. *Organisation theory and design: an international perspective*. 3rd ed. Hampshire: Cengage Learning, p. 129.
- <sup>12</sup> O'Reilly, C.A. Et Tushman, M.L. 2004. 'The ambidextrous organisation'. *Harvard Business Review*, April. Available online <https://hbr.org/2004/04/the-ambidextrous-organization> [Accessed 14 January 2019].
- <sup>13</sup> Christensen, Clayton M. *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. Boston, MA: Harvard Business School Press, 1997, p.7-11.



# 14

# Strategic control and risk management

Tersia Botha

## LEARNING OUTCOMES

After studying this chapter, you should be able to:

- LO 1: Define strategic control.
- LO 2: Explain where strategic control fits into the strategic management process.
- LO 3: Differentiate between the various types of strategic control.
- LO 4: Explain the balanced scorecard as a strategic control tool.
- LO 5: Explain risk, strategic risk and the strategic risk management process.
- LO 6: Discuss corporate governance with specific reference to the three value dimensions thereof.

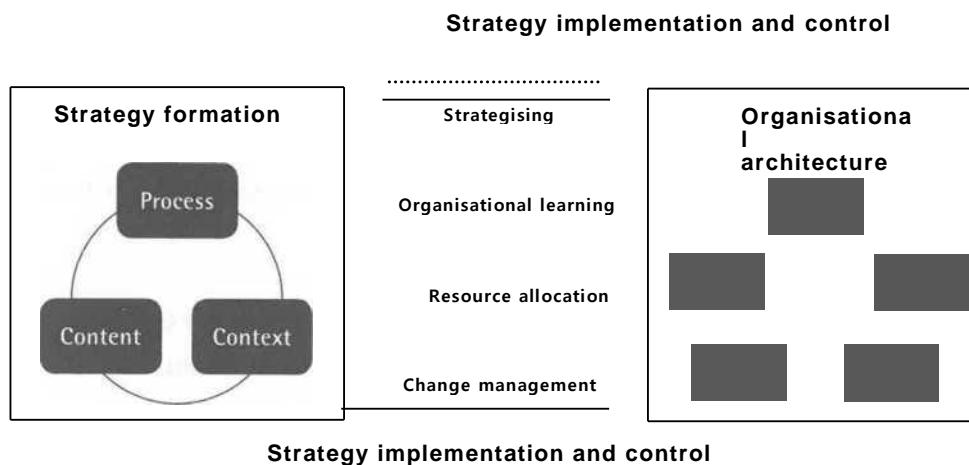
## KEY TERMS AND DEFINITIONS

- Corporate citizenship
- Corporate governance framework
- Corporate governance
- Ethical leader
- Implementation control
- Premise control
- Special alert control
- Strategic control
- Strategic risk management
- Strategic risk
- Strategic surveillance
- Sustainability

## CHAPTER ORIENTATION

In the previous chapters of this book, we dealt with strategy formation and implementation, which bring us to the last chapter, 'Strategic control and risk management'. The strategies developed during strategy formation have a long-term effect, they are resource intensive and impact on the entire organisation. This makes strategic control imperative for ensuring that the chosen strategies are still valid, that they are aligned with the vision and mission of the organisation and with the internal and external environment. Furthermore, strategic control is vital for ensuring that the implementation of the chosen strategies is on track. In the opening

case study of this chapter, you will read about the implementation of strategic control mechanisms at Johnson & Johnson, with aim of determining the company's credo and mission. The first part of this chapter focuses on strategic control, where it fits into the strategic management process and the various types of strategic control. We also explain the use of the balanced scorecard as a strategic control tool. The case study also highlights the risks that the J&J Company were exposed to and how they successfully managed these risks. The second part of this chapter focuses on risk, strategic risk and the strategic risk management process. The chapter concludes with a discussion of corporate governance. Figure 14.1 depicts the focus of this chapter.



**Figure 14.1** Strategic control and risk management

## Case study

### Johnson & Johnson

Johnson & Johnson (J&J) and its family of companies is the world's sixth largest consumer health company. The company embraces research and science - bringing innovative ideas, products and services to advance the health and well-being of people. Employees of the J&J family of companies work with partners in healthcare to touch the lives of over a billion people every day, throughout the world.<sup>•2</sup>

JEU's Tylenol pain reliever has certainly been one of the most successful products in its 125 years. However, in 1982, when James E Burke was chairman and CEO, it also posed one of the biggest challenges to the company, as seven people died in the Chicago area after taking cyanide-laced, extra-strength Tylenol capsules.

JEtJ's handling of the Tylenol disaster is one of the prominent, and by now legendary, examples of good strategic control in a crisis. As soon as the first death was reported on 30 September 1982, Burke took control and, in doing so, not only preserved the reputation of his highly respected consumer company, but also saved the Tylenol brand. At no point did he try to back off from the company's responsibility in the incident, even though it was later proven that the tampering had occurred at the retail level. 'When those people died,' said Burke, 'I realised there were some things we hadn't done right. Responsibility for that incident had to be, in part, ours. It wasn't easy to take responsibility ... but it was clear to us, to me especially, that whether we could be blamed for the deaths or not, we certainly could have helped to prevent them. How? Through packaging. The fact is that the package was easily invaded. You could take the capsule out, open it up, put the poison in and then put the capsule back together. It was easy to do. I felt, and still feel, that it was our responsibility to fix it.'<sup>3</sup>

Burke's conviction, and his total commitment to the safety of the customer, resulted in the company spending \$100 million on recalling 31 million bottles of Tylenol, which before the tampering, had been the company's best-selling over-the-counter pain reliever. The recall decision was a highly controversial one because it was so expensive. There were plenty of people within the company who felt there was no possible way to save the brand, that it was the end of Tylenol. Many press reports said the same thing. But Burke had confidence in JftJ and its reputation, and also had confidence that the public would respond to what was right. It helped turn Tylenol into a billion-dollar business. Within eight months of the recall, Tylenol had regained 85 per cent of its original market share and a year later, 100 per cent. The person who tampered with the Tylenol was never found. In 1984, J8tJ replaced capsules with caplets, and in 1988, the company introduced gel caps, which look like capsules, but cannot be taken apart.

The basis for the strategic control implemented by J&J, stems from the company's mission statement. On the company's credo, written in the mid-1940s by Robert Wood Johnson, it stated that the company's responsibilities were to the consumers and medical professionals using its products, employees and the communities where its people work and live, and its stockholders. Therefore, it was essential to maintain the safety of its public to keep the company alive.

LO 1: Define strategic control.

## 14.1 Defining strategic control

Strategic control is a process used by organisations to control the formation and implementation of its strategies to ensure that they achieve the strategic goals that

have been set for it. It is a specialised form of management control and differs from other forms of management control (especially operational control). Strategic control focuses on the achievement of future goals. It involves tracking a strategy as it is being implemented - strategic control systems cannot wait for a long-term strategy to be implemented before getting feedback on how well it is working, and whether it succeeded in attaining the goals of the organisation. This might take several years for some organisations. Therefore, strategic control is concerned with detecting problems or changes in the strategy and making the necessary adjustments. Strategic control is a vital element in the strategic management process for the following reasons:

- Strategic control provides a co-ordinating mechanism that links the strategic formation, implementation and control processes of an organisation.
- Strategic control ensures that the organisation's resources are deployed in such a way that it attains its overall objectives. Resources, including capital, machinery and equipment, human resources and finance, need to be allocated to different managers, functions and businesses, and then coordinated and controlled to generate synergy. Strategic control also ensures that organisational resources match key success factors and the development of sustainable competitive advantage.
- Strategic control enables management to cope with environmental change and uncertainty. Between the time that goals and objectives are formulated and the time they are attained, many things happen in the organisation and its environment to disrupt movement towards the goal - or which may even change the goal itself. A properly designed strategic control system can help managers anticipate, monitor and respond to changing circumstances. An improperly designed strategic control system can result in organisational performance that falls far below acceptable levels, and may even lead to the downfall of the organisation.
- Complex organisations need strategic control measures to ensure that costly mistakes are avoided.
- Strategic ensures a balance between organisational effectiveness and efficiency. Effectiveness is achieved when the organisation formulates, pursues and achieves appropriate goals, for example, reaching the annual sales objective. Effectiveness, in essence, means 'doing the right things'. Given the reality of limited resources, effectiveness alone is not enough. An organisation also needs to be efficient. Efficiency enters the picture when the resources required to achieve an objective are weighed against what was actually accomplished. The organisation will be more efficient the more favourable the ratio between benefits (outputs or performance) and costs (inputs or resources) is. Efficiency essentially means 'doing things right'. Efficiency is achieved by using fewest inputs (such as the number of people employed or the amount of capital utilised during the financial year) to generate a maximum amount of output (such as the number of products produced or the profit realised within a financial year).

To be effective and efficient, strategic control systems should comprise four elements. First, the strategic direction and goals of the organisation should be clearly articulated. This element is part of the strategy formation phase of strategic management, which we have dealt with the first section of this book. Second, the strategic activities that need to be carried out in order to achieve the strategic goals of the organisations, should be specified and described. The third element revolves around the definition of the method used to track the progress of the organisation in terms of attaining its strategic goals. Tracking progress goes hand in hand with the fourth element, namely, the identification of an intervention mechanism to change or adjust organisational activities when strategic goals are not attained. The strategic control process is explained in more detail in the next section.

LO 2: Explain where strategic control fits into the strategic management process.

## 14.2 Strategic control and the strategic management process

Figure 14.2 illustrates where strategic control fits into the strategic management process.

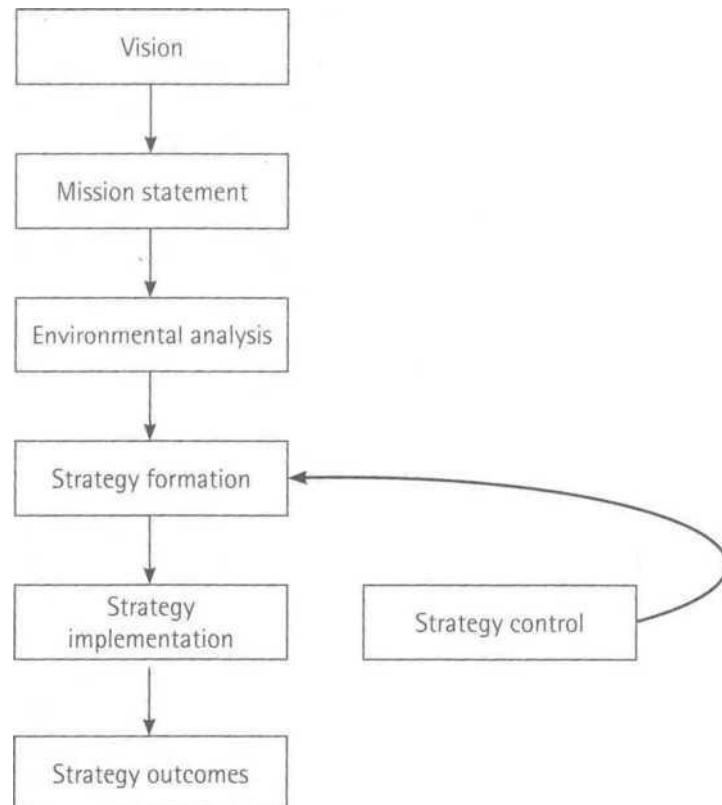


Figure 14.2 Strategic control and the strategic management process

Strategic control enables management to monitor strategic outcomes (or its corporate, overall performance) against planned or intended strategic goals to ensure that corporate activities remain on track and correspond to the set course without major discrepancies, while adapting to the changing environmental conditions. Environmental conditions refer to both internal and external environmental conditions. Should there be deviations between planned and actual strategic outcomes, corrective action should be taken, which means that strategies could be redefined, and strategic goals and objectives changed. If there is no deviation between the planned and actual strategic outcomes, there is no need to change strategic goals and the organisation can continue with its current strategy or strategies.

In previous chapters (especially Chapters 5 and 8), we alluded to the fact that organisations face dynamic environments. Today's success is no guarantee that tomorrow will be successful - organisations may need to change their strategies or may need to change the way that they implement their strategies. Strategic control is a vital component of the strategic management process - chosen strategies may become obsolete as the organisation's environment changes. Strategic control provides feedback and it may indicate that an adjustment will need to be made in order to realign the organisation with its strategic direction. Identifying and interpreting critical events or change triggers in the external environment that require a response from the organisation is not a straight forward and easy process. The external environment has become increasingly more complex - as we indicated in Chapter 5 - and it has become difficult and almost impossible to forecast. Even the best plans of an organisation may become obsolete making it impossible to plan with any degree of certainty. Therefore, strategic managers need to be constantly aware of possible deviations from strategic plans in order to take corrective action. Therefore, strategic control has two focal points. First, to review the content of strategy, and second, to evaluate and control the implementation of strategy. In the next section, we will address the various types of strategic control.

LO 3: Differentiate between the various types of strategic control.

### 14.3 Types of strategic control

Four types of strategic control can be distinguished, namely, premise control, strategic surveillance, special alert control and implementation control. Each type of control provides a different perspective and method of analysis.

