

Applying Strategy



"What if we don't change at all ...
and something magical just happens?"

MGC3130 Lecture

Week 6

Reading List for Applying Strategy

Resistance to organizational change: linking research and practice in Leadership & Organization Development Journal Article by Erwin, Dennis G.; Garman, Andrew N. 2010 Leadership and Organization Development Journal, 1 January 2010, Vol.31(1), pp. 39-56

Resistance, justice, and commitment to change in Human Resource Development Quarterly Article by Foster, Rex D. 2010-12 Human Resource Development Quarterly, 2010, Vol.21(1), pp. 3-39

Let's bury the term "resistance" in Organization Development Journal Article by Merron, K. 1993 Organization Development Journal, 1993, 11(4), pp. 77-86

Case study: Identifying resistance in managing change in Journal of Organizational Change Management

Process Studies of Change in Organization and Management: Unveiling Temporality, Activity, and Flow in Academy of Management Journal Article by Langley, A.; Smallman, C.; Tsoukas, H.; Van de Ven, A. H. 2013-02-01 Academy of Management Journal, 2013, Vol.56(1), pp. 1-13

Leveraging the capabilities of service-oriented decision support systems: Putting analytics and big data in cloud in Decision Support Systems Article by Demirkan, H.; Delen, D. Decision Support Systems, 2013, Vol.55(1), pp. 412-421

An overview

Last class we examined **the main approaches to understanding strategy**

Now we will review **the main models, tools and techniques that organisations use when applying strategy.**

Last lecture we introduced the three **most popularly used** models of strategy which organisations have adopted:

- the Competitive Forces model;
- the Resource-Based View of strategy; and
- the Strategic Conflict model;

Then we outlined the three levels where strategic decision-making is undertaken in organisations at the

- corporate,
- business and
- functional levels.

Now, we will examine some relevant strategic planning tools associated with these approaches.

The journey so far.....

Each step of the journey is important



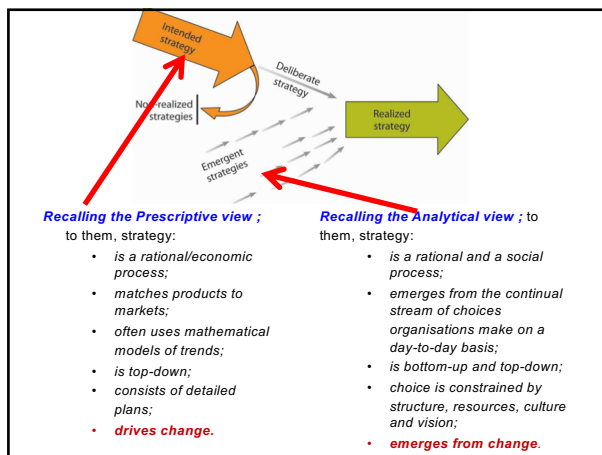
Choosing the type or model of strategy to pursue is one thing; **implementing & making it work** it is an entirely different matter.

This is especially so if one recognises that the **Prescriptive** and **Analytical** streams of strategy *have distinctly different, indeed almost opposite, perspectives on implementation.*

- For the former, **implementation flows from the organisation's strategic plan.**
- For the latter, **the strategy emerges from and is given shape by the actions and decisions organisations make on a day-to-day basis to change and adapt themselves to their circumstances.**

But no matter which model of strategy one subscribes to, as we have seen in this unit, **it is only when organisations implement changes that strategies come alive (the link b/w change and strategy again)**

This highlights the crucial importance of organisational change, and the importance of effectively managing it.



Strategy in practice

Bain's 2017 Management Tools & Trends survey of 1268 managers:

<https://www.bain.com/insights/management-tools-and-trends-2017/>

Reported that globally organisations are moving "away from hierarchical structures and embrac(ing) *Agile Management, accelerating innovation and pushing power and responsibility to the front line....*(and this) is happening across industries, from small regional firms to major multinationals, and in both emerging and developed markets

However, some key takeaways are:

1. 4 have remained in the top 10 for over 25 years – **which ones?**
 2. Topping the list of the 25 most popular management tools is (again) **Strategic Planning** – **why is it 'back in favour'?**
 3. **Major Trends** – **First.** Backlash against bureaucracy and complexity & **Third.** Developing a strong corporate culture
- Q. Can you 'pick' the **Prescriptive** from the **Analytical**?
- A. Both have many candidates



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1. The *Competitive Forces* or *Generic Strategies* approach = How does an SBU achieve a CA?



