Chapter 1

THE CONCEPT OF STRATEGY

INTRODUCTION

The major goal of this first class in strategy is to convey an appreciation of what strategy is, by introducing students to a range of different perspectives and to some of the key debates in this field of study.

The principal themes that we emphasise are:
- The contribution of strategy to the success of individuals and organizations;
- The origins and lineage of strategy – the ways in which ideas about 'strategy' have developed over time;
- Key questions and debates in strategy which include:
  - What is strategy?
  - How do we describe a firm's strategy?
  - How do we identify a firm's strategy?
  - How is strategy made? Design versus emergence
  - What roles does strategy perform?
  - Strategy: in whose interest? Shareholders versus stakeholders
  - Strategy: whose interests should be prioritized?
- Profit and purpose;
- The debate over corporate social responsibility;
- Strategic management of not-for-profit organizations.

LECTURE/INSTRUCTOR-LED ACTIVITY

There are a number of different ways of introducing strategy but the main aim is to get students engaged and reflecting critically on the material from the start. We outline two approaches that seem to work well. Which one is adopted depends to a large extent on the nature and size of the student group as well as the instructor's individual preference. The first approach is to start the session by asking students to write down what they understand by the term 'strategy' i.e., how they interpret the term in everyday speech. They are then asked to work in pairs or small groups comparing their different statements. The instructor invites selected groups to share their thoughts with the whole class and builds up a list of key terms associated with 'strategy'. Students tend to define strategy in terms of plans, routes to achieving goals, competitive tactics, and so on. Distilling points of similarity and difference between different students' commonsense understandings leads nicely into a discussion of the history of strategy and the way different perspectives on strategy have emerged over time. It also highlights the fact that there is no universally agreed definition of strategy and that the perspective or definition that you adopt shapes the questions you ask and the role you think strategy plays within business organizations. This acts as a logical bridge to the next step of the session that looks more systematically at different definitions of strategy and the role that strategy plays within organizations.

An alternative starting point which tends to work well with large groups of undergraduates in a lecture setting is to start with a discussion of what students had hoped to achieve by completing their studies; when they first began attending university what did they hope to specialize in? This is followed by a discussion of any changes in their area of interest or specialization. Perhaps a student had entered school with goal of becoming an accountant.

Then, after a few courses in accounting, the student changed their goal to become a finance major. The instructor can then lead a discussion of strategy versus tactics. Initially, the "strategy", the long term goal, was to get a degree in Accounting. The tactics were to take a number of accounting courses each year leading to an Accounting degree. When the student changed their mind to become a finance major, the strategy was similar with regards to obtaining a degree but in a different area of specialization. The tactics changed as a different set of courses were required to achieve the objective. If a former student they knew dropped out of school, that student abandoned their initial strategy in its entirety to pursue other options.

This leads to a discussion of the role that strategy plays in success and some of the key characteristics of strategy.

Having, hopefully, captured the student's attention, the session proceeds by posing some fundamental questions, in particular:

1. How does strategy contribute to the success of individuals and organizations?
2. What is strategy?
3. How do we describe a firm's strategy?
4. How do we identify a firm's strategy?
5. What roles does strategy perform?
6. Strategy: whose interests should be prioritized?
7. The debate over corporate social responsibility;
8. Strategic management of not-for-profit organizations.

It is worthwhile spending a little time on questions 3 and 4 particularly if, at a later stage in the course, students are asked to undertake assignment work that requires them to gather information of selected companies. Many students find the notion of 'strategy' hard to get to grips with initially, so the more concrete examples that can be given at the start, the better. Concluding the first session by connecting 'strategy' to topical debate about shareholder capitalism and corporate social responsibility alerts students to the currency and importance of the subject matter to which they will be introduced in subsequent sessions. It also creates the opportunity for the instructor to provide a road map for subsequent classes and to explain how themes introduced in this first session are subsequently picked up and developed in more detail. At the end of the class the instructor might ask students to reflect on their own goals and strategies for success, particularly given the rather turbulent economic conditions most economies have faced in recent years.

TUTORIAL/STUDENT-LED ACTIVITY

Teaching Notes

At the start of the course it is good for students to get to know each other by working in small groups. The instructor can either assign individuals to groups or allow them to self-select. Students discuss the questions within their work groups and then engage in a general class discussion, with groups taking it in turns to lead the initial discussion.

The following are a selection of group activities and questions that can be discussed using Chapter 1 Power Point slides as a basis:

PPT Slide 5
"We must learn how to be the CEO of our own careers."[i]
- Success has gone to those who managed their careers most effectively—typically by combining the four strategic factors:
  1. goals that are simple, consistent, and long term;
  2. a profound understanding of the competitive environment;
  3. objective appraisal of resources; and
  4. effective implementation.