- Premise control. Every strategy is based on certain planning premises and predictions about environmental changes and conditions. Refer to Chapters 6 and 7, in which the context of strategy and strategic resources and capabilities are discussed in detail. Premise control is designed to check systematically and continuously whether the premises on which a strategy is grounded, are still valid. Should a planning premise no longer be valid, the strategy may have to change or be adjusted to reflect a changing reality.

- Strategic surveillance. This type of strategic control is designed to detect a wide range of events inside and outside an organisation that are likely to affect the organisation's current strategy. Various sources may be consulted, for example, trade magazines, journals, conferences, conversations with experts, observations, and the internet, which may provide important information that may influence the chosen strategy of the organisation. The organisation can then exercise surveillance for timely detection of developments and corrective action.
- Special alert control. The management environment is often characterised by unforeseen events. Thus, the rigorous and rapid reassessment of the organisation's strategy, because of the occurrence of an immediate, unforeseen event, may be necessary. For example, the acquisition of a company by a competitor may be an unforeseen event, which will trigger an immediate and intense reassessment of its strategy. In the opening case, the J8tJ faced with an unforeseen event during the Tylenol crises and needed to react immediately.
- Implementation control. This type of strategic control is exercised as various activities, initiatives and programmes occur over a period of time when a chosen strategy is implemented. In other words, the chosen strategy is first monitored, and secondly, various milestones are reviewed. Implementation control is designed to assess whether the overall strategy should be changed in the light of unfolding events and results associated with incremental steps and actions taken when implementing the overall strategy.

The practising strategy box below provides an example of a strategy implemented by Edcon, which required implementation control over a period of time.

## Practising strategy: Edcon

Edcon is a non-food retailer, which has been in operation for more than 80 years in South Africa. It conducts its business under four principal brands: Edgars, Jet, CAN and thank U. Since its establishment in 1929, it has expanded its footprint to include over 1,100 stores which exist in many different formats. The company's strategy is underpinned by four key levers: comparable store growth, new space growth, margin expansion and credit. It aims to improve revenue by growing comparable store sales and increasing new space growth, as it continues to roll out additional stores in South Africa and other African countries. It strives to leverage the benefit of these increased volumes by improving the margin on sales.<sup>4</sup>

For the past years, and in 2018, in particular, Edcon experienced a number of difficulties, especially in terms of its financial performance. Its operational results for 2018,<sup>5</sup> indicated 'a challenging trading environment, characterised by weak macro-economic conditions which undermined growth in consumer spending'.

Weak consumer demand, tight credit conditions, low consumer disposable income, lacklustre private sector employment, and political uncertainty in the first three quarters of 2018, as well as a restrictive fiscal policy, were mentioned as factors contributing to the company's poor financial results. The company also faced increased price competition from established market participants, as well as from new market entrants. Business conditions remained very weak, placing pressure on Edcon's sales volumes and profitability.

Changing business conditions led to changes in Edcon's strategies and structure. For example, the Legit business was sold, Edgars Shoe Gallery was closed, the company exited non-profitable international brands and store cost savings were achieved through the closure of non-profitable trading stores. The company also introduced a merchandise strategy of rationalising suppliers, rationalising ranges, introducing fresher inventory and more competitive pricing, which has improved its customer franchise. An increase in the company's retail gross profit margin and retail gross profit was achieved by better inputs costs, improved negotiated supplier rebates and discounts, as well as a through a reduction in clearance and promotional markdowns.

Sadly, these control measures were not enough and Edcon is at a turning point yet again. The retailer has wrapped up a deal with 250 stakeholders, including its shareholders and property owners, in a bid to keep its doors open. The deal concluded in December 2018, will allow Edcon to renegotiate its store leases and bring in new shareholders. It follows a deal negotiated two years previously in which creditors converted the bulk of Edcon's R26.7 billion debt into shares.

In essence, Edcon is asking the property owners for a two-year 'rent holiday' of 41 per cent for all its 1,350 stores. In exchange, property owners will get a 5 per cent share in Edcon. Edcon's existing funders will convert R9 billion of their debt into equity while injecting another R700 million in the company. The Public Investment Corporation will further invest R1.2 billion into Edcon. Strategists and market analysts believe that implementing a turnaround strategy is a better option for Edcon than a liquidation strategy. 'We see a resurgent Edcon as a threat to most apparel retailers,' they say.<sup>6</sup>

The balanced scorecard (BSC) was highlighted in previous chapters as a strategic management tool. For example, in Chapter 3, it was described as a tool to set strategic goals, metrics, targets and initiatives. In Chapter 8, the BSC was described as a tool that enables organisations to clarify their vision and strategy, thus making it possible to translate them into action. In the next section, we argue that the BSC can also be used as a strategic control tool.

LO 4: Explain the balanced scorecard as a strategic control tool.

#### **14.4 The balanced scorecard as a strategic control tool**

Performance measurement is an essential part of strategic management. For example, strategic managers may introduce new strategies and innovative operating processes intended to achieve breakthrough performance, but then continue to use the same short-term financial indicators as strategic control measures that they have used for decades (such as return-on-investment, sales growth and operating income). These managers, fail not only to introduce new measures to monitor new goals and processes, but they also fail to question whether their old measures are relevant to the new initiatives of the organisation. The BSC enables management to monitor and evaluate organisational performance from four different perspectives to help determine whether their strategic goals are being achieved in a balanced way. These four perspectives are the financial, internal business, learning and growth, and customer perspectives. Within each perspective, managers can choose various measures. The BSC complements traditional financial indicators (such as return-on-investment, sales growth and operating income) with measures of performance for customers, internal processes, and innovation and improvement activities. These measures differ from those traditionally used by organisations in a few important ways:<sup>7</sup>

- The scorecard's measures are grounded in an organisation's strategic objectives and competitive demands. By requiring managers to select a limited number of critical indicators within each of the four perspectives, the scorecard helps focus this strategic vision.
- While traditional financial measures report on what happened during the last period, without indicating how managers can improve performance in the next period, the scorecard functions as the cornerstone of an organisation's current and future success.
- Unlike conventional metrics, the information from the four perspectives provides a balance between external measures, such as operating income and internal measures such as product development.
- The BSC offers a benchmark against which all new projects and business are evaluated, especially for organisations that implement improvement plans such as business process re-engineering, total quality and employee empowerment and that needs a sense of integration.

The practising strategy box below illustrates how the BSC can be used as a strategic control tool.

In the context of strategic management, we can define strategic risk as an uncertain future event or set of events which, should it occur, could have an effect (in both a negative and a positive manner) on the achievement of the strategic objectives of the organisation. A strategic risk is the combination of the probability of the future event (or set of events) and its consequence. It is important to note that a strategic risk arises as much from failing to capture business opportunities when pursuing strategic objectives as it does from a threat that something bad will happen. There are numerous examples of strategic risks that can have an influence on the attainment of strategic objectives and performance. Strategic risks might arise from the internal and external management environment. Examples of strategic risks that arise internally are making poor business decisions, substandard execution of decisions, inadequate resource allocation, and failure to respond well to changes in the business environment. Examples of strategic risks that arise externally are competitors making ‘moves’ - they may introduce new products, enter new markets, use new technologies or use new marketing strategies. New regulations may also have an impact on the organisation, forcing it to revisit or change its strategies. Various political events may also force an organisation to adapt or change its strategies. Social changes, changes in the tastes or buying patterns of customers and new technologies are all examples of risk factors affecting corporate performance and strategy.

The question that we need to ask at this point is what is strategic risk management and where does it fit in the strategic management process? Figure 14.4 depicts an integrated strategic risk management framework and provides an indication of where strategic risk management fits into the strategic management process.

An effective strategic risk management approach requires an appropriate organisational structure comprising responsible leadership and governance, systems, structure, technology, capabilities, and culture. We have dealt with all these issues (except for corporate governance) in previous chapters as elements or components of organisational architecture. The last section of this chapter will therefore focus on corporate governance.

Strategic risk management is at the centre of the integrated strategic risk management framework shown in Figure 14.4. Strategic risk management can be defined as the identification and evaluation of actual and potential risk areas as they pertain to an organisation as a total entity, followed by a process of either avoidance, termination, transfer, tolerance (acceptance), exploitation, or mitigation (treatment) of each risk, or a response that is a combination or integration of these. It is important to note that organisations will always be exposed to some form of risk and can only reap rewards should they take risks. However, the acceptance of risks should be informed, calculated and managed. Three steps in the strategic risk management process can be distinguished, namely, risk identification, risk analysis and lastly, risk evaluation and response, as illustrated in Figure 14.5.



Figure 14.4 *An integrated strategic risk management framework*

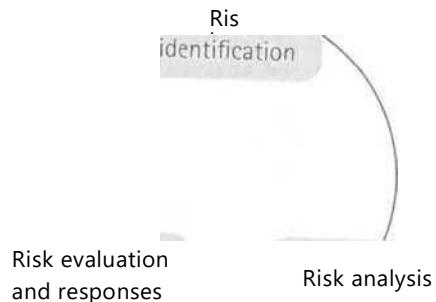


Figure 14.5 *The strategic risk management process*

### *Step 7: Risk identification*

Risks pertaining to the organisation are identified in terms of potential losses or gains (opportunities or threats). A focus on significant risk factors, combined with insight about the organisational activities, should provide an understanding of how different events may affect the ability to achieve longer-term objectives in view of identified opportunities and threats. It is possible that different organisations may view these events and their impact differently. Hence, it is imperative to develop a shared understanding of major organisational risk exposures and the interrelatedness in a way that is adapted to the specific environmental conditions. Adopting a common risk management framework can underpin a consistent examination of organisational exposures and allow for cross-functional comparisons when assessing the aggregate organisational exposures. Organisational disruptions can typically arise along the organisational value chain and particularly in the interfaces between different functional units within a larger operational system. These internal processing conditions can affect the generation of cash flows, both in terms of operating expenses and sales revenue and may provide a good basis for understanding vulnerable business activities and identifying opportunities for improvement. The identification of organisational risks may be supported by a common classification scheme that makes it easier to compare and communicate information about insights about major exposures.

### *Step 2: Risk analyses*

Risk analysis refers to the systematic use of information to identify sources and to estimate strategic risks. Risk analysis provides a basis for risk evaluation, the treatment of risk and risk acceptance. The information used to analyse risk can include historical data, theoretical analysis, informed opinions and the concerns of relevant stakeholders.

### *Step 3: Risk evaluation and responses*

After the risks have been identified and analysed, they should be evaluated in terms of the likelihood that the event will occur. The potential economic impact also needs to be established. This approach must be supported by objective assessment criteria. The likely outcome must be compared with strategic objectives. In so doing, the organisation can determine which of the potential outcomes are mission critical and whether the excess exposure should be modified. This should assist the organisation to focus on the priority risks that need to be managed. Consequently, strategic managers can decide on a risk response - measures to modify risk. The latter include measures to prevent, transfer, tolerate, exploit or mitigate risks at the strategic level, rather than to make these decisions on a narrow or standalone basis. Risk **avoidance** refers to the decision not to become involved in, or action to withdraw from, a risk situation. Risk transfer refers to sharing with another party the burden of loss or benefit of gain, for a particular risk. Risk transfer can be carried out **through** insurance or other agreements. Risk acceptance refers to the decision to accept **the** risk. Risk exploitation refers to a situation in which **a** particular event or risk has a

positive consequence on the organisations and relevant stakeholders and should then be exploited. Risk mitigation refers to the limitation of any negative consequence of a particular event.

In conclusion, we must bear in mind that the integrated strategic risk management framework is designed as a control framework that should comply with regulatory requirements. Although compliance is important, the integrated risk management framework advocates that risk be dealt with in the context of the organisation's strategy to accomplish the organisation's strategic objectives, and that priority be given to controls. As indicated in the integrated strategic risk management framework, corporate governance is an essential component thereof. The last section in this chapter focuses on corporate governance.

LO 6: Discuss corporate governance with specific reference to the three value dimensions thereof.

## 14.6 Corporate governance

Major risk events have made news headlines in recent years, and consequently there has been an increased focus on strategic risk. We need only think of the Steinhoff International scandal which occurred towards the end of 2017, when the company's share price plummeted by 61 per cent in the first three hours of trading on the Johannesburg Stock Exchange (JSE), constituting the biggest collapse in the history of the JSE. More than US\$13 billion was wiped out and its share prices also plummeted on the Frankfurt Stock Exchange. Steinhoff is a South African international retail holding company that is dual listed in Germany. The plummeting share price followed the revelation that Steinhoff was being investigated by German regulators for 'irregularities and non-disclosures relating to its acquisitions'.<sup>10</sup> The underlying causes of these events are frequently related to internal controls, including integrity and personal accountability of corporate executives.

In a response to these risk events, new regulatory frameworks have been implemented worldwide to scrutinise business practices intended to strengthen internal controls (for example, the King Reports in South Africa, and Sarbanes Oxley in the USA). Hence, a renewed focus has been placed on risk management, with routine system errors, operational malfunctions, uncontrollable employees and personal accountability at the centre of attention. These compliance measures are not intended to serve as a mere checklist, containing ticks to show that executives were responsible and ethical, but to empower organisations to introduce formal practices of effective and efficient internal controls and personal accountability that allow for greater scrutiny of internal processes and reporting systems. As such, organisations can pro-actively respond in innovative ways to changes in the dynamic environment in which they operate, to ensure their sustained long-term survival and growth.

