

Strategy & Competitive Advantage

Part 1

Chartered Accountancy Strategic Level Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT & LEADERSHIP

CA - STRATEGIC LEVEL



Strategy & Competitive Advantage (01)

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Strategy & Competitive Advantage – (10%)

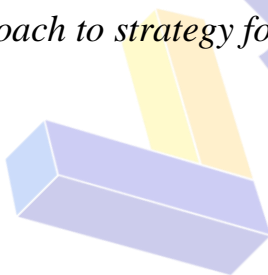
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<u>CONTENT</u>		
<u>1</u>	Levels of Strategy	
<u>2</u>	Strategic Planning for SBU's	
<u>3</u>	Strategy Lenses	
<u>4</u>	Vision, Mission & Values	
<u>5</u>	Goals, Objectives & Targets	

INTRODUCTION

This looks at the question of Strategic Management and Leadership, what is meant by 'strategy'.

This chapter begins with an overview look at how a business organization may set about formulating business strategy. The focus is mainly on strategy formulation at divisional level – the level of the strategic business unit – and a formal or rational approach to strategy formulation.



1.0 LEVELS OF STRATEGY

Business strategy is concerned with deciding the broad objectives for the business, and setting specific targets or objectives for achievement within a planning period. Strategic planning occurs at different levels within a business organisation: at the overall corporate level, at divisional level within the organisation as a whole, and at functional or operational level for each business division.

Strategic management occurs at three levels in large organisations.

Strategy can be defined as course of actions carried out to achieve pre-determined objectives. In other words strategy is a collection of activities which you are implemented with the purpose of achieving previously decided expectations of the organization. Corporate Management of the company will develop strategies for the organizations.

Strategy is defined by different authors or different professional bodies in different ways but ultimately strategy is the process which enables the organization to meet the challenges successfully in a continuously changing environment. Successful strategies will lead the organization toward corporate success.

The greatest warrior "Sun – Tzu" once said **"anybody can see the tactics but nobody can see the strategy behind"**.

Strategic management can occur at three levels in large organizations;

- I. Corporate Strategy
- II. Business Strategy
- III. Functional Strategy

1.1 Corporate Strategy

Corporate strategies will be developed by the top management & corporate strategy will decide the overall direction of the corporate as a single unit. Each & every part of the business will be covered by the corporate strategy & all the other strategies must be developed according to the corporate strategy at the top.

- Eg:**
- i. Decision of Acquisitions & Mergers
 - ii. Decision about entering into new markets, developing new products.
 - iii. Other corporate level decisions with a broader scope

1.2 Business Strategy

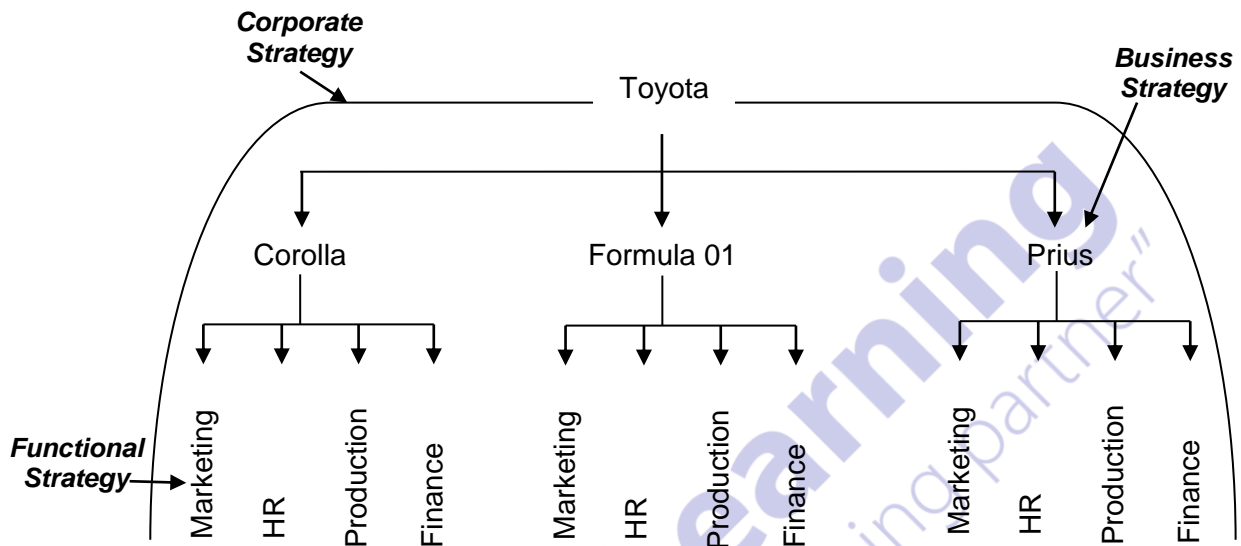
Business strategy is basically developed for a specific business unit (SBU's) of the organization & it has to be developed according to the guideline of corporate strategy. Business Strategy will be formulated by the Heads of each business unit & this is also called as competitive strategy.

