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Introducing Strategy

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Understand the characteristics of strategic decisions and what is meant by strategy and strategic management, distinguishing them from operational management.
- Understand how strategic priorities vary by level: corporate, business and operational.
- Understand the basic vocabulary of strategy, as used in different contexts.
- Understand the three key elements of the *Evolutionary Corporate Strategy* strategic management model.
- Understand the kinds of people involved in strategy – managers, in-house specialists and strategy consultants – and the work they do.

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- *The scope of an organisation's activities.* For example, should the organisation concentrate on one area of activity, or should it have many? Brad Garlinghouse believed that Yahoo! was spread too thinly over too many different activities.
- *Advantage* for the organisation over competition. The problem at Yahoo! was that it was losing its advantage to faster-growing companies such as Google. Advantage may be achieved in different ways and may also mean different things. For example, in the public sector, strategic advantage could be thought of as providing better value services than other providers, thus attracting support and funding from government.
- *Strategic fit with the business environment.* Organisations need appropriate *positioning* in their environment, for example in terms of the extent to which products or services meet clearly identified market needs. This might take the form of a small business trying to find a particular niche in a market, or a multinational corporation seeking to buy up businesses that have already found successful market positions. According to Brad Garlinghouse, Yahoo! was trying to succeed in too many environments.
- *The organisation's resources and competences.²* Following 'the resource-based view' of strategy, strategy is about exploiting the strategic capability of an organisation, in terms of its resources and competences, to provide competitive advantage and/or yield new opportunities. For example, an organisation might try to leverage resources such as technology skills or strong brands. Yahoo! claims a brand 'synonymous with the Internet', theoretically giving it clear advantage in that environment.

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The values and expectations of powerful actors in and around the organisation. These actors – individuals, groups or even other organisations – can drive fundamental issues such as whether an organisation is expansionist or more concerned with consolidation, or where the boundaries are drawn for the organisation's activities. At Yahoo!, the senior managers may have pursued growth in too many directions and been too reluctant to hold themselves accountable. But lower-level managers, ordinary employees, suppliers, customers and Internet users all have a stake in the future of Yahoo! too. The beliefs and values of these *stakeholders* will have a greater or lesser influence on the strategy development of an organisation, depending on the power of each. Certainly, Brad Garlinghouse was making a bold bid for influence over what seemed to be a failing strategy.

Overall, the most basic definition of strategy might be 'the long-term direction of an organisation'. However, the characteristics described above can provide the basis for a fuller definition:

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

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

Exhibit 1.1 summarises these characteristics of strategic decisions and also highlights some of the implications:

- *Complexity* is a defining feature of strategy and strategic decisions and is especially so in organisations with wide geographical scope, such as multinational

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position. We have the largest audience, they are highly engaged and our brand is synonymous with the Internet.

If we get back up, embrace dramatic change, we will win.

I don't pretend there is only one path forward available to us. However, at a minimum, I want to be part of the solution and thus have outlined a plan here that I believe can work. It is my strong belief that we need to act very quickly or risk going further down a slippery slope. The plan here is not perfect; it is, however, FAR better than no action at all.

There are three pillars to my plan:

- 1 Focus the vision.
- 2 Restore accountability and clarity of ownership.
- 3 Execute a radical reorganization.

1 Focus the vision

- a) We need to boldly and definitively declare what we are and what we are not.
- b) We need to exit (sell?) non core businesses and eliminate duplicative projects and businesses.

My belief is that the smoothly spread peanut butter needs to turn into a deliberately sculpted strategy that is narrowly focused. . . .

2 Restore accountability and clarity of ownership

- a) Existing business owners must be held accountable for where we find ourselves today – heads must roll;
- b) We must thoughtfully create senior roles that have holistic accountability for a particular line of business. . . .
- c) We must redesign our performance and incentive systems.

I believe there are too many BU [Business Unit] leaders who have gotten away with unacceptable results and worse – unacceptable leadership. Too often they (we!) are the worst offenders of the problems outlined here. We must signal to both the employees and to our shareholders that we will hold these leaders (ourselves) accountable and implement change. . . .