The works of Michael Porter:

In the 1980's* the economist, Michael Porter, suggested that there **was four ways** a firm could achieve a CA:

By

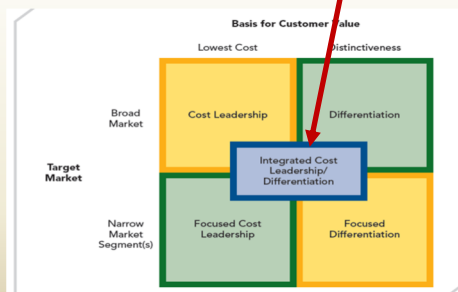
1. creating a lowest-cost position OR
2. developing & implementing a program of differentiating their products/services from their competitors and by
- 3 & 4. choosing to focus on a narrow customer segment/scope or a broad/mass customer segment/scope.

This created four different strategic positions a firm could adopt to have an effective CA (see LHS)



* This "view" has undergone some 'moderation' since; Bowman's 1994 Strategy Clock

.....now into **Five Business-Level Strategies** Using Bowman's Strategy Clock



Source: M. E. Porter, 1998, *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: The Free Press; D. G. Simon, M. A. Hitt, & R. D. Ireland, 2007, *Managing firm resources in dynamic environments to create value: Looking inside the black box*, *Academy of Management Review*, 32: 273-292; D. G. Simon, M. A. Hitt, R. D. Ireland & B. A. Gilbert, 2011, *Resource orchestration to create competitive advantage: Breadth, depth and life cycles effects*, *Journal of Management*, in press. © Copyrighted 2011 by Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson.

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2. The Resource-Based model* (RBV)

RBV is an approach to achieving competitive advantage that emerged in the 1980s and 1990s. This view takes an 'inside-out' view or firm-specific perspective on why organizations succeed or fail in the market place.

i.e. The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at their competitive environment for it.

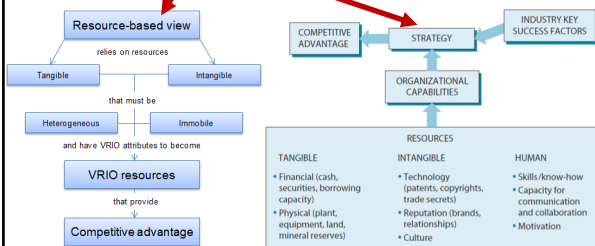
The focus of the RBV model of competitive advantage is on the **relationship between the organisation's internal resources and its performance.**

It therefore sees above-average profitability as coming from **the effective deployment of superior** (to their competitors) **or unique resources that allow their firm to have lower costs or better products**, rather than from tactical manoeuvring or product market positioning.

*See the Resource-Based view of strategy; Youtube 5 mins: <https://www.youtube.com/watch?v=E-7wB1k384> & Jay Barney: https://www.youtube.com/watch?v=O_wa9QaWHL0

2. The Resource-Based model (RBV)

There are a number of "Tools – Frameworks" that can be applied to determine the firm's "Strategic Capabilities"; here are two approaches that are globally used; Barney & Grant



3. The Strategic Conflict model - An Analytical perspective

Although the industry-based view (using the Competitive Forces model) of business strategy emphasizes the importance of industry structure and the RBV emphasizes the value of the firm's resources for competitive advantage, it is also recognized that *the decisions a firm makes in terms of its actions and reactions in relation to its competitors in a market is a major determinant of its ultimate performance.*

This is known as **Competition-based theories of business strategy.**

They "emerged" to fill this gap and ensured **attention to the dynamics of competition between rivals.**

It is important to emphasize that the need for firms to think strategically is driven by the existence of competition. If there is no competition, there is no need to make strategy a priority.

One of these competition-based theories of business strategy is known as "**The Strategic Conflict model**".

The Strategic Conflict model - An Analytical perspective



- This model portrays competition as war between rival firms.
- Its proponents tend to draw on the work of military strategists such as Sun Tzu, von Clausewitz and Mao Zedong.
- It stresses the dynamic nature of strategy and the need to respond to competitors who do not always behave as anticipated.
- Central to this approach is the view that a firm can achieve increased profits by influencing the actions and behaviour of its rivals and thus, in effect, manipulate the market environment.
- This can be done in a number of ways, such as by investment in capacity, R&D, sourcing supply and advertising.
- Many "models" borrowed from the military have been touted and proven as reliable – e.g.
- The **theory of business strategy** by Carl Shapiro, **Business War Games** by Barrie James, **Marketing Warfare** by Al Ries and Jack Trout and **Leadership Secrets of Attila the Hun** by Wess Roberts, Lynch and Kordis' **Strategy of the Dolphin** as well as the globally recognised **Blue Ocean Strategy** (<http://www.blueoceanstrategyaustralia.com.au/>).