- Eg:**
- Decisions about 7P's
 - Decisions about staffing

1.3 Functional Strategies

These strategies are developed by functional Managers & sometimes they are called as operational strategies. Functional Strategies are developed according to the business strategy of the entity.

Eg: Production Decisions, HR Decisions, Finance Decisions etc



Corporate Strategy Vs Business Strategy

■



■

Strategic business decisions are taken under a number of market uncertainties and complex market conditions. Changes in the market are very influential on strategy formulation and implementation.

Johnson, Scholes and Whittington suggests that there are six general areas for decision making which are in “Strategic” nature.

Long-term direction	
Scope of Activities	
Competitive Advantage	
Adapting to Changes in the Business Environment	
Exploiting unique resources and core competencies	
Recognizing the values and expectations of key stakeholders	

According to Johnson, Scholes and Whittington, Strategy is the direction and scope of an organization in long term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

1.4 Triggers for the Initiation of Strategy

There are a number of internal & external Triggers / driving forces for strategy formulation which makes strategies very important & essential.

1.4.1 External triggers (environmental triggers)

External triggers can be split up into direct and indirect triggers.

Direct refers to the 'micro' environment, and indirect refers to the 'macro' environment.

External triggers – indirect

These are events in the wider environment, which comes under PESTLE framework.

- Political
- Economic
- Social
- Technological
- Legal
- Environmental/ecological

External triggers – direct

These are events what's happening in the organisation's industry, which comes under Porter's five forces model.

- Competitive rivalry
- Power of customers
- Power of suppliers
- Threat of new entrants
- Threat of substitutes

1.4.2 Internal triggers

The internal triggers for change within the organisation could span any functional area of operation or level of control from strategic to operational.

- Change of philosophy; new ownership, new CEO
- New initiative or a change in management style
- Re-organization
- Divisional restructuring & Reporting
- A decision to start a process of cost reduction,
- Personnel changes; perhaps a key member of staff has retired or left for personal reasons unconnected to the organisation.
- New opportunities being identified by staff or management.

Above triggers will justify “Why a Change” of current practice to a “New Strategy” is needed.

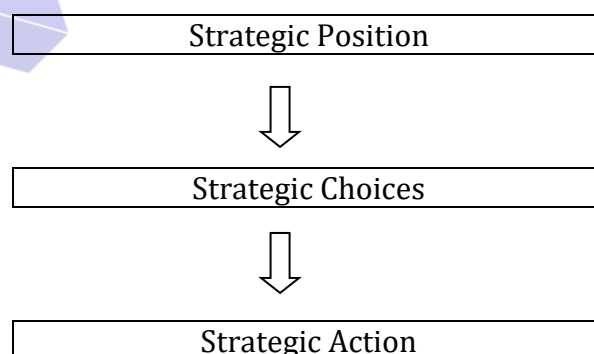
1.5 Characteristics of Strategic Decisions