Corporate governance can be defined as a framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in an organisation's relationship with all its stakeholders. The corporate governance framework consists of (1) explicit and implicit contracts between the organisation and the stakeholders for the distribution of responsibilities, rights, and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles; and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.<sup>11</sup>

Good corporate governance increases the integrity and effectiveness of the private sector. Good corporate governance also helps to prevent business scandals which damage trust in business. It places value on good corporate governance by institutional investors. Good corporate governance also fosters a growing involvement of the private sector in service delivery and enhances the development of systems to prevent and deter corruption in developing countries. It assists in the deregulation and integration of capital markets and recognises the importance of harnessing domestic savings for domestic growth.

The Institute of Directors in South Africa (IoDSA) established the King Committee on Corporate Governance in July 1993. The King Committee produced the first King Report on Corporate Governance in November 1994. This report was recognised internationally as the most comprehensive publication embracing the inclusive approach to corporate governance. Since the publication of the first report, it has been revised three times. The King IV Report on Corporate Governance for South Africa was released on 1 November 2016 and became effective in April 2017.<sup>12</sup> It applies to entities incorporated in and resident in South Africa. The report spells out the framework for governance compliance. The philosophy of the report revolves around three issues, namely, ethical leadership, sustainability and corporate citizenship, which is referred to as the 'value dimensions of the report'. These dimensions are briefly explained below.

- Corporate citizenship. Corporate citizenship centres around a concern for people, the planet and profit issues. Defined formally, corporate citizenship entails a concern for the social, environmental and economic performance of the organisation and a concern for the role, scope and purpose of the organisation. According to the King Report,<sup>13</sup> corporate citizenship implies an ethical relationship of responsibility between the organisation and the society in which it operates. As responsible corporate citizens of the societies in which they do business, in addition to rights, organisations also have legal and moral obligations in respect of their economic, social and natural environments. As a responsible corporate citizen, the organisation should protect, enhance and invest in the wellbeing of the economy, society and the natural environment. Being a good corporate citizen goes beyond merely meeting financial obligations. In other words, it entails realising the financial obligations of the organisations and meeting the expectations of shareholders. Organisations are expected to perform and report on all the triple-bottom line issues - social, environmental

and economic. Furthermore, the report places responsibility for the ethical and effective governance of the organisation on the board of directors, and it explicitly states that ‘the board should ensure that the company is seen to be a responsible corporate citizen’.<sup>14</sup> In order to achieve this, the board has two over-arching responsibilities. First, it is responsible for determining the strategic direction of the organisation and, consequently, its ultimate performance. Second, it is responsible for the strategic control of the organisation.

- Ethical leadership. An ethical leader is someone who not only does the right thing, but also does so in the right way and for the right reasons.<sup>15</sup> This description of ethical leadership brings together two philosophies that dominate business ethics literature, namely, deontology and teleology. In accordance with the deontology perspective of business ethics, a leader should act out of a sense of duty or adherence to the rules. These rules and duties should be rationally determined, and a leader should follow these rules because they are right, rather than because of the effects that they have. For example, a leader should follow the rules in terms of accounting, paying corporate taxes and value-added tax, labour laws, and so on. If a leader follows his or her duty, then he or she is deemed to have acted in an ethical manner, regardless of the outcomes. In line with the teleological (consequential) perspective, a leader should be judged to be ethical if the outcomes of his or her actions have achieved something good, regardless of the actions themselves. These two descriptions (deontology and teleology) highlight two key elements in the thinking about ethical leadership, namely, the character of the leader (doing the things right) and the actions of the leader (doing the right things). Ethical leadership focuses on the moral character of the leader, his or her integrity and ethical awareness and his or her ability to communicate and extol this sense of ethics to the organisation. Ethical leadership is needed to direct and control an organisation in such a way that it promotes good corporate governance.
- Sustainability. In Chapter 12, sustainability was defined as the ability of an organisation to continue to do business over the long term - and possibly indefinitely. We also indicated that sustainable business is tied up with the impact that the business has on the environmental resources of the world that it consumes in the process. Sustainability suggests that business leaders need to critically consider how their organisations can reduce and minimise their impact on the natural resources they utilise. By doing this well, business leaders can help to ensure that their businesses will be around in the future, and that future generations will continue to have the ability to support themselves and to flourish, thanks to the impact of current business strategies and practices. Therefore, the sustainability of organisations is connected to the long-term maintenance of their systems, taking into account environmental, economic and social considerations. Sustainability issues have gained importance internationally since the publication of King II. Locally, the topic has also burgeoned. The JSE launched the SRI index in 2004 as a tool for investors to identify companies incorporating sustainability practices into their business

activities. The proliferation of initiatives, tools and guidelines on sustainability is evidence of the growing awareness of sustainability issues. The significance of sustainable action by organisations is highlighted in the King Report as follows:

*Because the company is so integral to society, it is considered as much a citizen of a country as is a natural person who has citizenship. It is expected that the company will be seen to be a responsible citizen. This involves social, environmental and economic issues - the triple context in which companies in fact operate. Boards should no longer make decisions based only on the needs of the present because this may compromise the ability of future generations to meet their own needs. 'The success of companies in the 21st century is bound up with three interdependent subsystems - the natural environment, the social and political system and the global economy. Global companies play a role in all three and they need all three to flourish.' This is according to Tomorrow's Company, UK.*

*In short, planet, people and profit are inextricably intertwined. A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable; hence the phrase 'integrated reporting' which is used throughout this Report. The achievement of best practice in sustainability and integrated reporting is only possible if the leadership of a company embraces the notion of integrated sustainability performance and reporting.<sup>16</sup>*

## The big picture

Strategies are long term and resource intensive, and can affect the fortunes of the whole organisation. For that reason, strategic control is important to ensure that the chosen strategies are still valid and that the implementation of the chosen strategies is on track. Strategic control cannot be backward-looking, given the long-term focus of strategies. So it has to focus on being proactive and identifying strategic issues (those issues inside or outside the organisation that may be detrimental to the achievement of strategic objectives). In addition, strategic planning and implementation processes have to be integrated with organisational performance management systems to ensure that the work of every individual in the organisation is aligned with the strategy of the organisation. This is where tools like the balanced scorecard is particularly important. All organisations are exposed to risk and need to manage risk, and strategic risks, effectively. Corporate governance is an essential component of strategic risk management.

## **Summary of learning outcomes**

### **LO 1: Define strategic control.**

Strategic control is a process used by organisations to control the formation and implementation of its strategies to ensure that it achieves the strategic goals that have been set for it.

### **LO 2: Explain where strategic control fits into the strategic management process.**

Strategic control enables management to monitor strategic outcomes (or its corporate, overall performance) against planned or intended strategic goals to ensure that corporate activities remain on track and correspond to the set course without major discrepancies, while adapting to the changing environmental conditions.

### **LO 3: Differentiate between the various types of strategic control.**

Four types of strategic control can be distinguished, namely, premise control, strategic surveillance, special alert control and implementation control.

### **LO 4: Explain the balanced scorecard as a strategic control tool.**

The BSC enables management to monitor and evaluate organisational performance from four different perspectives in order to see whether strategic goals are being achieved in a balanced way. These four perspectives are the financial, internal business, learning and growth, and customer perspectives. Within each perspective, managers can choose various measures. The BSC complements traditional financial indicators (such as return-on-investment, sales growth and operating income) with measures of performance for customers, internal processes, and innovation and improvement activities.

### **LO 5: Explain risk, strategic risk and the strategic risk management process.**

Strategic risk is an uncertain future event or set of events which, should it occur, could have an effect (in both a negative and a positive manner) on the achievement of the strategic objectives of the organisation. A strategic risk is the combination of the probability of the future event (or set of events) and its consequence. Strategic risk management can be defined as the identification and evaluation of actual and potential risk areas as they pertain to an organisation as a total entity, followed by a process of either avoidance, termination, transfer, tolerance (acceptance), exploitation, or mitigation (treatment) of each risk, or a response that is a combination or integration of these. Three steps in the strategic risk management process can be distinguished, namely, risk identification, risk analysis and lastly, risk evaluation and response.

**LO 6: Discuss corporate governance with specific reference to the three value dimensions thereof.**

Corporate governance can be defined as a framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in an organisation's relationship with all its stakeholders. The corporate governance framework consists of (1) explicit and implicit contracts between the organisation and the stakeholders for the distribution of responsibilities, rights, and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles; and (3) procedures for the proper supervision, control, and information-flows to serve as a system of checks- and-balances. The three value dimensions of corporate governance are corporate citizenship, ethical leadership and sustainability.

**Discussion questions**

1. Define strategic control and explain the importance thereof.
2. Explain where strategic control fits into the strategic management process.
3. Differentiate between the various types of strategic control and identify situations in which a combination of these types of control are deemed necessary.
4. Explain how the balanced scorecard can be used as both a strategic planning and control tool.
5. Explain the relationship between strategic control, strategic risk and corporate governance.

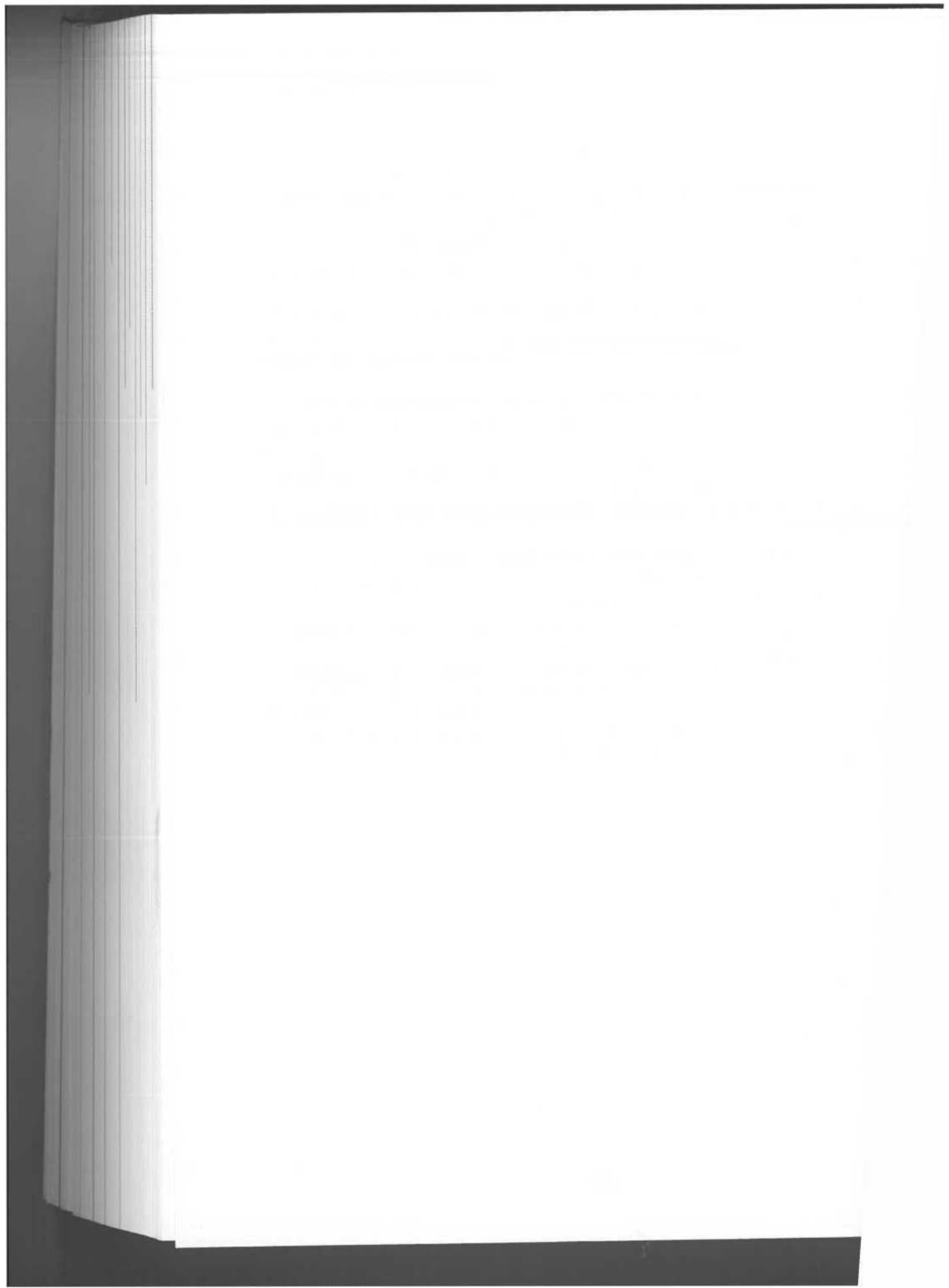
**Learning activities**

Access the internet and read the King III and IV Reports on Corporate Governance in South Africa [Available online: <https://www.iodsa.co.za/page/kingIII>] to answer the following questions.

