

An aerial photograph of a large, colorful geometric plaza. The plaza is composed of various colored rectangular sections: light blue, white, red, purple, and green. A large green square is the central feature. Several people are walking across the plaza, their shadows cast on the ground. The overall design is reminiscent of Piet Mondrian's abstract art style.

7th Asia-Pacific Edition

MANAGEMENT

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Strategy formulation and implementation

CHAPTER 8



CHAPTER 08

Strategy formulation and implementation

1

Define the components of strategic management and discuss the three levels of strategy

2

Explain the strategic management process and summarise how SWOT analysis can be used to evaluate an organisation's strengths, weaknesses, opportunities and threats

3

Explain three approaches to corporate-level strategy: portfolio; the Boston Consulting Group (BCG) Matrix; and diversification

4

Describe Michael Porter's competitive forces and strategies

5

Discuss emerging and models of strategy and their benefits for business growth

6

Compare and contrast the globalisation, multidomestic, and transnational strategies for global business

7

Explain the organisational dimensions used for implementing strategy



- 1 When keeping records, I tend to:
 - a be careful about documentation
 - b be haphazard about documentation.
- 2 If I run a group or a project, I:
 - a have the general idea and let others figure out how to do the tasks
 - b try to figure out specific goals, timelines and expected outcomes.
- 3 My thinking style could be more accurately described as:
 - a linear thinker, going from A to B to C
 - b thinking like a grasshopper, hopping from one idea to another.
- 4 In my office or home things are:
 - a here and there in various piles
 - b laid out neatly or at least in reasonable order.
- 5 I take pride in developing:
 - a ways to overcome a barrier to a solution
 - b new hypotheses about the underlying cause of a problem.
- 6 I can best help strategy by encouraging:
 - a openness to a wide range of assumptions and ideas
 - b thoroughness when implementing new ideas.
- 7 One of my strengths is:
 - a commitment to making things work
 - b commitment to a dream for the future.
- 8 I am most effective when I emphasise:
 - a inventing original solutions
 - b making practical improvements.



THINKING STRATEGICALLY

- Involves taking:
 - Long-term view of business
 - Seeing the big picture
 - Looking at fit between organisation and environment
- Can make the difference between success and failure for both profit-making and non-profit-making organisations



STRATEGIC MANAGEMENT

- Refers to the set of decisions and actions used to formulate and implement strategies that give an organisation its competitive advantage
- A **strategy**:
 - A plan of action describing resource allocation and activities for:
 - dealing with the environment
 - achieving a competitive advantage
 - attaining goals



PURPOSE OF STRATEGY

- Creates competitive advantage
- Changes over time
- Should incorporate elements that:
 - Target customers
 - Focus on core competencies
 - Provide synergy
 - Create value

strategy

- A plan of action that describes resource allocation and activities for dealing with the environment, achieving a competitive advantage and attaining goals.

competitive advantage

- What sets the organisation apart from others and provides it with a distinctive edge in the marketplace.



THE ELEMENTS OF COMPETITIVE ADVANTAGE



target customer

- effective strategy defines the customers to be targeted and which of their needs are to be served by the company.

core competence

- business activity that an organisation does particularly well in comparison to competitors.

synergy

- condition that exists when the organisation's parts interact to produce a joint effect that is greater than the sum of the parts acting alone.

Value

- combination of benefits received and costs paid.

Exhibit 8.1 The elements of competitive advantage



THREE LEVELS OF STRATEGY IN AN ORGANISATION

Three levels of strategic thinking:

1. Corporate level strategy
2. Business level strategy
3. Functional level strategy

Corporate-level strategy:
What business are we in?

Business-level strategy:
How do we compete?

Functional-level strategy:
How do we support the business-level strategy?