3 Execute a radical reorganization

- a) The current business unit structure must go away.
- b) We must dramatically decentralize and eliminate as much of the matrix as possible.
- c) We must reduce our headcount by 15–20%.

I emphatically believe we simply must eliminate the redundancies we have created and the first step in doing this is by restructuring our organization. We can be more efficient with fewer people and we can get more done, more quickly. We need to return more decision making to a new set of business units and their leadership. But we can't achieve this with baby step changes. We need to fundamentally rethink how we organize to win. . . .

I love Yahoo!. I'm proud to admit that I bleed purple and yellow. I'm proud to admit that I shaved a Y in the back of my head.

My motivation for this memo is the adamant belief that, as before, we have a tremendous opportunity ahead. I don't pretend that we have the only available answers, but we need to get the discussion going; change is needed and it is needed soon. We can be a stronger and faster company – a company with a clearer vision and clearer ownership and clearer accountability.

We may have fallen down, but the race is a marathon and not a sprint. I don't pretend that this will be easy. It will take courage, conviction, insight and tremendous commitment. I very much look forward to the challenge. So let's get back up.

Catch the balls.

And stop eating peanut butter.

Source: Extracts from Brad Garlinghouse's memo to Yahoo! managers, November 2006. Reprinted in *Wall Street Journal*, 16 November 2006.

Questions

- 1 Why were the issues facing Yahoo! described as strategic? Refer to Exhibit 1.1.
- 2 Identify examples of issues that fit each of the circles of the model in Exhibit 1.3.

- *Operational decisions* are linked to strategy. For example, any attempt to coordinate Yahoo!'s business units more closely will have knock-on effects on web-page designs and links, career development and advertiser relationships. This link between overall strategy and operational aspects of the organisation is important for two other reasons. First, if the operational aspects of the organisation are not in line with the strategy, then, no matter how well

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1.2.2 Levels of strategy

Corporate-level strategy

is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation

Business-level strategy

is about how to compete successfully in particular markets

A strategic business unit

is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU

Operational strategies

are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people

Strategies exist at a number of levels in an organisation. Taking Yahoo! again as an example, it is possible to distinguish at least three different levels of strategy. The top level is **corporate-level strategy**, concerned with the overall scope of an organisation and how value will be added to the different parts (business units) of the organisation. This could include issues of geographical coverage, diversity of products/services or business units, and how resources are to be allocated between the different parts of the organisation. For Yahoo!, whether to sell some of its existing businesses is clearly a crucial corporate-level decision. In general, corporate-level strategy is also likely to be concerned with the expectations of owners – the shareholders and the stock market. It may well take form in an explicit or implicit statement of ‘mission’ that reflects such expectations. Being clear about corporate-level strategy is important: determining the range of business to include is the *basis* of other strategic decisions.

The second level is **business-level strategy**, which is about how the various businesses included in the corporate strategy should compete in their particular markets (for this reason, business-level strategy is sometimes called ‘competitive strategy’). In the public sector, the equivalent of business-level strategy is decisions about how units should provide best value services. This typically concerns issues such as pricing strategy, innovation or differentiation, for instance by better quality or a distinctive distribution channel. So whereas corporate-level strategy involves decisions about the organisation as a whole, strategic decisions relate to particular strategic business units (SBUs) within the overall organisation. A **strategic business unit** is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU. Yahoo!'s strategic business units include businesses such as Yahoo! Photos and Yahoo! Music.

Of course, in very simple organisations with only one business, the corporate strategy and the business-level strategy are nearly identical. None the less, even here, it is useful to distinguish a corporate-level strategy, because this provides the framework for whether and under what conditions other business opportunities might be added or rejected. Where the corporate strategy does include several businesses, there should be a clear link between strategies at an SBU level and the corporate level. In the case of Yahoo!, relationships with online advertisers stretch across different business units, and using, protecting and enhancing the Yahoo! brand is vital for all. The corporate strategy with regard to the brand should support the SBUs, but at the same time the SBUs have to make sure their business-level strategies do not damage the corporate whole or other SBUs in the group.

The third level of strategy is at the operating end of an organisation. Here there are **operational strategies**, which are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. For example, Yahoo! has web-page designers in each of its businesses, for whom there are appropriate operational strategies in terms of design, layout and renewal. Indeed, in most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. The integration of operational decisions and strategy is therefore of great importance, as mentioned earlier.

