Chapter 1: What is 'strategy'?

Learning Objectives

1.1 Define strategy and describe its essential major aspects
1.2 Discuss the development of strategic thought
1.3 Identify the major theoretical approaches to strategy
1.4 Identify three levels of strategy
1.5 Describe the model for business strategy analysis and management
1.6 Explain why strategy might be different in countries with smaller economies

Chapter Summary

In this chapter we introduced the concept of strategy. We provided our definition of strategy. We outlined the development of strategic concepts and thought, indicating the growth in complexity. We briefly summarised the wide variety of current theories that are used to assess and develop concepts and approaches to strategy. We outlined the three levels of strategy which, together with the wide variety of theoretical and practical approaches to the field, account for the often confusing use of the term 'strategy' in business conversation.

We noted that we will concentrate on the business strategy level, as this is the main level at which strategic thinking, analysis and action take place. We outlined the model of business strategy that we will use and described how we cover this model, together with brief explanations of what else is covered in the book, and how it relates to the main model. Finally, we discussed to what extent strategy development in small economy countries such as Australia, New Zealand, Singapore, Malaysia and most Asian countries may differ from the proposals in mainstream theory and practice, most of which originate in the USA.

End of chapter questions

Question 1: What is the difference between strategy and strategic management?

Answer:

While this question can serve as a discussion-starter, it depends largely on semantic distinction. Strategy is defined as 'Those decisions that have high medium-term to long-term impact on the activities of the organisation, including the analysis leading to the resourcing and implementation of those decisions, to create value for key stakeholders and to outperform competitors.' Strategic management is about the implementation of these decisions.

It may be useful to distinguish between strategic management as an overarching process or system (Figure 1.3) and strategy as an element of that process.

Question 2: Why is strategy always about the medium to longer term decisions? Does this make sense in an environment when technology is changing rapidly?

Answer:

Decisions that have high medium-term to long-term impact on the activities of the organisation include the analysis leading to the resourcing and implementation of those decisions, how to create value for key stakeholders, and how to outperform competitors.

In the rapidly changing environment, firms need competencies in developing high-technology, high-quality goods. In terms of cost control, increasingly strategies to access to raw materials and resources in other countries (e.g. resources and agriculture in Africa, Australia, Eastern Europe and South America) in order to have control over supply, as the home market for many products begins to grow rapidly as GDP rises. For instance, China is predicted to have a larger *luxury* car market than even the US by 2016! And in terms of competition, Chinese firms now keep a steady eye on emerging cheaper competitors in South East Asia and the Indian subcontinent

Question 3: Compare and contrast the different theoretical approaches. To what extent do they agree with each other? To what extent do they conflict with each other?

Answer:

A comprehensive answer would develop a table from Table 1.2 along the following lines:

Area of attention	Theory
External	
industry	
structure	Structure–Conduct–Performance/Positioning
profitability	Structure–Conduct–Performance/Positioning
competitor positions	Structure–Conduct–Performance/Positioning
markets	
competitor positions	Structure–Conduct–Performance/Positioning
actions of competitors	Game theory
availability of goods and services	Transactions cost economics
Internal	
owners	Agency theory
stakeholders	
identification	Behaviour theory
goals and power	Behaviour theory
management	
incentives	Agency theory
motives and aims	Managerial theory, Agency theory
organisation	
aims	Managerial theory
systems	Chaos theory
resources	Resource-based view
processes	Dynamic capabilities, Evolutionary theory
production costs	Transactions cost economics
learning capabilities	Evolutionary theory
adaptation and growth	Chaos/complexity theory

Such tabulation should show that 'while there is considerable overlap between perspectives, there are significant differences in emphasis'. This is reasonable when the aim of theorists is considered: they seek to explain and account for behaviour that is not caught by the existing theory at the time; thus their efforts seek to build on, rather than overturn it.

Question 4: The theoretical approaches to strategy keep evolving, perhaps more than in any field of management. Why might this be the case?

Answer:

The answer should be based on the information contained in Table 1.2 and the solutions to the ‘common strategic issue’ in Table 1.3. It should be pointed out that, personal preference aside, the suitability of any approach depends largely on the circumstances of a particular organisation, at a particular time, in a particular industry. In practice, a comprehensive approach to strategy for a specific firm will include the ‘best’ elements of a number of the theories. The theoretical approaches to strategy keep evolving more than any other field of management because researchers call on strategy’s reconceptualization as a social activity where actors are not in situations of isolation, but are defined by the plurality of social institution to which they belong. So, among these perspectives are different versions of the Theory of Social Practices, Activity Theory, Action Theory, Actor Network Theory, Systems Theory, Complexity Theory, Conventionalist Theory, Discourse Theory and many more.

Question 5: Do all firms need to have a functional, business-level and corporate strategy? Why or why not?