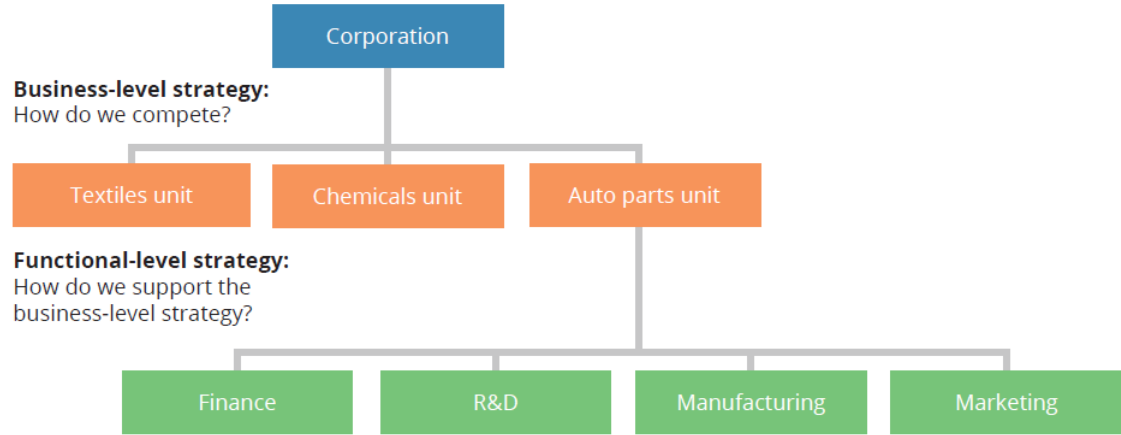


Exhibit 8.2 Three levels of strategy in organisations

Sources: Leontiades, M. (1980). *Strategies for Diversification and Change* (Boston: Little, Brown), p. 63; and Schendel, D. E. and Hofer, C. W. (eds) (1979). *Strategic Management: A New View of Business Policy and Planning* (Boston: Little, Brown), pp. 11–14.



THINKING STRATEGICALLY

Corporate-level strategy

- What business are we in?
 - Relates to the organisation as a whole and to the combination of business units and product lines that make up the corporate entity
 - May mean a company will divest unwanted business units, or acquire or develop new business (contd.)



THINKING STRATEGICALLY (CONTD.)

Business-level strategy

- How do we compete?
 - This question relates to each unit or product line within the organisation
 - Focuses on the way the business unit competes within the industry for customers
 - e.g. Coles Supermarkets upgrading appearance, advertising (contd.)



THINKING STRATEGICALLY (CONTD.)

Functional-level strategy

- How do we support the business-level strategy?
 - Relates to major functional departments within the business unit
 - e.g. Finance, research and development, marketing and manufacturing
 - e.g. Business-level is product innovation, functional-level (human resources) is to maintain highly satisfied and motivated employees in research and development (salary, conditions, etc.)



THE STRATEGIC MANAGEMENT PROCESS

- Overall strategic management process begins when executives evaluate their current position with respect to the company's mission, goals and strategies
- Then scan the organisation's internal and external environments and identify strategic issues that might require change
- Internal or external events sometimes indicate a need to redefine the mission or goals or to formulate a new strategy