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1.2.3 The vocabulary of strategy

Although a definition of strategy was given at the end of section 1.2.1, in practice you will encounter many different definitions from different authors. You will also find a variety of terms used in relation to strategy, so it is worth devoting a little space to clarifying some of these. Exhibit 1.2 and Illustration 1.2 employ some of the terms that you will come across in this and other books on strategy and in everyday business usage. Exhibit 1.2 explains these in relation to a personal strategy readers may have followed themselves – improving physical fitness.

Exhibit 1.2

The vocabulary of strategy

Term	Definition	A personal example
Mission	Overriding purpose in line with the values or expectations of stakeholders	Be healthy and fit
Vision or strategic intent	Desired future state: the aspiration of the organisation	To run the London Marathon
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	Quantification (if possible) or more precise statement of the goal	Lose 5 kilos by 1 September and run the marathon next year
Strategic capability	Resources, activities and processes Some will be unique and provide competitive advantage	Proximity to a fitness centre, a successful diet
Strategies	Long-term direction	Exercise regularly, compete in marathons locally, stick to appropriate diet
Business model	How product, service and information 'flow' between participating parties	Associate with a collaborative network (e.g. join running club)
Control	The monitoring of action steps to: <ul style="list-style-type: none"> ● assess effectiveness of strategies and actions ● modify as necessary strategies and/or actions 	Monitor weight, kilometres run and measure times: if progress satisfactory, do nothing; if not, consider other strategies and actions

Not all these terms are always used in organisations or in strategy books: indeed, in this book the word 'goal' is rarely used. It will also be seen, through the many examples in this book, that terminology is not used consistently across organisations (see also Illustration 1.2). Managers and students of strategy need to be aware of this. Moreover, it may or may not be that mission, goals, objectives, strategies and so on are written down precisely. In some organisations this is done very formally; in others a mission or strategy might be implicit and, therefore, must be deduced from what an organisation is doing. However, as a general guideline the following terms are often used:

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and lenders of its viability. Public sector organisations need strategy statements not only to know what to do, but also to reassure their funders and regulators that what they do is what they should be doing. Voluntary organisations need to communicate exciting strategies in order to inspire volunteers and donors. If they are to prosper within the larger organisation, SBU managers need to propose clear strategies that are consistent with the objectives of their corporate owners and with the needs of other SBUs within the corporate whole. Even privately held organisations need persuasive strategy statements to motivate their employees and to build long-term relationships with their key customers or suppliers. Strategy vocabulary, therefore, is used in many different contexts, for many different purposes. Strategy is part of the everyday language of work.

1.3 STRATEGIC MANAGEMENT

The term *strategic management* underlines the importance of managers with regard to strategy. Strategies do not happen just by themselves. Strategy involves people, especially the managers who decide and implement strategy. Thus this book uses strategic management to emphasise the human element of strategy.

The strategic management role is different in nature from other aspects of management. An operational manager is more often required to deal with problems of operational control, such as the efficient production of goods, the management of a salesforce, the monitoring of financial performance or the design of some new system that will improve the level of customer service. These

are all very important tasks, but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organisation within the context of an existing strategy. Operational control is what managers are involved in for most of their time. It is vital to the success of strategy, but it is not the same as strategic management.

For managers, strategic management involves a greater scope than that of any one area of operational management. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organisation-wide rather than operation-specific implications. This is a major challenge for managers who are used to managing on a day-to-day basis the resources they control. It can be a particular problem because of the background of managers who may typically have been trained, perhaps over many years, to undertake operational tasks and to take operational responsibility. Accountants find that they still tend to see problems in financial terms, IT managers in IT terms, marketing managers in marketing terms, and so on. Of course, each of these aspects is important, but none is adequate alone. The manager who aspires to manage or influence strategy needs to develop a capability to take an overview, to conceive of the whole rather than just the parts of the situation facing an organisation. This is often referred to as the 'helicopter view'.