1. The report highlights information technology (IT) and information technology systems in organisations as an important strategic asset which create opportunities and help them to gain competitive advantage. Also, the report identifies IT as a risk to organisations. Do you agree with this statement? Substantiate your answer.
2. Read THE PRINCIPLES AT A GLANCE' in of the report and identify those principles that can be linked directly with one of the three value dimensions of corporate governance.

## Endnotes

- <sup>1</sup> <https://www.jnjconsumer.co.za/our-company> (accessed 10 February 2019).
- <sup>2</sup> <https://www.jnjconsumer.co.za/our-company/our-history> (accessed 11 February 2019).
- <sup>3</sup> <https://www.youtube.com/watch?v=4D-B3WwclZA> (accessed 10 February 2019).
- <sup>4</sup> <http://www.edcon.co.za/about-strategy.php> (accessed 10 February 2019).
- <sup>5</sup> <http://www.edcon.co.za/pdf/announcements/2018/unaudited-trading-update-21092018.pdf> (accessed 10 February 2019).
- <sup>6</sup> <https://www.businesslive.co.za/fm/fm-fox/2019-01-17-edcon-gets-some-breathing-space/> (accessed 10 February 2019).
- <sup>7</sup> <https://hbr.org/1993/09/putting-the-balanced-scorecard-to-work> (accessed 20 January 2019).
- <sup>8</sup> <http://www.businessdictionary.com/definition/risk.html> (accessed 10 February 2019).
- <sup>9</sup> Correia, C; Uliana, E ft Wonnald, M. 2013. *Financial Management*. 7<sup>th</sup> ed. Cape Town: Juta. p3-3.
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- <sup>11</sup> <http://www.businessdictionary.com/definition/corporate-governance.html> (accessed 28 January 2019).
- <sup>12</sup> <https://www.iodsza.co.za/page/kingIII> (accessed 10 February 2019).
- <sup>13</sup> [https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king\\_iii/King\\_Report\\_on\\_Governance\\_fo.pdf](https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf) (accessed 10 February 2019).
- <sup>14</sup> [https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king\\_iii/King\\_Report\\_on\\_Governance\\_fo.pdf](https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf) (accessed 10 February 2019).
- <sup>15</sup> Ciulla, B. ft Forsyth, D.R. 2011. *Leadership ethics*, in A Bryman; D. Collinson, K. Grint; B. Jackson; ft M. Uhl-Bien (eds), *The Sage handbook of leadership*. London:Sage, pp.229- 241.
- <sup>16</sup> [https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king\\_iii/King\\_Report\\_on\\_Governance\\_fo.pdf](https://cdn.ymaws.com/www.iodsza.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf) (accessed 10 February 2019).



# Glossary of key terms

Absorptive capacity: In the context of strategic leadership, absorptive ability refers to the ability of a leader to learn - to absorb and understand new developments, and to be able to see how they can be used in the organisation.

Acceptability: A strategic decision is acceptable if the expected performance outcome of the strategy meets the expectations of all stakeholders.

Adaptation: Changes undertaken to realign the way in which the organisation operates.

Adaptive capacity: In the context of strategic leadership, adaptive capacity refers to a leader's ability to change in response to some change in the environment.

Analytical models of planned change: These models provide a framework to help explain the process of managing a change programme.

Appropriability: Appropriability is the ability of the organisation to retain the added value it creates for its own benefit. The decisions of the organisation, the source of the added value and the structure of the market in which it operates determine who benefits from the added value.

Areas of management: Various functional areas of management can be distinguished, namely, finance, marketing, operations, human resources, procurement, research and development and public relations functions.

Balanced scorecard: The balanced scorecard (BSC) is a strategic management tool developed by Kaplan and Norton to guide the organisation and management team to translate the strategic direction into a set of balanced strategic goals. It consists of four perspectives: financial, customer, learning and growth, and business processes.

Best practice models of planned change: There is a recipe that can be learned for managing change successfully.

Business architecture (also known as organisational architecture): Business architecture can be defined as a blueprint of the organisation and all of its major components (internal and external).

Capabilities: The capacity of an organisation to deploy resources for a unique end result. The strategic value of capabilities is determined by its ability to generate revenue, its rarity, how difficult it is for competitors to imitate or copy, and the extent to which the organisation is able to organise itself in order to exploit its capabilities.

Competitive advantage: Organisations have competitive advantage when they achieve superior performance (in other words, performance consistently better than the market average) in the markets they compete in.

Co-operative strategy: Co-operative strategies allow different organisations to form partnerships to share resources, capabilities or technical know-how to build a competitive advantage.

**Core competencies** (also known as distinctive capabilities): Those capabilities or competencies that distinguish an organisation from others in an industry and form the basis of its competitive advantage.

**Corporate citizenship:** This incorporates a concern for the social, environmental and economic performance of the organisation and a concern for the role, scope and purpose of the organisation.

**Corporate governance:** A framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in an organisation's relationship with all its stakeholders.

**Corporate governance framework:** A framework that consists of (1) explicit and implicit contracts between the organisation and the stakeholders for distribution of responsibilities, rights, and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles; and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.

**Cost leadership strategy:** A cost leadership strategy involves becoming the lowest cost organisation (with regard to production cost) in a domain of activity by a significant margin.

**Cultural web:** The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by taken-for-granted assumptions, or paradigm, of an organisation.

**Deliberate strategy:** Deliberate strategies are strategies that mostly originate from a central direction and organisational hierarchy in a formal setting.

**Differentiation strategy:** A differentiation strategy involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.

**Divisional structure:** The structuring of an organisation according to individual products, services, products groups, major projects or profit centres.

**Dominant general management logic:** A set of broad (often flawed) assumptions that managers have about how their business works.

**Dynamic capabilities:** Those capabilities that help organisations to learn the capabilities they require to adapt to environmental changes.

**Dynamic consistency:** The extent to which the strategies of the organisation match with its (internal) resources and capabilities.

**Economic environment:** A sub-environment of the remote environment comprising the variables from which economic factors, conditions or trends such as economic climate, economic growth, inflation rates, interest rates, exchange rates and unemployment rates originate.

**Effectiveness:** Effectiveness means doing the right things.

**Efficiency:** Efficiency means doing things right.

**Emergent strategy:** An emergent strategy differs from the original intention and is deemed open, flexible and responsive to enable adaption to the environment to take place.

**Entrepreneurial structure:** An organisational structure built around the owner-manager, usually utilised by small organisations in the start-up stages of their development.

**Ethical leader:** An ethical leader can be described as someone who not only does the right thing, but also does so in the right way and for the right reasons.

**Evolutionary change:** Transformational change that is implemented gradually (or incrementally) through inter-related initiatives.

**Explicit knowledge:** Knowledge that can be taught or conveyed with ease.

**Exploitable:** The capacity of an organisation to exploit a resource or capability.

**External consistency:** The extent to which the strategy of the organisation matches its external environment.

**External environment:** The external environment comprises two major components, namely, the market and remote environment which is uncontrollable by management.

**External Factor Evaluation Matrix:** This refers to a decision-making tool that strategists use for summarising and evaluating the strategic significance of identified political, economic, socio-cultural, technological, legal, environmental and global factors to an organisation.

**External growth strategy:** External growth strategies create diversification by means of new products or markets or integration when organisations acquire an organisation similar to the current business.

**External (or macro-) environment:** The external environment refers to the market and remote environments outside an organisation's boundaries and comprise the sum of all the external variables impacting on its competitiveness, growth and survival.

**Feasibility:** A strategic decision is feasible if the organisation has, or can obtain, the capabilities required to deliver a strategy.

**Functional structure:** An organisational structure whereby the activities belonging to each functional area are grouped together into a unit or department.

**Global environment:** A sub-environment of the remote environment comprising the variables from which global factors, conditions or trends such as globalisation, increasing population, increasing urbanisation, economic integration, global warming and environmental degradation originate.

**Holding company structure:** The structuring of an organisation whereby the headquarters or the corporate centre largely acts as an investment company. The operations of the various individual companies are largely independent.

**Horizontal structure:** An organisational structure that virtually eliminates both the vertical hierarchy and departmental boundaries by organising teams of employees around core work processes.

**Hybrid structure:** Organisations often use a hybrid organisational structure that combines characteristics of various approaches (functional, divisional, geographical, horizontal) tailored to the specific strategic needs of the organisation.

**Implementation control:** This type of strategic control is exercised as various activities, initiatives and programmes occur over a period of time when a chosen strategy is implemented. In other words, the chosen strategy is first monitored, and secondly, various milestones are reviewed.

**Industry:** This is a sub-environment of the market environment and comprises all the variables related to its products, services, substitutes, complements, customers, suppliers, competitors, potential competitors and industry regulatory bodies that affect its competitiveness, growth and survival.

**Inimitable:** Things (ie resources) that cannot be imitated (by competitors).

**Internal growth strategy:** Internal growth strategies propose growth strategies, which combine new and/or existing products and markets.

**Knowledge;** explicit knowledge; tacit knowledge: Knowledge can be public (information available to all, ie books, the internet, news) or private as in an organisation's intellectual property rights, systems, procedures and processes, or recipes. Knowledge can also be explicit or tacit.

**Knowledge management:** The management function that creates or locates knowledge in the organisation, manages the flow thereof and ensures that the knowledge is used effectively and efficiently for the long-term benefit of the organisation.

**Leadership:** A process by which an individual influences his or her follower/s to achieve a common goal. Leadership is strategic, focused on the vision of the organisation and involves a strong element of building trust and emotional engagement with followers.

**Leading:** Leading entails directing human resources and motivating them in such a way that their actions are aligned with the goals of the organisation.

**Learning organisational:** A learning organisation is an organisation skilled in creating, acquiring and transferring knowledge and in modifying its behaviour to reflect new knowledge and insights.

**Legal environment:** A sub-environment of the remote environment comprising the variables from which legal and regulatory factors, conditions or trends such as consumer laws, labour laws, anti-trust laws and occupational health and safety regulations originate.

**Lower management:** This level of management is responsible for smaller segments of the organisation.

**Management:** The process of working with and through others to achieve organisational objectives as efficiently and effectively as possible within a changing environment.

**Management functions:** Managers engage in four fundamental functions, namely, planning, organising, leading and control.

**Management levels:** These represent the tiers of managers within an organisation and normally differentiate between top-level, middle-level and lower (or first-level) level management.

**Management process:** A structured, interrelated activities designed to produce a specific output.

**Manager:** A person responsible for running part of or the whole of an organisation.

**Managerial wisdom:** A concept that combines properties of understanding what is changing in the environment and the significance that it holds for the organisation.

**Market environment:** This refers to the component of the external (or macro-) environment and comprises all the variables related to its industry, financial intermediaries, unions, activist groupings and other relevant stakeholders.

**Matrix structure:** An organisational structure with a strong form of horizontal linkage in which both product and functional structures (horizontal and vertical) are implemented simultaneously.

**Micro-environment:** This environment also referred to as the internal environment and it includes an organisation's functions, policies, strategies, goals, objectives, resources over which management has control.

**Middle management:** Middle managers are responsible for specific departments or functions in an organisation.

**Mission (or mission statement):** The mission statement is also called the purpose statement of the organisation. At a minimum, the mission statement states what the organisation does and why it exists.

**Network structure:** An organisational structure whereby the organisation performs the core activities itself, but sub-contracts some or many of its non-core operations to other organisations.

**New venture units:** In this type of organisational structure, groups of employees exist who volunteer to develop new products or ventures for the organisation.

**Non-substitutable:** Non-substitutable or inimitable capabilities are valuable, unique and complex resources and capabilities (or core competencies) that cannot be copied by competitors.

**Objective:** A target to strive for.

**Operational plans:** Narrowly focused plans with a relatively short time horizon.

**Opportunity:** A condition in the external environment that allows an organisation to take advantage of organisational strengths, overcome weaknesses, and/or neutralise environmental threats.

**Organisational chart:** The (usually top-down) visual representation of the organisational structure, showing what positions exist, how they are grouped, and who reports to whom.

Organisational culture: The accumulated shared learning of a group as it solves its problems of external adaption and internal integration; which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, feel, and behave in relation to those problems.

Organisational learning: The creation, acquisition, and transfer of knowledge and modification of organisational behaviour to reflect new knowledge and insights.

Organisational restructuring: A change in the organisation's structure for the purpose of ensuring a better fit between the internal and external environment and strategic direction.

Organisational structure: This refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities and the authority within an organisation.

Organisational sustainability: Organisational sustainability means to maintain, to keep being, to preserve and to support, with structures to hold on to. For an organisation to be sustainable, means to sustain resources and the uses thereof, to avoid meltdown and failure. Sustainability connects the three dimensions of ecology, the economy and social justice.

Organising: Organising is a management function concerned with the development of an organisational structure that indicates how people and other resources should be deployed to achieve organisational goals.

Personal value: An individual's absolute or relative and ethical value, the assumption of which can be the basis for ethical action.

Planning: Planning as a management function refers to setting organisational goals and finding the best way to achieve them.

Practitioner/strategist/strategy practitioner/strategy actor: This refers to the people responsible for developing, implementing, reviewing and doing strategy.

Praxis: Praxis refers to a human action that involves all the activities, tools and practices involved in strategy making, in other words, the *work of strategy*.

Premise control: A type of strategic control that is designed to check systematically and continuously whether the premises on which a strategy is grounded on, are still valid.