THE STRATEGIC MANAGEMENT PROCESS

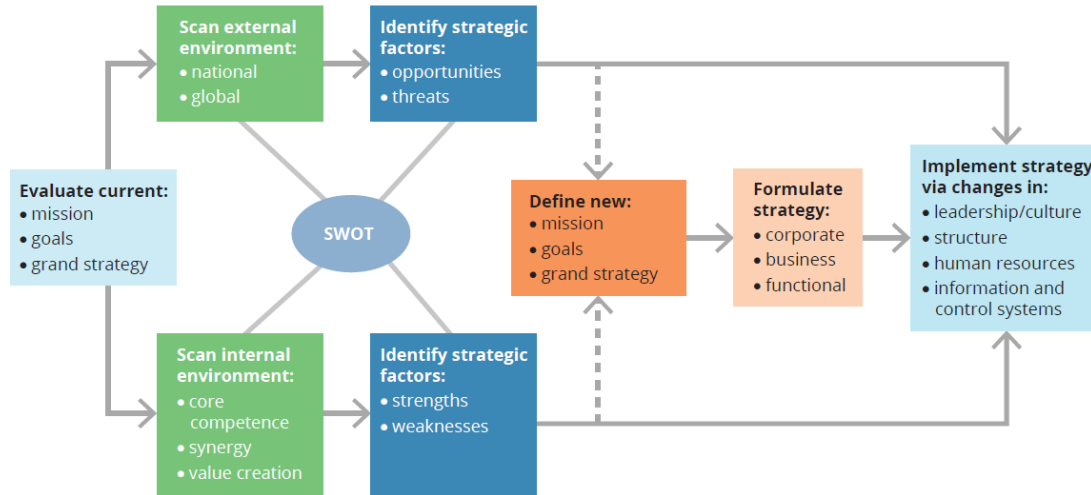


Exhibit 8.3 The strategic management process

Sources: Based on Stevenson, H. H. (Spring 1976). 'Defining Corporate Strengths and Weaknesses'. *Sloan Management Review*, 17, 51–68; Kastens, M. L. (1976), *Long-range Planning for Your Business*. New York: American Management Association.



STRATEGY FORMULATION VERSUS IMPLEMENTATION

- Strategy **formulation** versus **execution**
 - Formulation
 - Planning and decision making that leads to establishment of organisation goals and a specific strategic plan
 - Execution
 - Use of managerial and organisational tools to direct resources towards achieving strategic outcomes



SWOT ANALYSIS

- Formulating strategy often begins with an assessment of the internal and external factors



INTERNAL STRENGTHS AND WEAKNESSES

Management and organisation <ul style="list-style-type: none"> • Management quality • Staff quality • Degree of centralisation • Organisation charts • Planning, information, control systems 	Marketing <ul style="list-style-type: none"> • Distribution channels • Market share • Advertising efficiency • Customer satisfaction • Service reputation • Sales force turnover 	Human resources <ul style="list-style-type: none"> • Employee experience, education • Union status • Turnover, absenteeism • Work satisfaction
Finance <ul style="list-style-type: none"> • Profit margin • Debt-equity ratio • Inventory ratio • Return on investment • Credit rating 	Production <ul style="list-style-type: none"> • Plant location • Machinery obsolescence • Purchasing system • Quality control • Productivity/efficiency 	Research and development <ul style="list-style-type: none"> • Basic applied research • Laboratory capabilities • Research programs • New-product innovations • Technology innovations

Exhibit 8.4 Checklist for analysing organisational strengths and weaknesses



EXTERNAL OPPORTUNITIES AND THREATS

- **Threats** are characteristics of the external environment that may prevent the organisation from achieving its strategic goals
- **Opportunities** are characteristics of the external environment that have the potential to help the organisation achieve or exceed its strategic goals



FORMULATING CORPORATE-LEVEL STRATEGY

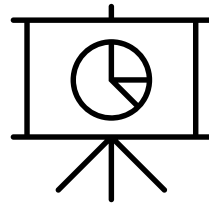
Three approaches:

- The portfolio strategy
- The BCG matrix
- Diversification strategy



THE PORTFOLIO STRATEGY

- Relates to the organisation's mix of strategic business units and product lines that fit together in such a way as to provide the organisation with synergy and competitive advantage
- Usually a balanced mix of business divisions or strategic business units (SBUs)



THE BCG MATRIX

- Originated by Boston Consulting Group (BCG)
- Evaluates strategic business units along two dimensions:
 - Growth
 - Market share
- Provides four categories:
 - Star
 - Question mark
 - Dog
 - Cash cow