<u>Activity</u>
In groups of about 4 students, have them discuss whether or not they think it is important for them to plan for their future, or simply allow randomness to chart their life.

Have students discuss how the four strategic factors will help them plan for their future.

A question you might ask is what constitutes success? Is success about profits, market share, survival, personal fulfilment, or other factors?

PPT Slide 7
Strategic decisions share three common characteristics:
1. They are important.
2. They involve a significant commitment of resources.
3. They are not easily reversible.

<u>Activity</u>
Have the students apply these concepts to their decision to pursue a secondary education:
- They are important – the time commitment over a period of years;
- They involve a significant commitment of resources – the direct cost and the opportunity cost to attend school;
- They are not easily reversible – the consequences of dropping out of school.

PPT Slide 13
How do we identify a firm's strategy?– a hierarchy of strategy statements.
- The mission statement is the basic statement of organizational purpose; it addresses "Why we exist."
- A statement of principles or values outlines "What we believe in and how we will behave."
- The vision statement projects "What we want to be."
- The strategy statement articulates "What our competitive game plan will be."

<u>Activity</u>
Alone or in a group, have the students apply these four strategy statements to their personal goals – academic or later in life.

PPT Slide 16
What roles does strategy perform?
This slide is useful to consolidate the concept that strategy is equally useful to individuals and to corporations, providing a framework to evaluate the current situation as well as guide decisions relating to the future.

PPT Slide 18
Strategy: in whose interest?
Shareholders versus stakeholders?

<u>Activity</u>
A question to lead a discussion with can be formulated out of the third bullet point on this slide: "Should companies operate exclusively in the interests of their owners or should they also pursue the goals of other stakeholders – employees, the state etc.?"

PPT Slide 21
This slide can be a nice follow up to the discussion questions derived from slide 18
Corporate social responsibility

- Companies are increasingly accepting responsibilities that extend well beyond the immediate interest of shareholders:
  - For ethical reasons;
  - For reasons of self interest,
    - sustainability (it is in both society's and the firm's interests to sustain the ecosystem);
    - reputation (CSR enhances the firm's reputation with consumers and third parties);
    - license to operate (firms need the approval and support of the constituencies on which they depend).

<u>Activity</u>
In what ways might pressure for firms' to become more socially responsible affect the business?

The company might be affected by:

- pressures to be more environmentally responsible – in terms of its packaging, manufacturing processes, source of basic materials etc.;
- pressures to be socially responsible – in terms of employment practices (particularly if it succeeds in expanding internationally), contributions to local communities, sales and marketing campaigns etc.

SUGGESTED ANSWERS TO SELF-STUDY QUESTIONS

1. Choose a company that has recently been celebrated in the media for its success and examine its performance in relation to the four characteristics of successful strategies (simple, consistent, long-term objectives; profound understanding of the competitive environment; objective appraisal of resources; and effective implementation).

Details of each of these characteristics and the role they play are outlined in the section 'The Role of Strategy in Success' (Chapter 1 pages 2–4). It is important to consider the criteria you are using to judge success, for example, is your chosen company deemed successful because it is highly profitable, innovative, or regarded favourably by the news media? You might also consider the extent to which it is possible to ascertain whether goals are 'simple and consistent'; resources and capabilities are 'objectively appraised' and so on. It is often difficult to establish whether there is a causal link between strategy and firm performance, or whether we ascribe particular characteristics to successful firms after the fact.

2. The discussion of the evolution of business strategy established that the characteristics of

a firm's strategic plans and its strategic planning process are strongly influenced by the volatility and unpredictability of its external environment. On this basis, what differences would you expect in the strategic plans and strategic planning processes of the Coca-Cola Company and Google Inc.?

In the section on a 'Brief History of Strategy' (Chapter 1 pages 4–15) we describe the transition from "corporate planning" to "strategic management." This can be attributed, in part, to increasing volatility and unpredictability of the business environment. The more unpredictable the external environment, the less able firms are to plan strategy in a precise way and the more strategy is defined around goals, vision, direction, and the creation of options.
This is likely to create differences in the approach to strategy making among firms that face different industry environments. A company like Google has an industry environment characterized by rapid technological change, and the constant emergence of new market opportunities and competitive threats. A company like Coca-Cola faces a much more stable environment. The world market for soft drink concentrates is dominated by two giant companies (Coke and Pepsi), and this is likely to continue for the foreseeable future—each firm's market position is reinforced by long-term agreements with bottlers and massive brand equity. Consumer tastes change slowly; there is minimal technological change.
Hence, each company is likely to have a strategy making process that differs in formality, precision, time horizon, and scope. For example:

Coca-Cola	Google
Medium term (e.g., 3–5 years). Precise operational and capital expenditure budgets. Strong emphasis on short- and medium-term performance targets. Strategic planning based on narrow market focus: soft drinks. Emphasis on design with top management exerting strong hierarchical control.	Short term (12 months?). Budgetary processes flexible. Little emphasis on performance targets; focus on 1st mover advantage and creating options. Strategic planning based on broad market focus: What is our core business? Emphasis on emergence with top management orchestrating bottom-up.