Because strategic management is characterised by its complexity, it is also necessary to make decisions and judgements based on the *conceptualisation* of difficult issues. Yet the early training and experience of managers is often about taking action, or about detailed *planning* or *analysis*. This book explains many analytical approaches to strategy, and it is concerned too with action related to

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strategy into action. Indeed, many texts on the subject do just this. However, in practice, the elements of strategic management do not follow this linear sequence – they are interlinked and feed back on each other. For example, in some circumstances an understanding of the strategic position may best be built up from the experience of trying a strategy out in practice. Test marketing a prototype would be a good example. Here strategy in action informs understanding of the strategic position.

The interconnected circles of Exhibit 1.3 are designed to emphasise this non-linear nature of strategy. Position, choices and action should be seen as closely related, and in practice none has priority over another. It is only for structural convenience that the subject has been divided into sections in this book; the book's sequence is not meant to suggest that the process of strategic management must follow a neat and tidy path. Indeed, the evidence provided in Chapter 15 on how strategic management happens in practice suggests that it usually does not occur in tidy ways.

1.3.1 The strategic position

The strategic position is concerned with the impact on strategy of the external environment, an organisation's strategic capability (resources and competences) and the expectations and influence of stakeholders



KEY CONCEPT

Strategic position

Understanding the **strategic position** is concerned with identifying the impact on strategy of the external environment, an organisation's strategic capability (resources and competences) and the expectations and influence of stakeholders. The sorts of questions this raises are central to future strategies and these issues are covered in the four chapters of Part I of this book:

- **The environment.** The organisation exists in the context of a complex political, economic, social, technological, environmental (i.e. green) and legal world. This environment changes and is more complex for some organisations than for others. How this affects the organisation could include an understanding of historical and environmental effects, as well as recent or potential changes in environmental variables. Many of those variables will give rise to *opportunities* and others will exert *threats* on the organisation – or both. A problem that has to be faced is that the range of variables is likely to be so great that it may not be possible or realistic to identify and understand each one. Therefore it is necessary to distil out of this complexity a view of the key environmental impacts on the organisation. Chapter 2 examines how this might be possible.
- **The strategic capability** of the organisation – made up of *resources and competences*. One way of thinking about the strategic capability of an organisation is to consider its *strengths* and *weaknesses* (for example, where it is at a competitive advantage or disadvantage). The aim is to form a view of the internal influences – and constraints – on strategic choices for the future. It is usually a combination of resources and high levels of competence in particular activities (in this book referred to as *core competences*) that provide advantages which competitors find difficult to imitate. Chapter 3 examines strategic capability in detail.
- Chapter 4 explores the major influences of *stakeholder expectations* on an organisation's *purposes*. Purpose is encapsulated in an organisation's *vision, mission* and *values*. Here the issue of *corporate governance* is important: who *should* the organisation primarily serve and how should managers be held

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- At the start of every organisation is an act of *entrepreneurship*. Most organisations have to *innovate* constantly simply to survive. Chapter 9 considers choices about innovation and entrepreneurship. Innovation choices involve issues such as being first-mover into a market, or simply a follower, and how much to listen to customers in developing new products or services. Entrepreneurship choices are many, but include choices of funding, building key external relationships, and timing of exit.
- Organisations have to make choices about the *methods* by which they pursue their strategies. Many organisations prefer to grow 'organically', in other words by building new businesses with their own resources. Other organisations might develop by mergers/acquisitions and/or strategic alliances with other organisations. These alternative methods are discussed in Chapter 10. Chapter 10 concludes with a discussion of the *success criteria* according to which different strategic choices can be evaluated.

1.3.3 Strategy in action

Strategy in action is concerned with ensuring that strategies are working in practice

Organising **strategy in action** is concerned with ensuring that chosen strategies are actually put into action. These issues are covered in the five chapters of Part III, and include the following:

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First of all, it is important to consider the *strategy development processes* of an organisation. The strategies that an organisation actually pursues are typically a mixture of the *intended* and the *emergent*. Intended strategies are the product of formal strategic planning and decision making, but the strategy that is actually pursued is typically somewhat emergent, including bottom-up initiatives, rapid responses to unanticipated opportunities and threats, and sheer chance. Chapter 11 considers the respective roles of intention and emergence in the overall strategy development in organisations.