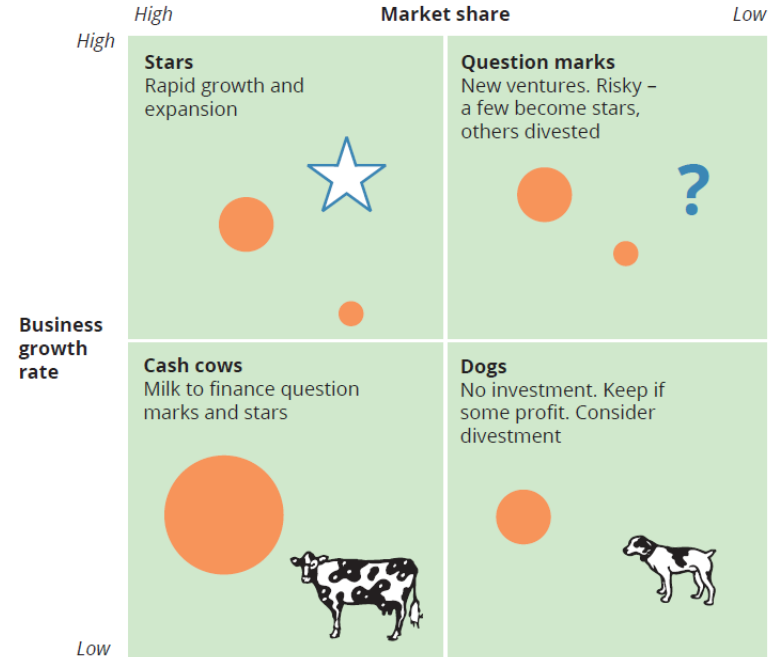


Exhibit 8.5 The BCG matrix

DIVERSIFICATION STRATEGY

The strategy of:

- Moving into **new** lines of business
 - e.g. GE's move into renewable resources
- Creating value through **vertical** integration
 - Expanding into businesses that produce supplies or distribute and sell products to customers



FORMULATING BUSINESS-LEVEL STRATEGY

Key Concept

Porter's five competitive forces and strategies:

- 1 Potential new entrants
- 2 Bargaining power of buyers
- 3 Bargaining power of suppliers
- 4 Threat of substitute products
- 5 Rivalry among competitors



FORCES AFFECTING INDUSTRY COMPETITION

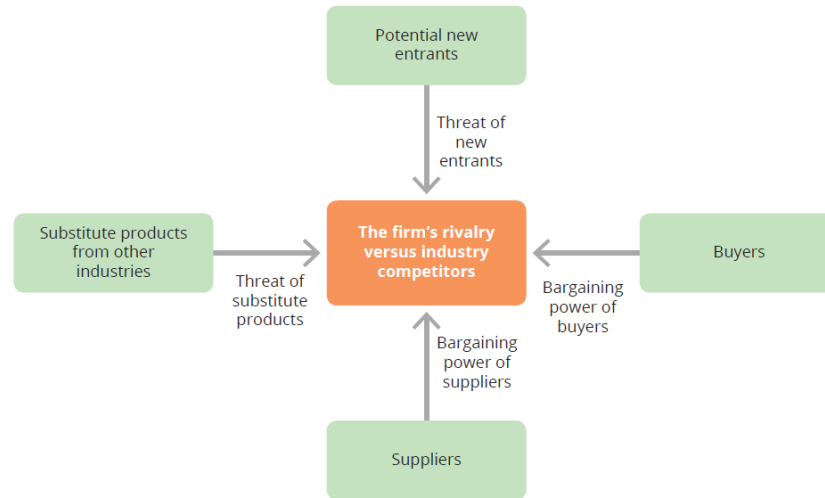


Exhibit 8.6 Forces affecting industry competition



PORTER'S COMPETITIVE STRATEGIES

To find a competitive edge within the specific business environment, Porter suggests that an organisation can adopt one of these strategies