3. Select a firm and use internet resources to identify and describe strategy.

The sections 'How Do We Describe a Firm's Strategy' (Chapter 1 page 9) and 'How Do We Identify a Firm's Strategy' (Chapter 1 pages 10–11) are a good starting point for this question. Being able to gather and synthesise appropriate data is a key skill for students of strategy and it is worth reflecting on the limitations of data that are publicly available. Much published material is designed for public relations purposes and it is important to cut through the rhetoric and explore your chosen firm's strategy by looking at the decisions it has taken and the activities in which it is engaged as well as its published mission and vision statements. The investor pages of corporate websites are usually good sources of information. If you are seeking inspiration about which firm to select, lists of the top 100 firms in your country might provide you with some ideas.

4. What is your career strategy for the next five years? To what extent does your strategy fit with your long-term goals, the characteristics of the external environment, and your own strengths and weaknesses?

The same principles that we apply to business strategy can also be applied to individuals' career strategies. Indeed, several prominent "self-help" books are essentially about strategic approaches to self-development. For example, Stephen Covey's *Seven Habits of Highly*

Effective People is a systematic approach to life planning that begins with the choices about lifetime goals. Marcus Buckingham's *Go Put Your Strengths to Work* is based on the simple observation that success results from individual's identifying and deploying their resource strengths. Vaughan Evans' *Backing U!* applies the tools of strategy analysis and business development to your own career choices.

This exercise involves using the basic framework of Figure 1.1. The principle stages are:

- Goals and values: What are you seeking—wealth, power, influence, fellowship, excitement, security, making a difference in the world?
- The environment: Which careers offer the best prospects in relation to your chosen goals? (Career opportunities may relate to work type (brand manager, financial analyst, general manager, entrepreneur, politician) and sector (financial services, manufacturing industry, public sector, international organization...) For the most attractive careers you identify, what are the key success factors?
- Resources and capabilities: What are your resources and capabilities? What are your strengths and weaknesses in relation to intelligence, skills and aptitudes, financial resources, qualifications, experience, contacts, etc.?
- Strategy: On the basis of these considerations, outline the principal elements of a career strategy in terms of:
    - Where? What type of job? In which sector? Where located?
    - How? How will you acquire your next job? What will be your approach to performing in that job? What kind of job sequence do you anticipate? What kind of additional training or personal development do you see as desirable?

5. Firms abandon shareholder value maximization in favour of some woolly notion of stakeholder satisfaction at their peril. Discuss, explaining the benefits and drawback of firms acting primarily in the interests of shareholders.

It worth starting the discussion by defining what shareholder value maximization means. It is usually taken to mean that the primary goal of a firm is to increase the wealth of its shareholders (owners) by paying dividends and/or causing the price of the firm's shares to increase.

The case for shareholder value maximization

- Any decision can be justified as maximizing stakeholder (as opposed to shareholder) value. For example, paying staff at above-competitive rates can be justified as creating value for employees; paying suppliers at above-competitive rates for goods bought can be justified as creating value for suppliers. In this sense the notion of satisfying stakeholder as opposed to shareholders is 'woolly'.
- Taking the interests of multiple stakeholders into account vastly increases the complexity of decision making and opens the door to political wrangling and management paralysis.
- In competitive markets firms that do not maximize shareholder value get taken over or are driven out of business.
- Active investors put pressure on boards of directors to improve shareholder returns, so few companies have the luxury of pursuing goals that diverge from shareholder value maximization.
- Managers who sacrifice profit for the common good are imposing a tax on their shareholders and arbitrarily deciding how money should be spent.
- In the long run stakeholders interests converge with those of owners. Profitability over the long run requires loyalty from employees, trusting relationships with suppliers and customers, and support from government and communities.

The case for a stakeholder approach

- Businesses have an ethical duty to serve the interests of multiple constituencies — employees, customers, society, and the natural environment—and management's role is to balance the competing interests of multiple stakeholders.
- Management decisions that maximize shareholders' value are frequently detrimental to other stakeholders.
- Shareholder value maximization is associated with short-term decision making, financial manipulation, and excessive risk-taking.
- Companies that do 'good' do 'well' i.e., the public interest and the private interests of shareholders are often in line with each other. Fast food outlets have benefitted from providing healthier options to consumers, car producers have benefitted from offering more fuel-efficient cars.

The featured example of Kraft's takeover of Cadbury (Chapter 1 pages 15–16) can be used to illustrate aspects of this debate.

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[i] P. F. Drucker, "Managing oneself," *Harvard Business Review* (March–April 1999): 65–74.