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- *Structuring* an organisation to support successful performance. This includes organisational *structures*, *processes* and *relationships* (and the interaction between these elements). According to Brad Garlinghouse, structural silos, matrix organisation and bureaucracy were all big problems for Yahoo!. These kinds of issue will be discussed in Chapter 12.
- *Resourcing* strategies in the separate resource areas (people, information, finance and technology) of an organisation in order to support overall strategies. The reverse is also important to success, that is the extent to which new strategies are built on the particular resource and competence strengths of an organisation. Chapter 13 considers this two-way relationship.
- Managing strategy very often involves *strategic change*, and Chapter 14 looks at the various issues involved in managing change. This will include the need to understand how the context of an organisation should influence the approach to change and the different types of *roles* for people in managing change. It also looks at the *styles* that can be adopted for managing change and the levers by which change can be effected.
- The final chapter of the book considers the actual *practice of strategy*. Thus Chapter 15 gets inside the overall processes of strategy development and

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which inspires this research is economics, with the work of Michael Porter on industry structure in the 1980s and the resource-based theories of the 1990s particularly exemplary in this respect.⁵

On the other hand, a very different stream of research, led by such figures as Henry Mintzberg and Andrew Pettigrew, drew on sociology and psychology to argue that people were too imperfect and the world too complex for heavy reliance on analysis and planning, however rigorous the economics research.⁶ From the 1970s, they and their followers developed a *process approach* to strategy, studying the realities of strategic decision making and strategic change processes.⁷ These process researchers have shown again and again the real-world messiness of strategy formulation and implementation. The implication is that it is impossible to analyse everything up front and predict the future, and that the search for economically optimal decisions is futile. It is better to work with, rather than against, the messiness of organisations. This means accepting that managers make decisions which are as much to do with organisational politics and the history and culture of the organisation as they are to do with the economics of strategy, and that strategies will often get derailed in implementation. In this view, recognising imperfections and complexities is actually more effective than ignoring them, as in some purely economics approaches.

The twenty-first century has seen the emergence and growing acceptance of new streams of research that offer still more promising means of coping with organisational reality. This book highlights three:

- *Complexity theory*, drawn from the physical sciences, can be used to help manage the messy world of organisations. According to researchers such as Rüdiger Stacey and Kathy Eisenhardt, complexity theory principles can be used to achieve order and progress in the social world just as stable patterns of behaviour and well-adapted species seem to emerge in the natural world. The hands-off methods of complexity theory, rather than the heavy-handed approaches of traditional management, are the best way to cope with real-world organisations. Complexity theory is one of the inspirations in the strategy as ideas lens (see section 1.6).
- *Discourse* researchers such as David Knights have drawn on sociological theories of language to point to how discourse – the way in which we talk about organisations – shapes what actually goes on.⁹ The discourse perspective in particular highlights how mastery of strategy language and jargon can be a 'resource' for managers through which they gain influence and power and establish their legitimacy and identity as strategists. In this view, knowing how to 'talk strategy' is a key skill in organisational life. The insights of this view are encapsulated in the strategy as discourse lens (see below).
- *Strategy-as-practice* researchers have built on sociological and psychological traditions to examine more closely the actual practice of managers in strategy, developing a detailed understanding of the activities and techniques involved.¹⁰ In some ways, these researchers are returning to the real case approach of the Harvard general manager perspective, but this time seeking to underpin it with systematic research. The promise of strategy-as-practice research is an enhanced capacity to design more practical strategy processes and train more skilled and reflective practitioners, allowing for the real complexities and

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plan, with the changes that were imposed in the first few years in the United Kingdom. She emphasises the importance of flexibility in strategy and the value of getting her managers to see the 'whole picture' through involving them in strategy making. But Masoud and Chantal too are concerned for much more than analysis. Chantal emphasises the importance of gaining 'traction' with clients, building consensus in order to ensure implementation. Masoud likewise does not take implementation for granted, continuing to work with departments after the delivery of recommendations. He sees strategy and delivery as intimately connected, with people involved in delivery needing an understanding of strategy to be effective, and strategists needing to understand delivery. For him, strategy is a valuable stepping stone in a career, something that will underpin his possible next move into a more operational role.