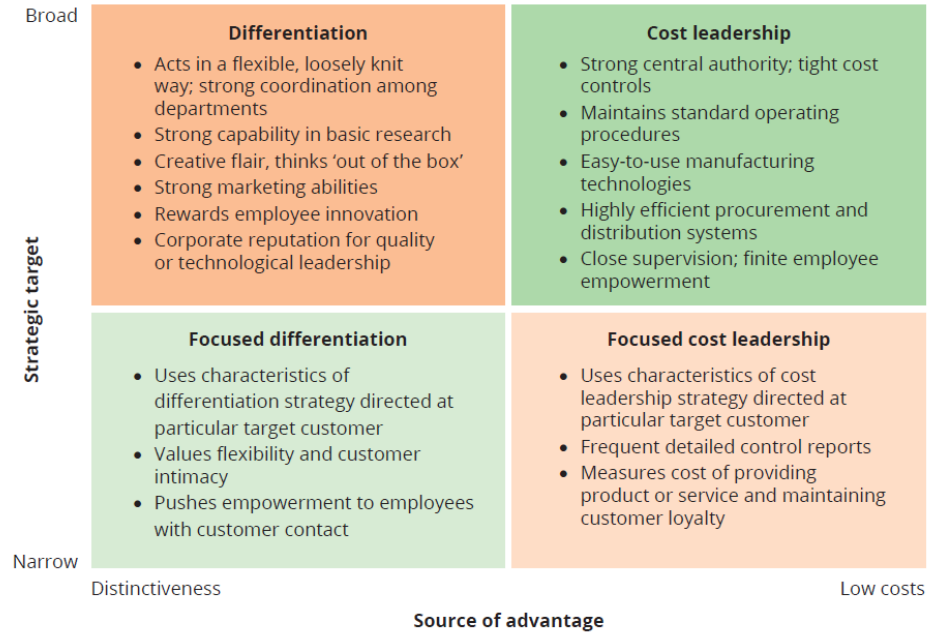


Exhibit 8.7 Organisational characteristics of Porter's competitive strategies

Sources: Based on Porter, M. E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press); Treacy, M. and Wiersema, F. (6 February 1995). 'How Market Leaders Keep Their Edge'. *Fortune*, 88–98; and Hitt, M. A., Ireland, R. D. and Hoskisson, R. E. (1995). *Strategic Management* (St Paul, MN: West), pp. 100–13.



NEW TRENDS IN STRATEGY

Shift from **mergers** and **acquisitions** to:

- Innovation from within
 - Make use of **dynamic capabilities**
 - Sustained competitive advantage achieved by leveraging and developing existing assets, capabilities and core competencies
- Strategic partnerships
 - Collaboration with other businesses (even competitors)



A CONTINUUM OF COOPERATIVE STRATEGIES

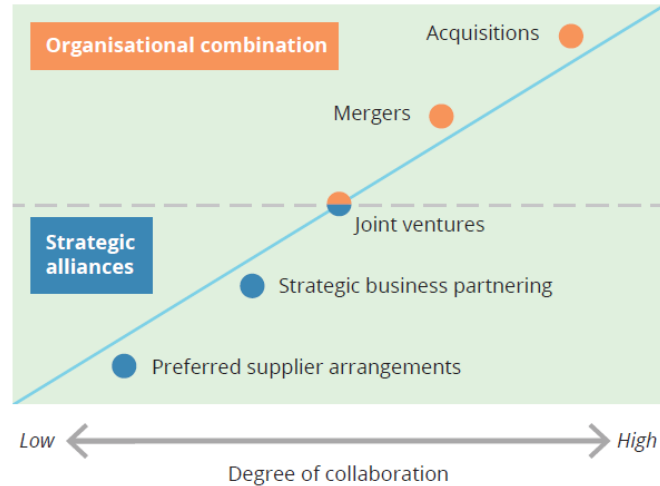


Exhibit 8.8 A continuum of cooperative strategies

Source: Originally published October 1990. Reprinted by permission, *Nation's Business*, July 2007. Copyright 1990, US Chamber of Commerce; Adapted from Maynard, R. (October 1996). Choosing a Franchise. *Nation's Business*, 56–63.

GLOBAL STRATEGY

Many organisations operate globally and pursue a distinct strategy as the focus of global business