Points to note about each of these three approaches

Remember,
all these strategies have weaknesses as well as strengths.



- They tend to be situation-specific. Good research & understanding is required
- Managers need to be familiar with the available range of strategies and tools.
- And remember – they are tools – not “answers”
- And as the Bain's Management Tools survey consistently shows, they should use the ones best suited to their circumstances.

Levels of strategic decision-making: 1. Corporate level

The role of corporate strategy

To answer the question; “Where do we compete?”

This is a question of **Business Scope**, i.e.

- What sector/industry/markets & segments do we compete within?
- Where geographically should we locate what parts of our operations?
- Where strategically should & how should we best operate in our industry Supply Chain?

Strategy at this level concerns the direction, composition and coordination of the various businesses (SBUs) and activities that together comprises our organisation

Types of corporate strategy

- **Stability** strategy
- **Growth** strategy
- **Renewal** Strategies & a
- **Combination of the above** strategies.

Types of corporate strategy?

A Stability strategy: A stability strategy is a corporate strategy in which an organization **continues to do what it is currently doing**.

Examples of this strategy include continuing to serve the same clients by offering the same/similar product or service, maintaining market share and sustaining the organization's current business operations.

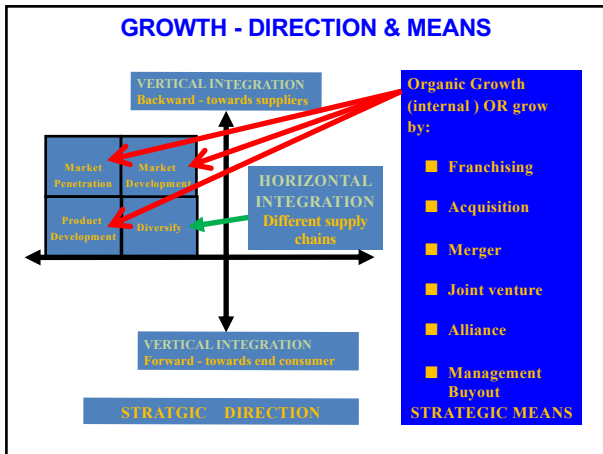
The organization does not grow, but does not fall behind either.

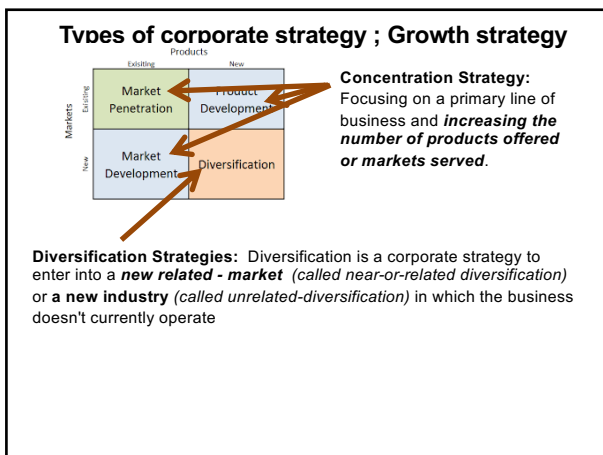
Growth strategy: A growth strategy is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es).

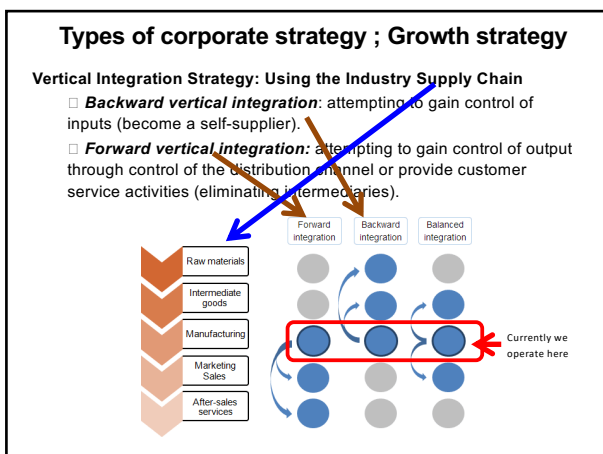
Types of Growth Strategies

- ☐ Concentration – Penetration
- ☐ Vertical integration
- ☐ Horizontal integration
- ☐ Diversification

Because of its growth strategy, an organization may increase revenues, number of employees, or market share.