Strategy, then, is not just about abstract organisations: it is a job that people do. The task of this book is partly to equip readers to do this job better, and to work with others who have to do strategy too. Chapters 11 and 15 specifically discuss the various roles of middle and senior managers, strategic planners and strategy consultants in strategy work.

1.6 THE STRATEGY LENSES

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The **strategy lenses** are four different ways of looking at the issues of strategy development for an organisation

This chapter has already highlighted the different perspectives on strategy that have emerged from strategy research. The practical value of different perspectives is explored in this book through the four **strategy lenses**. These lenses are introduced more fully immediately after this chapter and will provide the framework for separate commentaries on each of the three parts of this book. The important point of these lenses is to avoid approaching strategic problems from a single perspective. Looking at problems in different ways will raise new issues and new solutions. Thus although the lenses are drawn from academic research on strategy, they should also be highly practical in the job of doing strategy.

In brief the four lenses see strategy as follows:

- *Strategy as design.* This takes the view that strategy development can be a logical process in which the forces and constraints on the organisation are weighed carefully through analytic and evaluative techniques to establish clear strategic direction. This creates conditions in which carefully planned strategy implementation should occur. The design lens usually grants top management the leadership role in strategy, with middle and lower management given supporting roles in implementation. This view is perhaps the most commonly held one about how strategy should be developed and what managing strategy is about. It is the traditional 'textbook' view.
- *Strategy as experience.* Here the view is that future strategies of organisations are heavily influenced by the experience of managers and others in the organisation based on their previous strategies. Strategies are driven not so much by clear-cut analysis as by the taken-for-granted assumptions and ways of doing things embedded in the culture of organisations. Insofar as different views and expectations within the organisation exist, they will be resolved not just through rational processes, as in the design lens, but through processes of

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I like most the challenge. It's working on issues that really matter, and often it's what you are reading about in the newspapers. They are really tough issues; these are problems facing the whole of society.

He thinks people should get involved in strategy:

I would encourage people to do strategy, because it gets to the heart of problems. In all organisations, having some experience of working on strategy is very valuable, even if it is not what you want to major on your whole career.

Masoud is considering moving into service delivery as the next step of his career, because he sees knowledge of strategy and knowledge of operations as so interconnected:

Part of doing strategy is you have to understand what can be delivered; and part of doing delivery is you have to understand the strategy.

Chantal

Chantal is in her early thirties and has worked in Paris for one of the top three international strategy consultancies since graduating in business.

Consulting was attractive to her originally because she liked the idea of helping organisations improve. She chose her particular consultancy because

I had fun in the interview rounds and the people were inspiring. I pictured myself working with these kinds of topics and with these kinds of people.

She enjoys strategy consulting:

What I like is solving problems. It's a bit like working on a mystery case: you have a problem and then you have to find a solution to fit the company, and help it grow and to be better.

The work is intellectually challenging:

Time horizons are short. You have to solve your case in two to three months. There's lots of pressure. It pushes you and helps you to learn yourself. There are just three to four in a team, so you will make a significant contribution to the project even as a junior. You have a lot of autonomy and you're making a contribution right from the start, and at quite a high level.

The work can involve financial and market modelling (see Chapters 2 and 10), interviewing clients and customers, and working closely with the client's own teams. Chantal explains:

As a consultant, you spend a lot of time in building solid fact-based arguments that will help clients make business decisions. But as well as the facts, you have to have the ability to get traction. People have to agree, so you have to build consensus to make sure that recommendations are supported and acted on.

Chantal summarises the appeal of strategy consulting:

I enjoy the learning, at a very high speed. There's the opportunity to increase your skills. One year in consulting is like two years in a normal business.

Source: interviews (interviewees anonymised).

Questions

- 1 Which of these strategy roles appeals to you most – manager of a business unit in a multinational, in-house strategy specialist or strategy consultant? Why?
- 2 What would you have to do to get such a role?

and around organisations as people respond to an uncertain and changing environment with a variety of initiatives. New ideas will emerge, but they are likely to have to battle for survival against other ideas and against the forces for conformity to past strategies (as the experience lens explains).