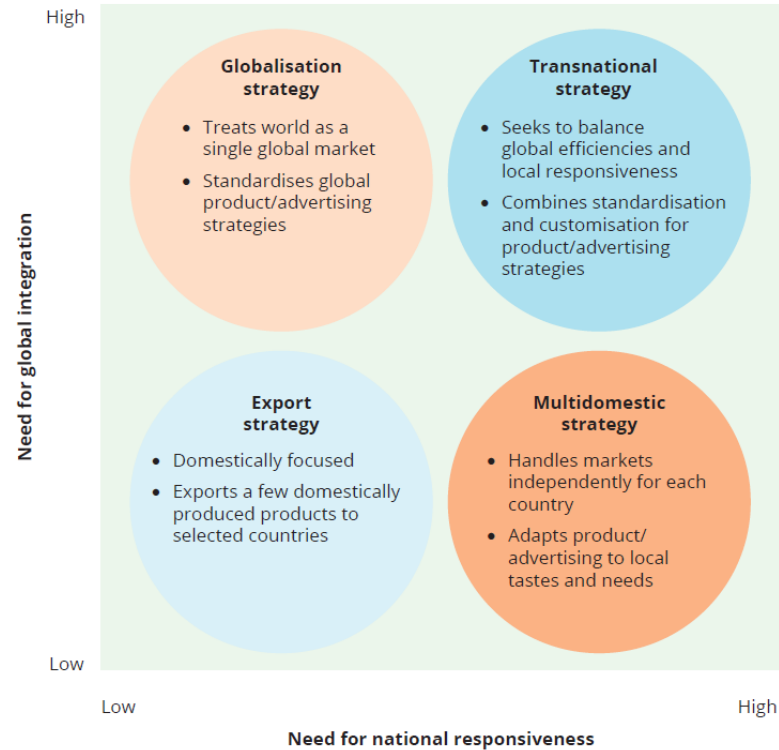


Exhibit 8.9 Global corporate strategies

Sources: Based on Hitt, M.A., Ireland, R. D. and Hoskisson, R. E. (1995). *Strategic Management: Competitiveness and Globalization* (St Paul, MN; West), p. 239; and Begley, T. M. and Boyd, D. P. (Winter 2003). 'The Need for a Corporate Global Mindset'. *MIT Sloan Management Review*, 25–32.



GLOBALISATION STRATEGY

multidomestic strategy

- modification of product design and advertising strategies to suit the specific needs of individual countries.

transnational strategy

- strategy that combines global coordination to attain efficiency with flexibility to meet specific needs in various countries.



STRATEGY IMPLEMENTATION

- Senior and executive managers responsible for **developing** organisational strategy
- When **implementing** the strategy, must turn those plans into action
- Prioritising goals, informing and resourcing those affected by the new strategy, and supporting managers throughout the organisation
- Turn strategic plans into actions



STRATEGY IMPLEMENTATION

Primary tools to execute strategy include:

- Visible leadership
- Clear roles and accountability
- Candid communication
- Appropriate human resources

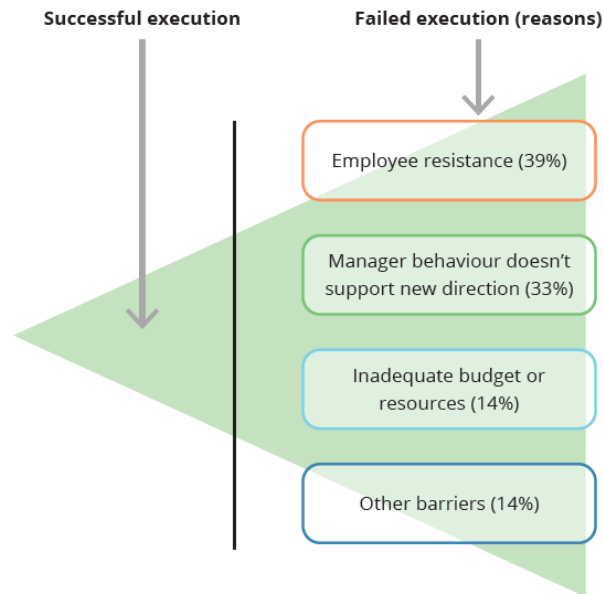


Exhibit 8.10 Factors that contribute to the failure of strategy execution

Source: Based on Keller, S. and Price, C. (2011). *Performance and Health: An Evidence-Based Approach to Transforming Your Organization* (New York: Wiley); and Hatami, H., Prince, S. and Valdivieso de Uster, M. (Spreinung 2013). 'Sales Growth Through Strategic Leadership'. *Leader to Leader*, 57–62.