Following are the common characteristics of Strategic Decisions

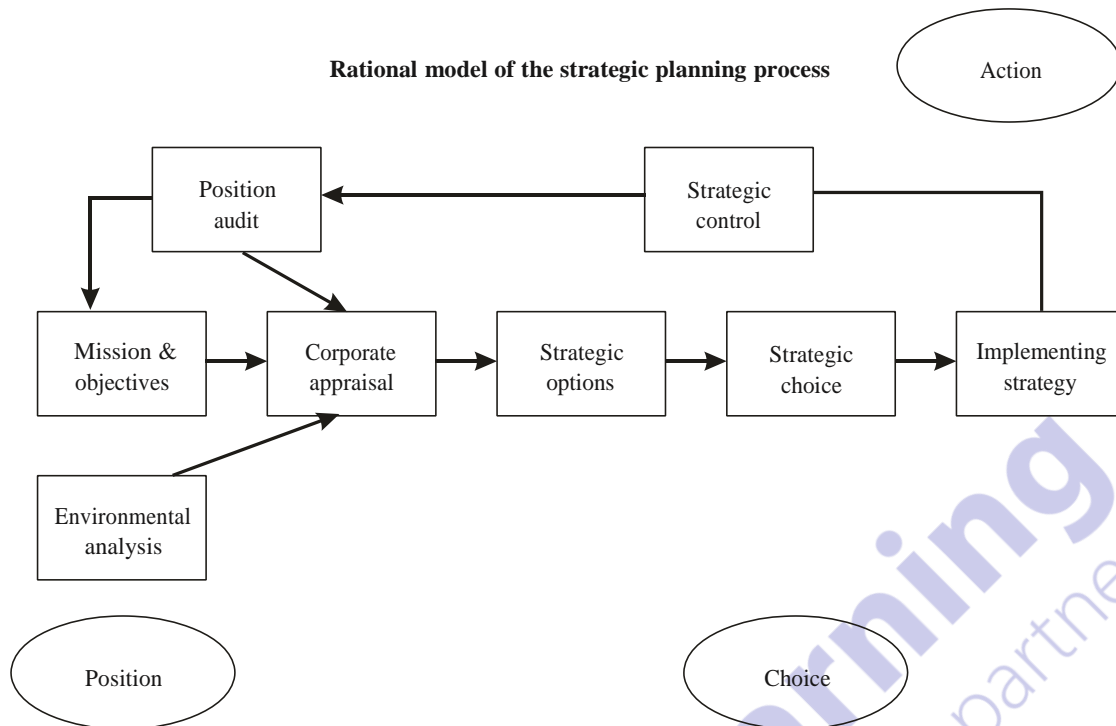
Complexity	
Uncertainty	
Effect on Business Operations	
They Affect the entire organization or business	
Change	

2.0 STRATEGIC PLANING FOR SBU's

Strategy formulation at SBU level can be illustrated as follows;