Process perspective of strategic management: A traditional view of strategic management that comprises distinct stages or phases (ie strategic planning, implementation and control) and incorporates a linear view.

Programme management: Programme management is the process of managing multiple but interrelated projects.

Project management: Project management involves the planning, organising, leading and controlling of a project and requires a project team to set the scope for a project, to develop a project schedule, to obtain project resources, to implement the project phases and to track progress.

**Political environment:** The political environment refers to a sub-environment of the remote environment comprising the variables from which political factors, conditions or trends such as political climate, government policies and government intervention originate.

**Rare:** Something that occurs infrequently and is remarkable.

**Reconstruction:** Change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously.

**Remote environment:** The remote environment surrounds the market environment and includes political/legislative, technological, economic, cultural, ecological/physical, and international sub-environments. The remote environment is also referred to as the macro-environment.

**Resource allocation:** The allocation of organisational resources (such as funds, people, space, and technology) to strategy implementation efforts.

**Resource-based view (or resource-based theory):** The resource-based view (RBV) holds that competitive advantage of an organisation primarily stems from its unique resources and capabilities rather than from its positioning in the market.

**Resources:** Resources are the inputs that are necessary to produce outputs in an organisation and include people, money, raw materials, knowledge, technology, information and components.

**Resources: tangible resources, intangible resources:** Resources are the productive assets owned by the organisation, and can be tangible (such as land or money) or intangible (such as intellectual capital).

**Responsible strategic leadership:** The art of building and sustaining morally sound relationships with all relevant stakeholders of an organisation.

**Revolution:** Transformational change that occurs through simultaneous initiatives in many aspects.

**Social-cultural environment:** The social-cultural environment refers to a sub-environment of the remote environment comprising the variables from which socio-cultural factors, conditions or trends such as societal values, influences, cultural influences, lifestyles and demographics originate.

**Special alert control:** A type of strategic control that involves a rigorous and rapid reassessment of the organisation's strategy because of the occurrence of an immediate, unforeseen event.

**Stakeholder:** A stakeholder is a person or groups of people who have, or claim to have ownership, rights or interests in an organisation and its activities, past, present and future. Such claimed rights or interests are the result of transactions with, or actions taken by the organisation, and may be legal or moral, individual or collective.

**Strategic agility:** Strategic agility refers to the ability of organisations to stay competitive in their industry and markets, by adjusting and adapting to new ideas and using these ideas to create new products and services, as well as new business models. It also refers to the ability of an organisation to effectively manage change, continuously adapting its organisational bureaucracy, systems, products, services and culture to survive shocks and prosper from the forces that often decimate its competitors.

**Strategic ambidexterity:** The ability to exploit existing competencies while simultaneously exploring new opportunities in the organisational environment. Stated differently, it involves a balance between explorations and exploitation - and thereby achieves the 'best of both worlds'.

**Strategic business units:** A strategic business unit is an organisational unit that exercises control over most of the resources they require to be successful.

**Strategic change:** Deep organisational change that seeks to improve an organisation's competitive position by improving certain of its features. Strategic change involves a change in the strategic direction of the organisation and the implementation of new strategies, involving major changes to the normal or previous routines in the organisation.

**Strategic control:** A process used by organisations to control the formation and implementation of its strategies to ensure that it achieves the strategic goals that have been set for it.

**Strategic Execution Framework (SEF):** A resource allocation framework that helps to align an organisation's projects and programmes with its strategies.

**Strategic goals (also referred to as long-term objectives or strategic objectives):** Strategic goals are specific desired outcomes with a long-term focus (typically 3-5 years). To be of value, strategic goals need to be measurable in terms of time, money and units.

**Strategic initiatives:** The key projects or programmes focused on in order to achieve a specific strategic objective or improve performance to achieve performance targets.

**Strategic leadership:** A process by which a strategic leader influences followers to achieve the strategic vision of the organisation.

**Strategic management:** The process for planning, implementing and controlling strategy for the organisation.

**Strategic plan:** A strategic plan is a document that states the direction of the organisation that contains seven elements, namely, the vision, mission, analysis of strengths, weaknesses, opportunities and threats, core values, goals, objectives and strategies, and which has a long-term horizon.

**Strategic planning (also referred to as crafting/constructing/creating strategy or strategy formulation):** The process of setting the strategic direction of the organisation, analysing the internal and external environment, setting strategic goals, and developing and choosing the strategies that will help them attain strategic goals.

**Strategic risk:** An uncertain future event or set of events which, should it occur, could have an effect (in both a negative and a positive manner) on the achievement of the strategic objectives of the organisation. A strategic risk is the combination of the probability of the future event (or set of events) and its consequence.

**Strategic risk management:** The identification and evaluation of actual and potential risk areas as they pertain to an organisation as a total entity, followed by a process of either avoidance, termination, transfer, tolerance (acceptance), exploitation, or mitigation (treatment) of each risk, or a response that is a combination or integration of these.

**Strategic surveillance:** This type of strategic control is designed to observe a wide range of events within and outside an organisation that is likely to affect the track of the organisation's current strategy.

**Strategic thinking:** Strategic thinking is 'big picture' thinking that is focused on the future and represents a certain willingness to take calculated risks in pursuit of success.

**Strategising/strategy making:** Strategising refers to the act of strategy making, which is what happens when practitioners use strategy tools and processes to develop, implement, review and *do* strategy.

**Strategising:** Strategising is essentially what strategists do, and can be described as devising or influencing strategies.

**Strategists:** Any individual or group in the organisation that controls key or precedent-setting actions.

**Strategy:** The direction provided by the actions and decisions of strategists in pursuit of organisational goals.

**Strategy-as-practice perspective:** This refers to a view of strategy that is concerned with the detailed aspects of strategising by looking at how and why strategy is done and by whom.

**Strategy-as-process perspective:** This is the traditional view of strategic management that comprises distinct stages or phases and incorporates a linear view.

**Strategy formation:** All of the informal and formal practices and processes that shape the strategy of the organisation.

**Strategy implementation:** Strategy implementation refers to the process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase.

**Strategy implementation (also referred to as strategy execution):** The process during which the organisation draws on both human and non-human factors in the organisation to ensure that the strategy is executed in line with the plans devised during the strategic planning phase.

Strategy planning (also referred to as crafting strategy or strategy formulation): Strategic planning refers to the process of setting the strategic direction of the organisation, analysing the internal and external environment, setting strategic goals, and developing and choosing the strategies that will help them attain strategic goals.

Strategy practices/tools of strategy: Strategy practices refer to the social, symbolic and material tools through which strategic work is done.

Strength: A strength refers to an internal organisational resource and capability that can lead to a competitive advantage.

Suitability: A strategic decision is suitable if there is strategic fit between the organisation's resources and capabilities and the external opportunities present in the market.

Sustainable competitive advantage: The ability of the organisation to survive and outperform rivals in the long run based on its competitive advantage that is relevant and durable over a period of time.

Sustainability: The ability of an organisation to continue to do business over the long term - and possibly indefinitely.

Sustainable development: Economic development that is conducted without depletion of natural resources. Sustainable development has three core elements, namely, society, the natural environment and the economy.

Tacit knowledge: Gained through experience, insight and intuition, which is difficult to share or record, making it virtually impossible to emulate or sell. Therefore, tacit knowledge can be very valuable and can lead to a competitive advantage for an organisation.

Tactical plan: Tactical plans state the direction of the functional areas of the organisation with a medium-term time horizon.

Technological environment: The technological environment refers to a sub-environment of the remote environment, comprising the variables from which technological factors, conditions or trends, such as technological change, the pace of technological development and the creation of new knowledge originates.

Threat: A threat refers to a condition in the external environment that may stand in the way of organisational competitiveness or the achievement of stakeholder satisfaction.

Top management: Top management (also referred to as senior management) is a small group of managers who control the organisation as a whole and with whom final authority and responsibility for executing the management process rest.

Transient competitive advantage: An organisation that has the ability to build up temporary or transient advantages where they seize opportunities, exploit it, and then move quickly when they have exhausted the opportunity.

Turnaround strategy: A turnaround strategy is a corporate action taken to deal with poor performing organisations to improve performance to an acceptable level.

Value chain: A value chain is a set of activities that an organisation performs to create value for its customer.

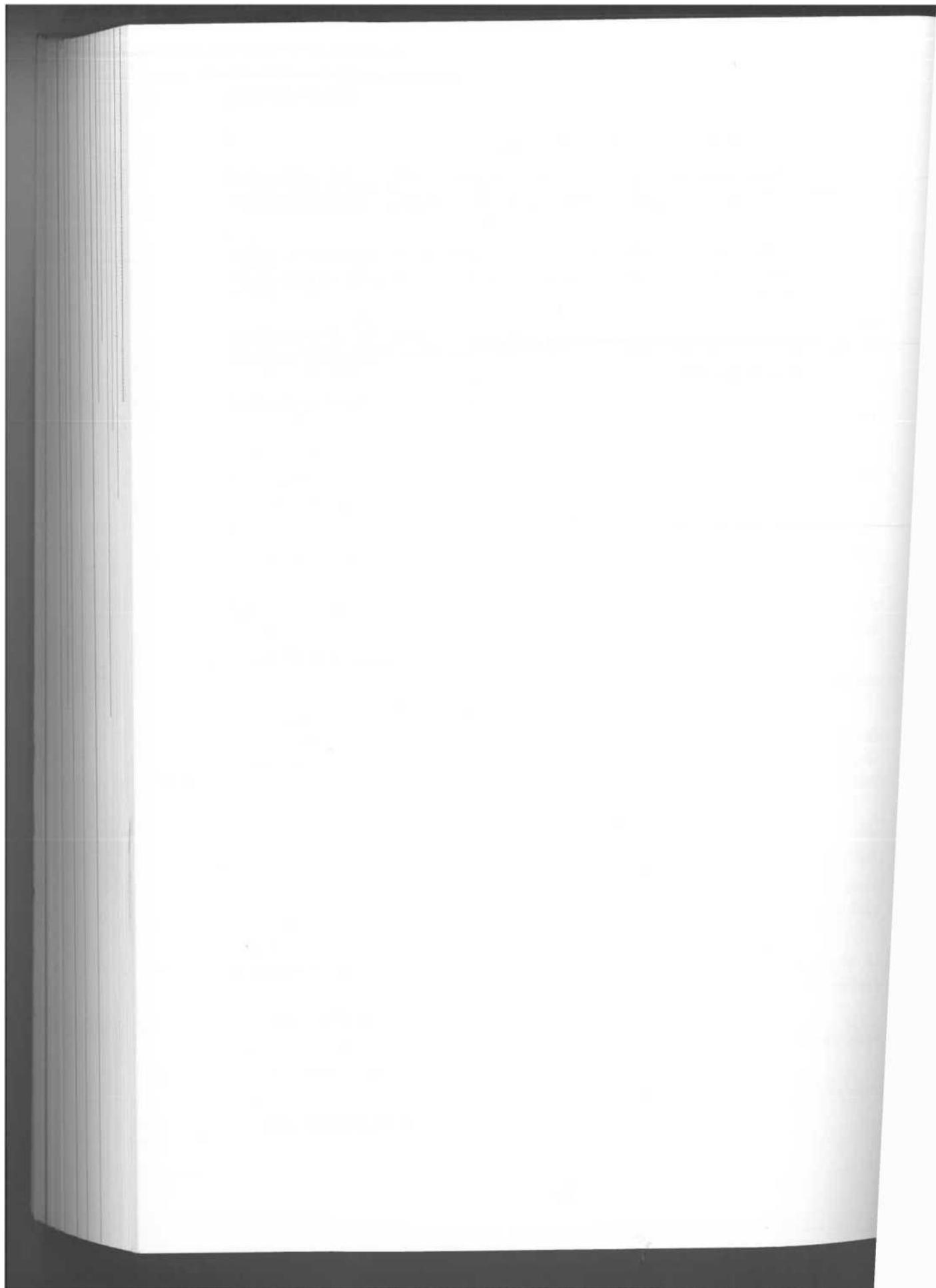
## GLOSSARY OF KEY TERMS

**Value system:** A set of consistent values and measures.

**Virtual network structure:** An organisational structure whereby an organisation subcontracts many or most of its major processes to separate companies and co-ordinates their activities from a headquarters organisation.

**Vision (or vision statement):** The vision statement is often referred to as the dream of the organisation. It is used as an indicator of the desired future position of the organisation.

**Weakness:** A weakness refers to an internal resource and capability that an organisation may not possess yet but is necessary, resulting in competitive disadvantage until the organisation acquires it.