- *Strategy as discourse.* This lens sees strategy in terms of language. Managers spend most of their time communicating. Therefore command of strategy language becomes a resource for managers by which to shape 'objective' strategic analyses to their personal views and to gain influence, power and

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Work assignments

* Denotes more advanced work assignments. * Refers to a case study in the Text and Cases edition.

- 1.1 Drawing on Exhibit 1.2 and Illustration 1.2 as guides, note down and explain examples of the vocabulary of strategy used in the annual report or website of an organisation of your choice (for example, your university).
- 1.2 Using the *Exploring Corporate Strategy* model of Exhibit 1.3, map key issues relating to strategic position, strategic choices and strategy into action for either the Ministry of Sound* or an organisation with which you are familiar with (for example, your university).
- 1.3 * Using annual reports, press articles and the Internet, write a brief case study (similar to that of Electrolux or Ministry of Sound*) that shows the strategic development and current strategic position of an organisation of your choice.
- 1.4 * Using Exhibit 1.3 as a guide, show how the elements of strategic management differ in:
 - (a) a small business (e.g. MacPac*, Ekomate* or Brown Bag Films*)
 - (b) a large multinational business (e.g. Electrolux, SABMiller*, AIB*)
 - (c) a non-profit organisation (e.g. NHS Direct* or the Salvation Army*).

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An extensive range of additional materials, including audio summaries, weblinks to organisations featured in the text, definitions of key concepts and self-assessment questions, can be found on the *Exploring Corporate Strategy* Companion Website at www.pearsoned.co.uk/ecs

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Recommended Key Readings

It is always useful to read around a topic. As well as the specific references below, we particularly highlight:

- For general overviews of the evolving nature of the strategy discipline, R. Whittington, *What is strategy – and does it matter?*, 2nd edition, International Thompson, 2000; and H. Mintzberg, B. Ahlstrand and J. Lampel, *Strategy Safari: a Guided Tour through the Wilds of Strategic Management*, Simon & Schuster, 2000.
- Two classic and accessible articles on what strategy is, and might not be, are M. Porter, 'What is strategy?', *Harvard Business Review*, November–

December (1996), pp. 61–78; and D. Hambrick and J. Fredrickson, 'Are you sure you have a strategy?', *Academy of Management Executive*, vol. 19, no. 4 (2005), pp. 51–62.

- For contemporary developments in strategy practice, business newspapers such as the *Financial Times*, *Les Echos* and the *Wall Street Journal* and business magazines such as *Business Week*, *The Economist*, *L'Expansion* and *Manager-Magazin*. See also the websites of the leading strategy consulting firms: www.mckinsey.com; www.bcg.com; www.bain.com.

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Electrolux

By 2005 Sweden's Electrolux was the world's largest producer of domestic and professional appliances for the kitchen, cleaning and outdoor use. Its products included cookers, vacuum cleaners, washing machines, fridges, lawn mowers, chain saws and also tools for the construction and stone industries. It employed about 70,000 people and sold about 40 million products annually in about 150 countries. Its annual sales in 2005 were 129 billion Swedish krona (~€14bn; ~£10bn) and profits about 3.9bn krona (~€420m). But 2005 saw two changes that would push the company into second place in the industry – behind the US company Whirlpool. First Whirlpool completed its acquisition of Maytag – which gave it about 47 per cent market share in the USA and global sales of some \$US19bn (~€15bn). Second, Electrolux announced that it was to divest its outdoor products division (mowers, chain saws, etc.) as Husqvarna. This left Electrolux to focus on the indoor products for both the home and professional cooking and cleaning organisations. So the 'new' Electrolux would have 57,000 employees and global sales of some SEK 104bn (~€11bn).

History

This was just the latest shift in strategy at Electrolux whose impressive growth and development started under the leadership of Alex Wenner-Gren in 1920s' Sweden. The early growth was built around an expertise in industrial design creating the leading products in refrigeration and vacuum cleaning. By the mid-1930s the company had also established production outside Sweden in Germany, UK, France, USA and Australia.