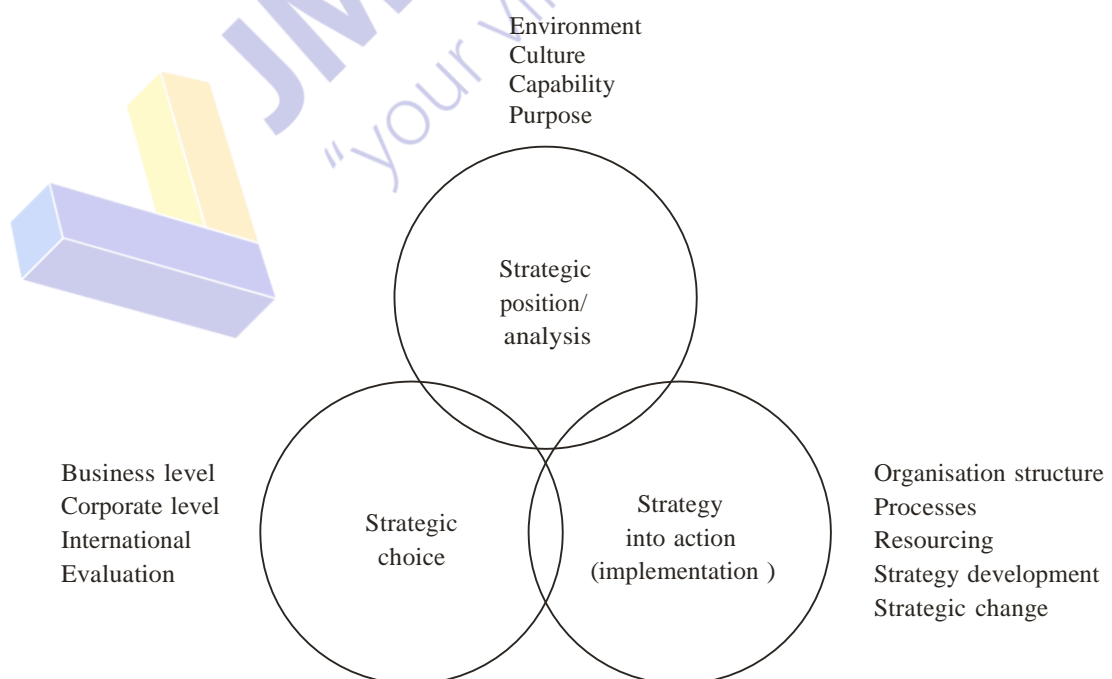
2.1 The Rational Model of Strategy



However, whereas the **rational model** is usually presented as a **linear model**, Johnson et al (2005) also recognize the **interdependencies** between position/analysis, choice and implementation.

The Johnson et al (2005) model of the elements of strategic management can be presented as a Venn diagram to illustrate these interdependencies:

Elements of strategic management



What the diagram is illustrating are the interdependencies between position analysis, choice and implementation.

For example, when a company begins to implement a plan it might find that the environment has changed, or that obstacles are discovered. In such cases, the planning stage and strategic choice stages need to be revisited.

Strategic planning is usually, therefore, an iterative process rather than a linear process.

2.2 Emergent strategies

Whereas the rational model describes a top-down process which is clearly defined from the outset, *Henry Mintzberg* argues that strategy is better viewed as an emergent process.

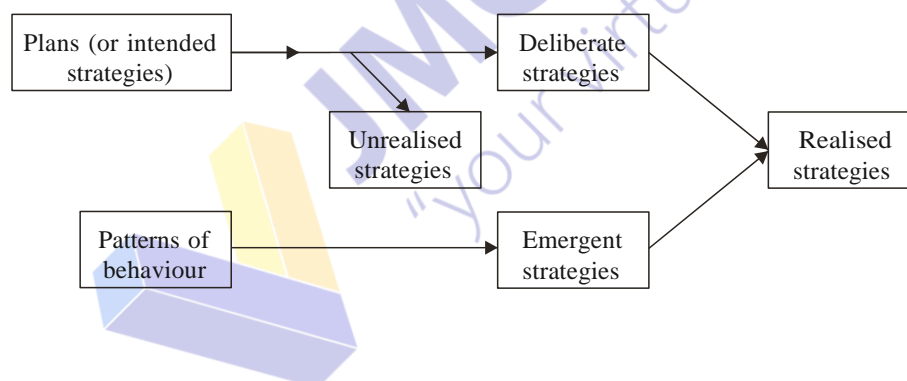
An emergent strategy is one whose **final objective is unclear** at the outset, and whose **elements develop** during its life as the strategy proceeds.

Moreover, emergent strategies can emerge 'bottom up'; they can result from a number of **ad hoc choices** within an organisation, possibly made lower down the organisation, not just by senior management.

An **emergent strategy** is one developed out of a pattern of behavior rather than being consciously imposed in advance by senior management. There is a high degree of experimentation to find the most productive route.

Emergent strategies can sometimes be seen as **survival-based theories of strategy**. In order to survive and prosper in an environment which is shifting and changing an organisation has to be 'fitter' than its competitors: only the fittest will survive.