# Index

*Page numbers referring to figures and tables are in italics.*

#FeesMustFall 132

## A

absenteeism 293

absorptive capacity 235, 239-240, 240,  
251, 301, 308, 319, 371

abstract conceptualisation 241

Accelerated and Shared Growth Initiative  
for South Africa (ASGISA) 111

acceptability 200, 202 acquisition  
of external information 240  
strategies 190-191

action phase *see* implementation of  
strategy

active experimentation 241

actors *see* strategists

adaptation 135-137, 221, 227, 227, 232-  
233, 262-263, 371

adapters 137

adapting to environment 135-136

adaptive capacity 308, 319, 371

administration and infrastructure 164

advisers, trusted 44 ADvTECH 167

aesthetics of artefact 284-286 African

Pride 156 ageing population 111 agility

135-136, 139, 378 agriculture 774, 116,

119 airlines 191-194, 323-326 alignment

of individual behaviour 259-260, 277

of organisation to strategy 216, 277,

258-261, 277 strategy with internal  
environment 263-265, 264, 277

structural 342-343, 346

Allen, Paul G 342

alliances 775, 185, 190, 336

alternative course of action or solution 44

ambidexterity 136-137, 139, 378

analysis, internal *see* internal analysis

analytical models of planned change 222,  
224-228, 233, 371

Anglo American pic 227-228 Anheuser-  
Busch InBev 313 anti-competitive

behaviour 130 Apple 132, 134, 162, 166,  
168, 305, 342 appropriability 155-157,  
158, 170, 173, 371 architectural leadership  
role 307, 308,  
315, 320

architecture of organisation 47-48, 371

arrogance 239

artefacts 247, 283-286, 288

artful interpreters 91

articulation 243

ASGISA 111

Aspen 82-85, 88, 91

assimilation of acquired information 240

assumptions 288 Attridge, Gus 83 Avito  
210

## B

B2C 210

Bakker 6t Steyger 303 balanced scorecard

(BSC) control 356-359, 367 definition 371

goals 69-72, 69, 70-72, 74, 87

implementation of strategy 213, 214,  
215-216, 277, 218 resource allocation  
259, 263

- Balogun and Hope-Hailey's change kaleidoscope 225-227, 229, 233
- banking industry 35, 36, 38, 54, 56, 146, 147-148
- barriers to entry 128
- Basson, Whitey 290
- BDO South Africa 191
- BCG matrix 195
- BEE 118-119
- behaviours 286-287
- Beijing Axis 190
- beliefs 286
- benchmarking 26, 192, 357
- Berliner, Emile 133
- best cost provider strategies 197-198
- best practice models of planned change 222- 224, 227, 233, 371
- Bidvest 39, 177-181, 183-184, 189-191
- 'big bang' change 221, 227, 222, 307
- big picture-conscious strategy workers 90
- biodiversity 774, 31 6
- biotechnology 116
- black economic empowerment (BEE) 118-119
- Bloom, Jeremy 292
- boards of directors 92-93
- BOP markets 121-122
- Boston Consulting Group (BCG) matrix 195
- 'Bottom of the Pyramid' (BOP) markets 121-122
- bottom-up approach 212, 272, 226
- bounded-rationality model 43
- brand portfolios 154
- branding 152-153, 154, 286
- Branson, Richard 241
- BRIC countries (Brazil, Russia, India, and China) 122
- BSC 69-72, 69, 70-72, 74, 87, 213, 214, 215-216, 277, 218, 259, 263, 356-359, 367, 371, 380
- budgeting process 218
- budgets 218 Burke, James E
- 351 business
  - architecture 47-48, 371 confidence 109
  - to consumer e-commerce 210
  - development 152, 153, 154 level
  - decision-making 182-183 -level
  - strategy 38, 39, 196-199, 197, 201, 264
  - models 131
  - units 54, 83, 196, 216, 277, 258, 263, 282, 326, 336 see also strategic business units (SBUs) as usual 35, 40, 41, 105, 218, 219, 261 Business Green Award 312
  - buying power of customers 24, 126-127, 126
- C
- cameras, film vs digital 239
- capabilities
  - appraising value of 155-157, 172
- Balogun and Hope-Hailey's change kaleidoscope 226 capturing value 170- 171, 173 classification of 161-166 competitive advantage 165-169, 172 description 151-155, 752, 371 functional areas and 161-162, 172 identification of to create value 160-165, 172 resource-based view 158, 171-172 strategic resources and 147, 152 value chain analysis 163-166, 172 capacity 226 Cape Flats LIFE 312 capital to enter industry 128 Capitec 54-56, 58-59 Carroll, Cynthia 227-228 Cash Paymaster Services (CPS) 46

- CD see compact discs (CD)
- CellMobile 71, 72
- centralisation 336
- centre of gravity of economic activity 122
- champions 91-92, 94
- Chandler, Alfred 328
- change
- barriers to successful strategic 229-231, 233 to culture 224
  - drivers 131-134, 138 of environment 11, 344
  - extent of 220-221, 221, 226, 227
  - fundamental strategy implementation element 219-220, 232
  - kaleidoscope model see Balogun and Hope-Hailey's change kaleidoscope leadership and 218, 316, 320
  - Lewin's change model 225
  - levers of 227
  - management 47, 73, 94, 209-211, 209, 216, 218
  - meaning 219, 378
  - models of planned 222-228
  - organisational 135-136
  - path 226
  - as planned activity 222
  - resistance to 231
  - roles and responsibilities 227
  - speed of 220-221, 221, 232
  - starting point 226
  - style 227
  - of targets 227
  - types of 220-226, 232
  - vision 223
- charismatic leadership role 307
- choices 182-183, 200, 201-202
- Cilliers, Jacques 290
- citizen leader 315, 320
- City Lodge Hotels 66, 167
- classifieds business 210
- climate change 6, 22, 113, 114
- coaching 315, 320
- coalition 223
- Coca-Cola 126, 129
- Cofel 304
- cognitive functioning 43
- cognitively versatile strategy workers 91
- collaboration 247
- collective action 88, 89, 96, 257
- combination 243
- communication
- change management 229, 262
  - lack of 230
  - resource allocation 261-262
- of strategic initiatives 275
- of vision for buy-in 223
- communities of practice (CoPs) 246-247
- compact 105
- compact discs (CD) 133
- company slogan 58-59, 290
- competencies 158
- see also core competencies*
- competition
- key success factors 24
  - from new entrants 24
  - power of buyers and suppliers 24
  - rivalry 24, 128
  - sources of 23-24
  - from substitutes 24
- Competition Commission 130
- competitive advantage
- business-level strategies 196-199, 197
- description 23-29, 371
- determinants 169
- process perspective 135
- resources, capabilities and core competencies 165-169, 172
- sustainable *see sustainable competitive advantage*
- transient *see transient competitive advantage*
- competitive environment *see market(s): environment*

- competitive forces model 23-24, 126- 130, 127
- competitors 18, 24, 126, 127-130, 127 see *also* existing competitors; potential competitors
- complementors 127, 129, 138
- compliance 317,378,320
- conceptualisation 241
- concrete experience 241
- conflicting departmental goals 345
- consensus 44
- consistency 42, 43
- consultants 95
- continuous improvement 84-85, 777, 155, 331, 358
- control
  - case study 350-351 definition 351-353,367,378 description 47 importance of 352 as management function 8-9 position in management process 353-354, 353, 367 process perspective 57 review and 61,75-76,77,82 systems 291,296 types of 354-356, 367
  - convergent behaviour 89, 96 co-operative combination strategies see corporate: combination strategies co-operative strategy 371 CoPs 246-247
  - core competencies
    - capturing the value 170-171
    - classification of 161-166
    - competitive advantage 165-169
    - description 153-155,372
    - functional areas and 161-162
    - identification of to create value 160-165 resource-based view (RBV) 158 value chain analysis 163-166
- corporate centre 38,39, 183, 783, 334
- corporate citizenship 364-365, 368, 372
- corporate combination strategies 184, 185, 190-191, 201, 202 corporate governance 3, 5, 25, 92-93, 777, 313, 363-366, 368,
- 372 corporate level
  - decision-making 182-183 strategic options 184-194, 785 strategy 38, 39, 39, 177, 178, 179- ISO, 181, 183, 184, 189, 190-191, 202, 264
- corporate social investments (CSI) 312
- corruption 120
- cost(s)
  - attitude towards 294 best provider 197-198 disadvantages to new entrants 128 leadership 165-169,172,197-198, 259, 372 reducing 168 switching 128 CPS 46
- crafting strategy see planning credit rating agencies 6 critical mass 181 CSI 312
- cultural barriers 229-230
- cultural web 288-291, 289, 295, 296, 372
- culture
  - assumptions 288 case study 281-282
  - change 224, 229-230 cultural assessment 288-291 definition 282, 296, 376 effect on employees 295
  - iceberg analogy of 282, 283
  - implementation of strategy 60,73
  - indicators 293-294, 297 layers of 282-288, 296 organisational architecture element 48 resource-based view of internal analysis 159

- strategy and 280, 297 strategy execution and 294 strong group norms to create culture- induced peer pressure 294 supporting good strategy implementation 291-293,297 values and norms 286-287 warning signs when at risk 293 Curro private schools 169 customer(s) as competitive force 126-127, 127 description 18 driver of change 131-132 preferences 131 responsibility of leaders towards 311 responsiveness to 167,169 services 164 surveys 193,294 talking to 292 unmet needs of 170-171
- D
- Dartnall, Chantel 162  
 Daun, Claas 303  
 Daun 8t Kie 303  
*De Burger* 210, 211  
 decentralisation 13,335  
 decision-making 9,43-44,49, 182-183, 226-227, 344  
 deficiency of structure see structural deficiency  
 deliberate strategy 36-37, 45, 82, 87, 88-89, 94, 96, 97, 372 deliverables 212, 213, 214, 273 Deloitte Consulting 95 demand 131 deployment see implementation of strategy; strategic execution framework (SEF)  
 design of organisational structure 8,293, 326-330, 327, 345 trends 285
- Design Partnership 285  
 detail-conscious strategy workers 90  
 developing world 122  
 differentiation 165-166, 168-169, 172, 197, 259, 372  
 direction of organisation 43, 64-72, 64, 77, 108, 158, 182-183, 201, 219, 258-261  
 directional policy matrix 195,795 directors 92-93  
 Discovery Bank 34-36, 38, 45, 146-148, 154, 162  
 Discovery Car and Home Insurance 152  
 Discovery Credit Card 153,155  
 Discovery Group 35, 235-237, 238, 244, 247, 260  
 Discovery Life Insurance 152, 236-237  
 Discovery Medical Aid Insurance 149, 151, 236-237  
 Discovery Miles 153,155  
 Discovery Vitality 35-36,38, 146-148, 152, 154-155, 169, 235-237 dissent 246, 250  
 distinctive capabilities see core competencies  
 distribution of products and/or services 128  
 diversification 39, 181, 184, 185, 189,359  
 diversity 226, 244  
 divestment 194,195,202,210,335  
 divisional structure 331, 332-334, 333, 345, 372  
 domains of strategic execution framework 265, 266, 271,  
 dominant general management logic 239, 372  
 double-loop process 218  
 dream of the organisation 65  
 drivers of change 138  
 durability 169  
 dynamic capabilities 151-153, 170, 372  
 dynamic consistency 42, 43, 372

- E
- economic environment 20, 109-110, 136, 372
- economic forces 110 economic integration 775 economical production 168 economy(ies)
  - element of sustainable development 317, 320 of learning
  - 168 of scale 128, 168, 169
- Edcon 27, 355-356 EFE Matrix 123-125, 138, 373 effectiveness 10-11, 136
- efficiency 10-11, 136, 167, 169, 181, 317, 318, 320
- electric car 157
- electricity, access to 122
- emergent strategy 36-37, 45, 82, 88-89, 94, 96, 97, 373
- employees loyalty 294
  - performance declines 344 relationship between 294 resource-based view of internal analysis 159 responsibility of leaders towards 311 talking to 292-293 target orientation and commitment 294
- empowering broad-based action 224
- empowerment 292 enablers 261-263
- energy efficiency 312 engagement strategic execution framework (SEF) 266
  - synthesis 267-268 Engen forecourts
- 264 entrepreneurial structure 331-332, 345, 373 entrepreneurship 39, 121, 312
- environmental analysis 72-73, 77
- environmental degradation 774, 118
- environmental determinism 136-137
- environmental environment 21-22, 109, 111
- environmental levy on new motor vehicles 118
- environmental scanning 75-76
- environment(s)
  - changing 11, 344 as element of sustainable development 317, 320
  - exploitation of 137
  - external 17-22 influencing the 136 management 16-22, 28 micro-or internal 17 new 136 Eskom 34
- ethical corporate behaviour see triple-bottom line
- ethical leadership 365, 368, 373
- evaluation of strategic choices 200, 356
- evolutionary change 221, 222, 232, 373
- excellence 26, 32, 57, 67, 237, 260
- execution of strategy see implementation of strategy; strategic execution framework (SEF)
- executive sponsorship 268-269
- existing competitors 126, 727, 128
- exit strategies see turnaround and exit strategies
- experiential learning 241, 242
- experimentation 241, 246
- explicit knowledge 242-243, 243, 373, 374
- exploitable by the organisation 157, 373
- exploitation of environment 137
- exploring unknown 137
- external consistency 42, 43, 373
- external context of strategy see external environment

external environment ease study 102-105  
 in context of strategic management 105-107 description 17-22,373 importance of 107-108 levels of 106-107, 138 market environment see market(s): environment remote environment see remote environment strategic responses to changes 134-137, 139 strategy formation 211  
**E**  
 External Factor Evaluation (EFE) Matrix 123- 125, 138, 373  
 external growth strategies 184, 185, 189, 201, 202, 373 external stakeholders 22-23,123 EY 290