The period following the Second World War saw a major growth in demand for domestic appliances and Electrolux expanded its range into washing machines and dishwashers. In 1967 Hans Werthén took over as president and embarked on a series of acquisitions



Photo: Electrolux

that restructured the industry in Europe: 59 acquisitions were made in the 1970s alone followed by major acquisitions of Zanussi (Italy), White Consolidated Products (USA), the appliance division of Thorn EMI (UK) the outdoor products company Poulan/Weed Eater (USA) and AEG Hausgeräte (Germany). But the biggest acquisition of the 1980s was the Swedish Granges Group (this was a diversification into a metals conglomerate).

As a result of all these acquisitions, by 1990 75 per cent of Electrolux's sales were outside Sweden and this increased in the 1990s as Leif Johansson expanded into Eastern Europe, Asia (India and Thailand) and Central and South America (Mexico and Brazil). He then disposed of many of the 'non-core' industrial activities (particularly Granges). A major restructuring in the late 1990s created the shape of the group for the early 2000s – with about 85 per cent of sales in consumer durables and 15 per cent in related products for professional users (such as professional food service and laundry equipment).

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components. [But] there is a good deal still to be done. Among other things, we are increasing the share of purchases from low-cost countries.

Intensified product renewal

Our future depends on how well we can combine a continued focus on costs with intensified product renewal and systematic development of both our brands and our personnel. . . . Our process for product development based on consumer insight reduces the risk of incorrect investment decisions. Achieving better impact in development of new products has involved making global coordination more efficient, which has given us a number of new global products. The result of our investments in product development over the past years is clearly reflected in the number of product launches for core appliances, which rose from about 200 in 2002 to about 370 in 2005. . . . Investment in product development has risen by SEK 500 million (~€77m) over the past three years. Our goal is to invest at least 2% of sales in product development. We will continue to launch new products at a high rate.

Access to competence

Over the past years we have established [talent management] processes and tools that ensure the Group of access to competence in the future. Active leadership development, international career opportunities and a result-oriented corporate culture enable us to successfully develop our human resources. In order to lead development in our industry, we will have to act fast and dare to do things differently. [We will also need] a strong environmental commitment and good relations with our suppliers.

Starting to build a strong global brand

When I took over as President and CEO in 2002 I stressed that we had to prioritise building of the Electrolux brand, both globally and across all product categories. A strong brand enables a significant price premium in the market, which leads to a sustainable long-term increase in margin. Work on building a strong brand has been very comprehensive. The share of products sold under the Electrolux brand has risen from 16% of sales in 2002 to almost 50% in 2005. We will continue to work on building the Electrolux brand as the global leader in our industry. Our goal is for our investment in brand-building to correspond to at least 2% of sales.

Looking ahead to the near future

Hans Stråberg concluded his review of the business by a look forward to the following year:

We expect the Group to report higher profitability again in 2006. . . . In both North America and Europe we are going to launch a number of important new products. Professional Indoor Products will improve its position in the North American market in 2006 by developing new distribution channels for food-service equipment. The success of our floor-care operation in the higher price segments will continue, among other things on the basis of higher volumes for cyclone vacuum cleaners.

There will be no change in the rate of relocation of production to low-cost countries. During the second half of 2006 we will see the full effect of the cost-savings generated by moving production from Greenville in the US to Juarez in Mexico. We expect that sales will be adversely affected by the strike at our appliance plant in Nuremberg, Germany [planned to close in 2007]. Continued reduction of purchasing costs is a very important factor for increasing our profitability in 2006.

The strategy that has been effectively implemented in recent years by everyone in our organisation is paying off. In 2006 we will continue this important work on strengthening the Electrolux brand, launching new products and reducing costs.

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Sources: Company website (www.electrolux.com); annual report 2005.

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Questions

- 1 Refer to section 1.2.1 and explain why the issues facing Electrolux were strategic. Try to find examples of all of the items cited in that section.
- 2 What levels of strategy can you identify at Electrolux? (Refer to section 1.2.2.)
- 3 Identify the main factors about the strategic position of Electrolux. List these separately under environment, capability and expectations (see section 1.3.1). In your opinion which are the most important factors?
- 4 Think about strategic choices for the company in relation to the issues raised in section 1.3.2.
- 5 What are the main issues about strategy into action that might determine the success or failure of Electrolux's strategies? (Refer to section 1.3.3.)