The diagram below should help to explain the contrast between prescriptive (planned) and emergent strategy.



The diagram above also highlights the important distinction between **realised** and **unrealised** strategies. Plans may be unworkable for a variety of reasons: resources may be inadequate, important stakeholders may oppose them, PESTEL factors may vary etc.. Johnson et al (2005) suggest a three part structure for thinking about strategy.

- Strategic position
- Strategic choices
- Strategy into action

The rational model approach to strategy development is logical and ordered. An emergent approach to strategy development is less structured and more flexible.

3.0 STRATEGY LENSES

This refers to different ways in which strategies are deemed to rise.

Even though we defined strategy as pre-determined rational decision making, sometimes it's not the same in reality.

Sometimes, strategies are planned after implementation has begun, sometimes the strategy is created by people further down the organizational chart.

We will consider the four ways in which strategies can come about; strategy as design, strategy as experience, strategy as ideas and strategy as discourse.

3.1 Strategy as design

3.2 Strategy as experience

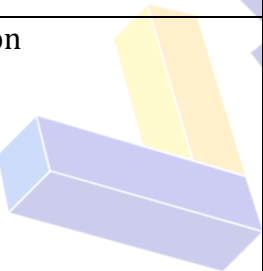
3.3 Strategy as ideas



3.4 Strategy as discourse.

4.0 VISION, MISSION AND VALUES

There should be a clear purpose for a business organization to exist and this should be well defined to ensure all respective stakeholders are well aware of thus. This may be to create wealth to the shareholders of the business or in any broader scope. At the same time an organization should possess with some core values which are embedded in the corporate culture.

Vision	<p><i>"Create a Better Every Day life"</i> - IKEA</p> <p><i>"To become the most customer preferred commercial bank in Sri Lanka"</i> - Pan Asia Bank</p>
Mission	 <p>Sony is committed to developing a wide range of innovative products and multimedia services that challenge the way consumers access and enjoy digital entertainment. By ensuring synergy between businesses within the organization, Sony is constantly striving to create exciting new worlds of entertainment that can be experienced on a variety of different products.</p> <p>- Sony Corporation</p>

“Values” are the beliefs and moral principles that defines organization’s culture.

“our values serve as a compass for our action and describe how we should behave. They are *Leadership, Collaboration, Integrity, Accountability, Passion, Diversity and Quality*”
- Coca Cola

Importance of Mission and Values for Strategy Formulation & Implementation

Following key benefits may emerge due to availability of a well-defined Vision, Mission and value Statement;

- a) Goal Congruence
- b) Common Meaning amongst staff
- c) Positioning tool in Stakeholders Mind Set
- d) Inspiration of people
- e) Development of an ethical framework to operate within
- f) Monitoring the way forward

5.0 Goals, Objectives and Targets

Strategic planning requires setting specific Goals and objectives for the organization to achieve with in the strategic planning framework.

Goals	Eg:
Objectives	Eg:
Targets	<p>A Target is the Measurement of an objective. Theses are normally expressed in specific numerical terms to facilitate measuring progress and performance.</p> <p>Eg:</p>

Above are formulated at the overall business level, functional level or even at operational level. Anyway there should be a strong goal congruence with consistency amongst Goals, Objectives and Targets.

Following are key benefits sought / purpose of setting clear objectives in strategic planning;

- a) Provides a defined framework for Planning
- b) Clear assigning of responsibilities
- c) Provides an integrated framework to move forward
- d) Motivates People
- e) Supports the Evaluation process

Objectives are generally “SMART”

- | | | | |
|------|------------------------------|---|-----------|
| I. | Specific | } | S M A R T |
| II. | Measurable | | |
| III. | Achievable | | |
| IV. | Relevant | | |
| V. | Time bounded / framed | | |

5.1 Primary & Secondary Objectives

5.2 Long-Term & Short-Term Objectives

5.3 Financial Objectives

5.4 Ranking of Objectives & Trade-offs