**F**

facilitating adaptability 94 feasibility 200, 202, 373 feedback 57,61,292-293,352,354 financial function 13,28,162 financial resources 148-149 Finland 305 First National Bank (FNB) 35, 92, 136, 149, 151, 290 first-line management see lower-level management FirstRand Group 92 five forces model 23-24,126-130, 127 Flack, Peter 4 FlySafair 59 FNB 35, 92, 136, 149, 151, 290 focus areas 185,187,270 strategies 197 Footprint Network 316 formulation see planning

Fortune 500 firms 220 Foundation for a Smoke-Free World 247 Fourie, Gerrie 56, 58, 59 freezing 225, 227 functional level decision-making 182, 202 functional management see middle management functional silos 217, 266 functional strategies 38, 39, 39, 182, 264 functional structure 331-332, 332, 340, 343, 345, 373 functional tactics 74-75

**G**

Gates, Bill 342 GEAR 110 General Electric-McKinsey matrix 195 getting things done 8 GHM! 304 global economic activity 122-123 global environment 21-22, 109, 111, 112-117, 117-118, 373 global financial crises 773, 777, 219 global structure 331,336,346 global warming 118 globalisation 6, 21-22, 27, 122-123, 257 globality 10b, 123 globally centralised organisation 336 goals 10, 68-72, 68, 70-72, 182-183, 201, 212, 272-283, 344-345, 378 *see also* functional tactics; medium-term goals; short-term goals Gommagomma Holdings 303 Google 134,342 Gore, Adrian 35,147,237,244,260 governance global environment 117 and leadership 48 government legislation and regulation 128 responsibility of leaders towards 313-314

gramophone 133 Grant Thornton 191  
Green Economy 312 GreenFin Financial Services 312 GreenTowerTM - Eco-V 312 Growth, Employment and Redistribution (GEAR) strategy 110 growth rate 131 guiding coalition 223

**H**

Hall, Edward 282 Harley-Davidson 168 headquarters see corporate: centre health and fitness lifestyle trends 111 Health and Racquet (HEtR) Clubs 2, 4-5 Healthland International Limited 4-5, 9 Helfet, Keith 157 'Hello Desk' 285 holding company structure 331,333, 334-335, 334, 346, 373 Home of Living Brands 180, 181 Hope-Hailey's change kaleidoscope see Balogun and Hope-Hailey's change kaleidoscope horizontal co-ordination 343, 346 horizontal structure 327, 335, 339-341, 340, 343, 373 human barriers 224 human-made environment 21 human resources function 162 importance of 148-149 intangible 160 lack of skills 120 management and 9, 14, 28, 164 statistics 293 as tangible resource 151 Hungry Lion 258 hybrid structures 331, 341-342, 346, 374

**I**

ideation 266-267, 266 ignorance 239 imitability 156, 169 Imperial Logistics 190 implementation of strategy barriers to successful 213-214, 232 change as fundamental element 219-220, 232 as change management 209-211, 209 control 61,75-76,77,354-355,367, 374 definition 379 distinguished from strategy formation 211-213, 231-232 elements of 47 leadership 307-309,319 middle managers 94 organisational learning 74 principles of 214-218,232 process perspective of strategic management 57, 60-61, 73-75 strategic execution framework (SEF) 265-271, 266, 267, 276, 277, 378 strategising and 82 when successful 273 incremental change 221-222,226 individual learning 241-242, 245, 251 individual(s) plans 15, 16 as strategists 96 industrial development 119 industry(ies) attractiveness 126-130 capital required to enter 128 definition 125-126,374 drivers of change 131-134 new players 132 profit sharing 24 profitability of 23-24 reduction of 132 re-invention of 132-134

stakeholders 126, 127, 130  
 structure 24 infectious disease  
 112 information  
     acquisition of external 240  
 assimilation of acquired 240 real-time 44 synthesising 94  
 infrastructure  
     administration and 164  
 lack of 119 inimitability  
 156,171,374 initiatives  
     changing goals into 272-283  
     communication of 275 define and approve 274 defining 273, 378 implementation of 261  
     management of 270-275, 277  
     prioritising 274 reporting 275  
 innovation  
     ability 167,168 attitude towards 294  
 resources 151 strategies 26  
 instrumentality of artefact 284, 286  
 intangible resources 150-151, 75J, 156, 158, 160, 169, 171-172, 377 integrated strategic risk management framework 360, 361, 363 integration strategies 189  
 Intel Corporation 136 intellectual phase see strategy: formation interaction 247  
 interdependencies 273 intergenerational conflict 289 intermediaries 19  
 intermediate environment see market(s): environment  
 internal analysis see resource-based view (RBV)

internal consistency 42, 43  
 internal environment see *also* micro-environment alignment of strategy with 263-265, 264  
     analysis 60, 72, 108, 200 description 17 strategy formation 211 strengths and weaknesses 138,164 top management and 12, 59, 327, 345  
 internal growth strategies 184, 185-188, 185, 201, 202, 374  
 internal stakeholders 22-23  
 internalisation 243  
 INVEST 266  
 Investec 281-282,312  
 investors 158  
 iTunes 134, 166

## J

Jarana, Vuyani 192,194 Jobs, Steve 134,342  
 Joffe, Brian 178 Johnson, Robert Wood 351 Johnson Et Johnson 350-351 joint enterprise 246 joint ventures 35, 190, 304  
 Jooste, Marcus 303, 307 Joule 157

## K

Katlego Global Logistics 63, 65 key performance areas 69, 268 Kika-Leiner Group 304 King Reports on Corporate Governance for South Africa 93, 363-366 knowledge  
     acquisition 248-249, 248  
     applying new 240 capturing 248-249, 248 explicit see explicit knowledge integration 170

- management
  - description 248-250, 374
  - models for 250 strategies for 250 systems thinking 248, 249
  - meaning 374
    - new and existing 248-249, 248
    - organising 248-249, 248 sharing 248-249, 248 tacit see tacit knowledge transfer of 242-243, 251
    - transformation of 240 using 248-249, 248 known strangers 91
    - Kotter, John 223-224, 233, 306
    - Kotter's eight-step change process 223-224 *Kulula.com* 156
- L**
- labour market 18-19 labour unions 18-19 large enough market 170-171 Le Roux, Michiel 58 leader(s)
  - as architect 315,320 as change agent 316,320 as citizen 315,320 as coach 315,320 as servant 315,320 as steward 314,320 as storyteller and meaning enabler 316, 320 as visionary 315, 320
  - leadership
    - allocation of resources 270-271, 271
    - case study 302-305 commitment to learner 244 cost see cost(s): leadership definition 305,319,374,378 essence of 308 ethical 365, 368, 373 governance and 48
- implementation of strategy 73,77 lack of 229
- versus management 305-307, 306, 319
- mobilise for change 218 requirements for 308 responsibilities to clients and customers 311 employees 311 government 313-314 natural environment 312 partners 311-312 shareholders 313 social environment 312 stakeholders 311-314 responsible 302, 309-316, 318-320, 377 strategic implementation role 307-309, 319 strategic initiatives and 273
- visionary 32-33 leading
  - definition 374
- from the top 8-9
- learning
  - economies of 168 experiential 241, 242 individual 241-242,245,251 leadership commitment to 244, 250 organisational adaptation and 262-263 barriers to 238-240, 251 building blocks 251 case study 236-237 definition 374, 376 encouraging double-loop 245 how to become 244-247, 252 principles 236, 236 strategy implementation 47, 74 what is 237-238, 238, 251 team 245 legal environment 20, 109, 111, 374 legitimising dissent 246, 250 Leisurenet 4-5, 9, 27

Lennon, Berry Grey 83 Lennon Ltd 83-84 Letgo 210 leveraging location advantages 168 levy on new motor vehicles 118 Lewin, Kurt 225 Lewin's change model 225, 233 life cycle of product or service 132 *Lightie* 122 liquidation 194 location advantages 168 Locomute 312 logic 239 long-term plans 216 lower-level management 12-13, 28, 62, 77, 374 low-hanging fruit 137 loyalty of staff 294

**M**

Maboi, Moses 63 macro environment see external environment management to achieve organisational goals 10-11 allocation of resources 271 areas of 13-14, 28, 371 balance effectiveness and efficiency 10-11 barrier 11, 214 characteristics of 28 contemporary framework of strategic 45-48, 48, 49, 49 critique of process perspective 62, 76 definition 378 description of strategic 41-42 development 275 effectiveness and efficiency 10 environment 16-22, 28 environmental analysis 72-73 functions 374 implementation see implementation of strategy

versus leadership 305-307, 306, 319 levels of 11-13, 28, 62, 77, 375 limited resources and 10-11 managers and 6-7 meaning 374 meetings 218 organisational goals and objectives 10 origins of 33-34, 49 position of control in 353-354, 353, 367 practice perspectives of strategic 85-87, 86, 96-97 process 7-11, 375 process perspective 54-78, 55, 57, 85-86, 96-97, 135, 376 and resources 9 strategic initiatives 275, 277 role and direction 158-159 universal principles of strategic 34-39, 49 working with and through others 9-10 managerial wisdom 308, 319, 375 managers definition 6, 375 management and 6-7 resource-based view of 158 Manetta Australia 181 manufacturing centralisation of 336 plants located close to markets 336 margin 163, 165 marketing activities 164 function 14, 28, 162 innovation 131-132 orientation 294 market environment agility 136 analysis of 105, 706, 107-109, 124-134, 138, 139 definition 375 description 17-19, 28, 164 global trends 115

- market(s)
  - description 126, 139 development strategies 186 large enough 170-171 manufacturing plants located close to 336 mission statement 66 penetration strategies 185-186 Maseko, S'onaqoba 290 Massachusetts Institute of Technology (MIT) 162 matrix structure 331, 335-336, 335, 337, 343, 346, 375 Matrix Vehicle Tracking 130 Mattress Firm 304 McDonald's 129 McKinsey 93 Media24 211 medium-term goals 74 mental models 239, 244-246 mergers 191 meso-environment see market(s): environment micro-environment 17, 28, 42, 106, 106, 138, 375 see also internal environment Microsoft 108, 134, 341-342 middle management 12-13, 28, 62, 77, 94-95, 335 milestones 273 Miller Breweries 270 Minas Rio 228 minimum wage 220 mining industry 227-228 MINT nations (Mexico, Indonesia, Nigeria and Turkey) 122 Minute Maid 126 mission statement 65-68 MNet 210, 219 Mosaic restaurant 162 motor vehicle carbon dioxide (CO<sub>2</sub>) emissions 118
- MP3 133
- Mr Price 136, 162, 166, 169 multi-business organisations 194-196, 202 MultiChoice 210 music recording industry 133-134 Musk, Elon 32-33, 37 Mvelaserve 180, 181 MWeb 210, 219
- N
- Napster 133, 136
- Naspers 209-211, 219
- National Development Plan (NDP) 110, 111, 256-257
- natural environment
  - corporate citizenship 364 description 21-22 global trends 113-114 King Report 366 leadership and 311-312, 314 PEST framework 109 strategic management 105 sustainable development 316-317, 320 triple-bottom line 309, 319 natural resource crises 113 nature, strategic execution framework (SEF) 266 navy, symbolism in 291 NDP see National Development Plan (NDP) Nedbank 56, 136 Netstar 130 network structure 331, 336-337, 337, 346, 375
- new entrants see potential competitors
- New Growth Path (NGP) 111 new market entrants 24 new venture units 331, 337, 346, 375 NGP see New Growth Path (NGP)
- Nokia 131-132
- non-discerning strategy workers 90

non-responsiveness as phase of commitment to sustainability 317, 318, 320  
non-strategic thinking 38

non-substitutability resources and/or capabilities 156, 375  
Noonan 190  
Nxasana, Sizwe 92

## 0

objectives 10, 212, 215, 375 OLX Group 210, 219 Omo 199  
operational terms 215  
operationalising strategies 60-61, 74-75  
operations function of management 13, 28, 162  
opportunities 107-108, 138, 375  
Optimal Energy 157  
organisational chart 327, 328, 347, 375  
organising 8-9, 376  
outbound logistics 164  
owners 158

## P

paradigm 290, 296  
parenting matrix 195  
partners 311-312  
Pat Cornick Company 303  
payment service platforms 210  
pay-per-click (PPC) business model 134  
PayU 210  
people barrier 213, 216 PEP Stores 198  
Pepkor 303-304 performance metrics 273  
statistics 293 personal value 310, 376  
PEST framework 109 PESTLE/G factors 19, 109, 123

Philip Morris International (PMI) 247  
philosophy of organisation 67 physical resources 7, 74, 148-149 physical space 292 planning

definition 376, 378, 380 lack of strategic 229 as management function 8-9 process perspective 57-59, 57, 63-72, 77

plans 8, 12, 14-16, 16, 28, 212, 375, 378

Polaroid 239 policies 75

political behaviour 44

political environment 20, 109-110, 377

political instability 119

population growth 112

Porter, Michael 23, 33, 87, 126-127, 163

portfolio 212, 213

position strategies 198-199

potential competitors 18, 24, 126, 127, 128-129, 132

Poundland 304

poverty 110, 120, 121, 256-257 power

Balogun and Hope-Hailey's change kaleidoscope 226 element of cultural web 291, 296