Types of corporate strategy; Renewal Strategies

When an organization is in trouble, something needs to be done. Managers need to develop corporate-level strategies, called renewal strategies, that **address declining performance**.

The main types of renewal strategies are

- **retrenchment:** *focusing on eliminating non-critical weaknesses and restoring strengths to overcome current performance problems - will involve selling-off assets*
- **Harvesting:** *Planned discontinuation of a product at the end of or nearing the end of its life cycle, while extracting maximum profit from its sales (e.g. a cash cow)*
- **turnaround strategies:** *addressing critical long-term performance problems through the use of strong cost elimination measures and large-scale organizational restructuring solutions*

More on these in the workshop

Levels of strategic decision-making: Business level-strategy

Purpose: *How we intend to compete in a specific industry or product market .*

Strategy at this level relates to **the competitive operation and direction** of each of the individual businesses (SBUs) within the firm's *group of companies*.

Two approaches:

1. **The Prescriptive view:** To create **differences between the position of a firm and its competitors** (e.g. using the tools of positioning and strategic group mapping)

- Here the firm must make a deliberate choice to
 - Perform activities differently
 - Perform different activities

OR

2. **The Analytical view:** Use an integrated and coordinated set of commitments and actions to gain a competitive advantage **by exploiting the core competencies of the firm in specific product markets/industry** that it competes within

Business level-strategy; A Prescriptive approach The Competitive Forces model

Michael Porter provided a framework* that models an industry as being influenced by five forces. It is used to analyse the attractiveness and likely-profitability of an industry (**key** = Helps you understand how the industry operates)

Since publication, it has become one of the most important and widely used business strategy tools.

The aim of this industry analysis is to answer these questions:

- *What forces determine the profitability of the industry?*
- *Based on these forces, what is the **current** absolute and relative profitability of the industry?*
- *How are these **forces changing** and how are they **expected to change** (= the dynamics of the industry)?*
- *How will those changes affect **future profitability**?*

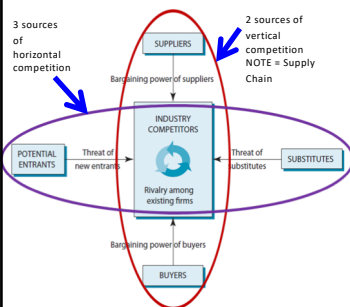
More in our Workshop

*The classic article which introduces it is "How Competitive Forces Shape Strategy" in Harvard Business Review 57, March - April 1979, pages 86-93

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Business level-strategy; A Prescriptive approach The Competitive Forces model

Porter's research showed that **an industry is most likely profitable** when 5 factors 'come-into-play':



More on this in the workshop

1. entry to the industry is difficult
2. there are many small suppliers whose contribution is unimportant
3. there are many small buyers
4. there are few substitutes
5. there are few, but relatively happy competitors

Business level-strategy; **The Analytical approach**

The design school argues that the **managerial values of the managers and their social responsibilities** are two important factors in determining the strategy for any organization (Sloan, 2006).

Thus, the **preferences and the beliefs of the people** leading the organization and the **perceived ethics of the environment** in which the organization operates are important contributors to **determine the strategic intent of any organization**.

In this school of strategy, **after the various alternative strategies have been determined, the next step is to evaluate and make a choice on the best one**.

Hence the implementation of the strategic action plan is subject to the **agreement of all stakeholders on the final strategy**.

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Levels of strategic decision-making: Functional level

Strategy at this level is concerned with individual business functions and processes such as finance, marketing, manufacturing, supply-chain, technology and human resources.

The advantages of this are that employees and resources can be assigned to the tasks that best suit their skills and interests.

Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall Corporate and Business-level strategic considerations.

Functional strategy deals with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Below the functional-level strategy, there may be operations level strategies as each function may be divided into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.



Strategic planning tools

Strategic planning has developed an enormous array of tools, techniques & frameworks to help strategists define and interpret information for making strategic and other decisions in business.

Many have been 'borrowed' from other disciplines, some have been 'reconfigured' for application to the business world and some have been specifically designed for particular business applications.

Planning tools do not have to be quantitative to be useful. Quantitative models can be important, and also very useful.

And as Mintzberg & others warn; You want the tools to serve your process, not to control it. It is often easy to allow the tools to become ends in themselves. Avoid this outcome

See Strategic Planning Tools: <http://www.simple-strategic-planning.com/strategic-planning-tools.html>

PLANNING METHODS AND TOOLS: <http://www.fao.org/docrep/w3210e/w3210e07.htm>

Mindtools: <https://www.mindtools.com/>

12manage: <http://www.12manage.com/>