TOOLS FOR PUTTING STRATEGY INTO ACTION

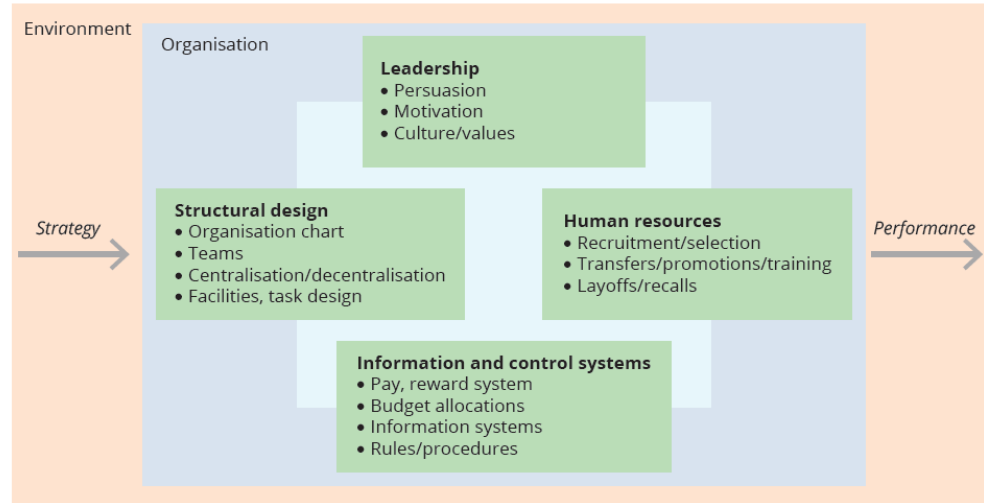


Exhibit 8.11 Tools for putting strategy into action

Source: Based on Galbraith/Kazanjan. *Strategy Implementation, 2E.* © 1986 South-Western, Cengage Learning.



TESTING THE QUALITY OF STRATEGY

Test 1	•Does this strategy beat the market?
Test 2	•Does it tap into our competitive advantage?
Test 3	•Is the strategy detailed enough about where to compete?
Test 4	•Is the strategy at the cutting edge of new trends?
Test 5	•Does the strategy make use of up-to-date information?
Test 6	•Does the strategy fully account for uncertainty?
Test 7	•Does the strategy contain both commitment and flexibility?
Test 8	•Is it unbiased, rational and logical?
Test 9	•Is there a strong commitment to execute the strategy?
Test 10	•Is there an effective action plan



DEVELOPING A SUSTAINABILITY STRATEGY

Sustainability should be part of business strategy

- **Internal** and **external** scans should include aspects of sustainability
- Sustainability elements should be included in overall strategy formulations
 - e.g. Sydney's Olympic Park



CHAPTER 8 – BRIEF SUMMARY

8.1 To think strategically means to take the long-term view and see the big picture. This requires looking at the capabilities and capacities of the organisation and the changes and trends in the industry and general environment surrounding the organisation.

8.2 Strategy formulation is the stage of strategic management that includes the planning and decision making – using tools such as the SWOT analysis - to establish the organisation's goals and a specific strategic plan.

8.3 Frameworks for corporate-level strategy include portfolio strategy, the BCG matrix and diversification strategy. These frameworks help managers make sense of their current competitive position and identify a desired pathway for the future of the organisation.

8.4 Business-level strategy focuses on how the organisation will compete with others, and uses Porter's competitive forces and strategies to evaluate the opportunities and threats facing the organisation.

8.5 Managers can focus on developing and using the dynamic capabilities of their organisation to innovate and generate new sources of value and competitive advantage. This can sometimes include strategic partnerships, mergers, acquisitions and alliances to tap into desired skills, resources and information that they otherwise wouldn't have on their own.

8.6 When formulating a strategy as the focus for global operations, managers face a dilemma between the need for global standardisation and the need for local responsiveness. Most large organisations use a combination of strategies to maximise gains from economies of scale and local preferences and talent.

8.7 Even the most creative strategies have no value if they cannot be translated into action. Managers use visible leadership, clear roles and accountability, candid communication and appropriate human resource practices to execute strategy effectively.