PPC see pay-per-click (PPC) business model

practice perspectives of strategic management 85-87, 86, 96-97, 212

practices (the tools) 86, 86, 87

practitioners (the workers) see

strategists praxis 86-87, 86, 96, 376

Premier Hotels and Resorts 67 premise control 75, 77, 354, 367, 376

prescriptive planning 261 preservation 226 primary activities 163-164

- principles of a strategy-focused organisation 214-218
- pro-activity 317,320
- process
  - barriers 230-231
  - maturity 268-269
  - methodology 268-269
  - perspective of strategic management 57-59, 57, 63-72, 77, 85-87, 96-97, 135
- procurement
  - function 14,28,162,164
  - inbound logistics 163
  - production locations 336
  - production/operations activities 164
  - product(s)
    - ability to produce high quality 167, 168
    - development strategies 186
    - economical production 168
    - innovation 131-132
    - lifecycle 132
    - mission statement 66
    - programme(s) 376
    - management 269, 376
  - and projects 73, 77
  - project(s) 213
    - based organisations 340-341
  - management 269, 376
  - and programmes 73, 77
  - Protea Group 156
  - providers see substitute providers
  - public relations 14,28,162
  - public sector 120
  - purchasing function 164
  - purpose statement of organisation 65-66
- R
- Ramaphosa, Cyril 313-314
- rare resources and/or capabilities 156, 171, 377
- rational model 43
- RBV see resource-based view (RBV)
- RDP see Reconstruction and Development Programme (RDP)
- readiness 226
- realignment 220-222, 221
- real-time information 44
- reconstruction 221, 222, 232, 377
- Reconstruction and Development Programme (RDP) 109
- recovery strategies 186,194
- reflection on experience 241
- regionalisation 121-123
- regulation of market 128
- reinforcing mechanisms in change programme 231
- rejection as phase of commitment to sustainability 317, 318, 320
- relationships of mutuality 246
- remote environment 17, 19-22, 105-106, 106, 108-111, 112-117, 117-125, 136-138, 287, 377
- remote working 338
- Rennies 179-180, 181
- replicability 169
- reporting 275
- reputational resources 151
- research and development function 14, 28, 162
- reshaping strategic thinking 94
- resistance to change programme 231
- resource(s) allocation
  - adequate 263
  - aligning strategy with internal environment 263-265, 277
  - case study 256-257
  - changing goals into strategic initiatives 272-283
  - creating environment for effective 275-276
  - definition 377
  - developing clear process for 276
  - elements of 257-265

- enablers 261-263 implementation of strategy 47, 73-74
- managing initiatives 271-275
- strategic execution framework see strategic execution framework (SEF)
  - appraising value of 155-157, 172 and capabilities 48, 147, 152, 153 barrier 214, 217, 231 -based view (RBV) 33-34, 158-160, 171-172, 377 capturing the value 170-171, 173 categories of 148, 172 competitive advantage 165-169, 172 description 9, 149 functional areas and 172 identification of to create value 172 intangible 150-151, 153, 156, 158, 169, 172, 377 inventory of 149 limited 10-11 management and 9 organisational 148-149 requirements for strategic initiatives 273 resource-based view of 158 tangible 150-151, 153, 158, 160, 172, 377 responsiveness to customers 167, 169 restructuring 323-326, 328, 330, 333-334, 342, 376 retrenchment 192, 193 revenue growth 194 review 218 revolution 221, 222, 232, 285, 307, 342, 377 risk(s)
    - acceptance 362
    - analysis 362
    - avoidance 362
    - evaluation and responses 362-363
    - exploitation 362-363 identification 362
  - management 360-363, 361, 366-367, 379
  - meaning 359, 367 mitigation 363 strategic 360, 367, 379 transfer 362 rivalry 24, 128
  - Road Lodge Hotels 167 routines 290, 296
- S**
- Saad, Stephen 82-85, 88, 91
- SABMiller 270, 313 safety in mines 227-228 sales 164
  - sanctions 303, 323-325
  - Sarbanes Oxley 363
- scope 226
  - sector 125-126, 139
- SEF see strategic execution framework (SEF)
- Senge, Peter 245
- senior management see top management
- sense of freedom 292 servant leader 315, 320 shapers 137 shared repertoire 246 shareholder(s) capitalism 44 responsibility of leaders towards 313
- Shoprite 258-259, 290-291 short-term goals 74-75 short-term wins 224 silos 217, 266 Singita 166 single-use plans 15-16, 16 Skip 198 slogan 58-59, 290
- social concerns of customers 132
  - social craftsperson 91
- social-cultural environment 109-110, 377

- social environment 20-21, 109-110, 312
- social grants 45-46 socialisation 243
- society as element of sustainable development 317, 320
- soda (carbonated soft drinks) industry 126
- soft drinks industry 126 Sonnenberg, Max 26 South African Airways (SAA) 191-193, 323-329, 333 South African Breweries (SAB) 26, 270, 305
- South African Broadcasting Corporation (SABC) 328
- South African Druggist group 83 South African Post Office (Sapo) 45-46, 135
- South African Social Security Agency (Sassa) 45-46 Southern African Development Community (SADC) 120,121
- SPACE 195
- SPC see strategic planning champion (SPC) special alert control 75-77, 354-355, 367, 377 sponsorship 268-269 stakeholder(s) approach 22-23, 45 and competitive forces 127 definition 22, 29, 377 external 22-23 industry 126, 727, 130 internal 22-23 relationship management 22-23, 29 theory 22, 45, 310 Standard Bank 56, 284-286 standing plans 15-16, 76 Steinhoff 34, 117, 301-305, 307, 309, 363 Steinhoff, Bruno 301-303 steward leadership 314,320 stokvels 136
- stolen-vehicle recovery (SVR) market 130 stories 290-291,296,316,320 strategic business units (SBUs) 183, 183, 195, 201, 258, 334, 378 see also business units strategic execution framework (SEF) 265-271, 266, 267, 276, 277, 378
- strategic planning champion (SPC) 91-92
- strategic thinking 37, 38, 88, 91, 94, 379
- strategising case study 83-85 deliberate and emergent see deliberate strategising; emergent strategising description 83, 88, 97, 379 practising strategy 36, 37, 42, 43, 46, 49
- strategists boards of directors 92-93 case study 84-85 categories of 90-91 consultants 95 decision-making 43, 44 description 86, 86, 87, 376, 379 individuals 96 levels of 62 middle management 94-95 practice perspectives of strategic management 86 practising strategy 36-37,41,42 roles and responsibilities 90-91,97 strategy formation 46,212 top management as 91-92 strategy(ies) alignment of organisation to 216, 277 versus business as usual 40, 41 change management 47 complexity 36 content 47 context 47 continual process 218 control see control culture and 297

- definition 40-43, 49, 379  
 deliberate and emergent see  
 deliberate strategy; emergent  
 strategy  
 development and selection 177-202  
 different thought processes 37, 38  
 everyone's everyday job 217 execution  
 294, 379 formation 46-47, 211-213,  
 231-232, 379  
 formulation 380 hierarchical levels 38  
 implementation see implementation of  
 strategy importance of 41, 49 internal  
 and external focus 36 long-term view  
 36 making 379 map 215, 215  
 measurement of success 44-45, 49 to  
 operational terms 215 operationalising  
 60-61 organisational learning 47  
 planning see planning positive change  
 35 practices (the tools) 380 process of  
 formation 46 resource allocation 47  
 review 218  
 risk management see risk(s):  
     management  
 strategy-as-practice perspective 85-87,  
 86, 96-97, 212, 379  
 strategy-as-process perspective 85-86,  
 96-97, 135, 376, 379  
 strengths 107-108, 138, 164, 171 *see also*  
 resource-based view (RBV) structural  
 alignment 342-343, 346 structural barriers  
 224 structural deficiency 342-345, 346  
 structure of organisation  
     alternatives 330-342, 345-346  
     application of 342-345, 346
- barrier to change 229 components of  
 326 divisional see divisional  
 structure element of cultural web  
 291, 296 entrepreneurial see  
 entrepreneurial structure functional  
 see functional structure global see  
 global structure holding company  
 see holding company structure  
 horizontal see horizontal structure  
 hybrid see hybrid structures matrix  
 see matrix structure meaning 376  
 network see network structure new  
 venture units see new venture units  
     organisational architecture 48 role  
     of top management in design 327, 345  
     strategy and 323-346 virtual network see  
     virtual network structure style, changing  
     of 227 substitute providers 24, 126, 127,  
     129 suitability 200, 202, 380  
 supervisory management see lower-level  
 management suppliers  
     as part of external environment 19  
 powers of 24, 126-128, 127 support  
 activities 164 Surf 199  
 surveillance 75-76, 77, 354-355, 367, 379  
 surveys 193, 294  
 sustainability  
     corporate governance 365-366, 368  
     definition of 376, 380 description  
     316-318, 320 phases of commitment  
     to 317-318,  
     318, 320  
     pillars of 310  
     organisational 11, 33, 49, 376

- sustainable competitive advantage 19, 29, 91, 135, 150, 159, 160, 165, 169, 170, 172, 182, 235, 352, 380
- sustainable development 316-318, 320, 380
- sustainable mass transport 32
- sustaining acceleration 224
- sustaining organisation as commitment to sustainability 317, 320
- Suttner, Michael 122
- SVR see stolen-vehicle recovery (SVR) market
- switching costs 128
- SWOT analysis 15, 16, 28, 87
- symbolism of artefact 284-286
- symbols 291,296
- synergy 12, 15, 65, 184-194, 201, 202, 216, 335, 352
- synthesis 266, 267-269 synthesising information 94 system (s)
- barriers 230
- control 291,296
- thinking 245
- value 21, 84, 310-311, 314, 381 T
- tacit knowledge 149, 162, 242-243, 243, 374, 380
- tactical plans 8, 12, 15-16, 15, 16, 380
- tangible resources 150-151, 753, 158, 160, 171-172, 377
- target(s)
  - market 198 changing
  - 227 taxi industry 102-105, 104 team
  - learning 245
  - strategic initiatives and 273
- technological
  - environment 21, 109, 110-111, 380
  - resources 148-149
- technology
  - advances in 775
  - development 164
  - mission statement 66
  - new 168 reactions to 294 Tekkie Town 304
  - Tesla 32-33,37
- textile and clothing industry 132
- thinking
  - non-strategic 38
  - strategic 37, 38, 88, 91, 94, 379, 226
- systems 248, 249 threats 107-108,138,380
- time
  - Balogun and Hope-Hailey's change kaleidoscope 226 to disconnect 292
  - management 231 timeline for strategic initiatives 273 top management 12,28,62,77,91-92, 212, 326-330, 345, 380 top-down approach 15,212,272,226
  - Toyota group 162 Tracetec 130 Tracker Network 130 trade liberalisation 132
  - transferability 169 transformation change 220-222, 227 of knowledge 240
- transient competitive advantage 29, 87, 169, 380
- transition 266, 267, 269-270
- transparency 292
- triple-bottom line 11, 23, 34, 45, 309, 315, 319, 364-365 trust 229
- trusted advisers 44
- turnaround and exit strategies 184, 185, 191-194, 207, 202, 204, 222, 328, 356, 381

- two-dimensional matrices 195-196, 202
- Tylenol disaster 351,355
- U
- Uber 102-105, 704, 111, 115, 126, 131, 136 unfreezing 225 Unilever 198-199
- United Nations Global Compact (UNGCG)** 105
- unmet needs of customers 170-171
- unrealised strategy 89 urbanisation 112
- urgency 223
- V
- valuable resources and/or capabilities 155-156, 171
- value, rarity, inimitability and organisation (VRIO) principles 155-157,170-171 value(s)
- chain 19,87,127-128,152,163-166, 163, 380
  - corporate level strategy 184, 186, 189, 202 creation of 310-311
  - organisation 67, 310-311 organisational culture 286 personal 310, 376 statement 59, 67, 182, 286, 310 system 21, 84, 310-311, 314, 381 Vehicle Security Association of SA (Vesa) 130 ventures 210 vertical
  - control 343, 346 structure 327, 335, 343
- Vesa see Vehicle Security Association of SA (Vesa)
- Victrola 133
- video entertainment 210 vinyls 133
- Virgin Money 67
- virtual network structure 331, 338, 343, 346, 381
- visionary leaders 315,320 vision(s)
- barrier 214, 215
  - building shared 244
  - of change 223
  - communication for buy-in 223
  - definition 381 statement 65, 381
  - strategic execution framework (SEF) 266
- Vitality see Discovery Vitality VJO
- Attorneys 189 Vodacom 17,287 VRIO framework 155-156,171
- W
- Waltons 180, 181
- water crises 111, 113
- weaknesses 107-108, 138, 164, 171, 381
- see also resource-based view (RBV)
- whistle-blower programme 294
- Wiese, Christo 303
- Woolworths 26, 93, 136, 185- 188, 258- 259, 264, 311-312, 329-330, 333-334
- Woolworths Good Business Journey 312
- Y
- Yahoo 134
- Z
- Zambia 120, 121 Zimbabwe 121 Zuma, Jacob 313-314