Answer:

Overall, the principles and concepts of strategy, once the exclusive preserve of the CEO, are now being applied to units and functions within a business. Managers at all levels are expected to have strategic skills and to be able to think strategically, as part of their position, rather than having to rely on strategic specialists or strategy departments. Businesses consider it important that everyone in the organisation understand their strategy, in contrast with earlier times when strategy was considered something to be kept confidential. ‘Strategy’ is pervasive throughout the organisation, and rapid environmental and industry change is making strategic thinking, analysis and action ever more important for organisational survival.

Question 6: Why has sustainability become such a focus in the field of strategy? Is this likely to change?

Answer:

Sustainability is defined as ‘development that meets the needs of stakeholders without compromising the ability to meet the needs of the future’. For organisations, pressure is mounting to be seen as economically, socially and environmentally sustainable and strong arguments suggest that corporate viability in the future will depend on acceptable performance on these three measures (triple bottom line). The realignment of social thinking is forcing organisations to rethink their purpose and goals and, at the same time, the basic principles of strategy may need revision. The basic tenet of shareholder value as the driving force behind organisations is changing to one of stakeholder value. And strategic principles will need to develop to meet the wider responsibilities being required of organisations.

As the principles of strategy move towards a more socially responsible agenda designed to meet the needs of a broader spectrum of stakeholders, so too the practice of strategy will be affected by the necessary move towards sustainability. Already we see carbon markets being established in Europe and elsewhere (including Australia), with organisations having to account for their carbon emissions. What once was acceptable strategy (for instance, the wholesale consumption or pollution of common-pool resources such as the environment, water and mineral deposits), is now becoming problematic for organisations. It's becoming more common that organisations find it necessary to adopt strategies that are based on the principles of sustainability and sustainability arguments lead to changes in perceptions of corporate responsibility.

Question 7: What other differences are there between your country and the USA, apart from the factors mentioned in this chapter? How might this affect the development of business strategy for an organisation in your country compared with a similar US organisation's business strategy development?

Answer:

Students should be discouraged from listing generalisations for this question. Extending a PEST (political, economic, social, technological) framework to include cultural, geographic, historical, demographic and other dimensions would bring discipline to the process. Answers may draw on 'Is strategy different in smaller countries?'. If differences between the U.S. and the rest of the world can be summarised without superficiality, they would seem to turn on a particular mixture of scale, resource endowment, culture, opportunity and the learning experience effect, combining at a particular time in history influenced by two world wars.

Three examples illustrate some of the differences between the development of business strategy in Australia as compared to the U.S. One can look at the development of Coles (Wesfarmers) and Woolworths grocery chains. This duopoly of grocery chains does not exist to this extent in the U.S. The diversification of Wesfarmers and Woolworths into other retail sectors and services ensures that they are shielded, in comparison to independent grocers, from minor food price pressures. This has created an uneven playing field in Australia's grocery sector. Contrarily, both conglomerates can also raise grocery prices to address shortfalls in other sectors. In the U.S. the ability to raise grocery prices based on shortfalls in other sectors and anti-competition environment of the two companies would likely be challenged by the FTC and SEC.

Goodman Fielder's origins extend back to 1909 when Geo Fielder & Co. was incorporated in New South Wales, Australia. The State had some good wheat-producing districts and the company milled wheat which was then sold as 'Fielder's Flour' in NSW and Queensland. Since that time this bakery products company has diversified locally much more significantly than any U.S. company would have done, as well as changed strategies many times. Goodman Fielder was acquired by two leading food companies in Asia; Wilmar International and First Pacific in 2015.

The Australian company of Gourmet Garden started in the 1990s on the Sunshine Coast and began commercialisation in 1998 of the patented process of capturing the freshness of herbs and spices in convenient tubes and single serve formats. Through its partnering with ecoBiz, the Queensland Government's established program aimed at improving the efficiency of resources and waste reduction, the company's commitment to sustainable development and concern for the environment earned it a place in niche organic markets around the world. The company was eventually purchased by conglomerate McCormick Foods in the U.S. in 2016.

These examples illustrate a few of the points found in the text: (1) Australian businesses see a greater amount of local diversification as compared with U.S. businesses; (2) Australian business entrants tend to go international faster than U.S. businesses; (3) The role of government is more important in regulating markets with less competitors in Australia than in the U.S.; (4) Public-sector organisation strategy is a very important part of strategic management in Australia as compared to the U.S.; (5) In Australia, limited capital results in either constrained expansion or sale of the company or product to investors in overseas markets; and (6) In Australia, an emphasis on costs and economies of scale is less important and less feasible for its companies than U.S. companies.

Question 8: Do firms that operate in multiple countries (e.g. New Zealand, Australia and the UK) need a different business strategy for each country? Why?

Answer:

Organisations in countries with large domestic economies can pursue strategies of economies of scale, but organisations in small economy countries are quite unlikely to find that country dominance will translate into any scale economies at the international level.

Countries with small populations and small economies have many factors in common. Most countries—except for the very large ones such as the US, China, Germany, Japan, UK, France, India, Brazil and Russia—are quite similar. Similarities include: small local markets, a central role of government policy, the business impact of the public sector, and limited capital markets. On the other hand, several factors are unique to each country and affect the opportunities available to organisations originating in a particular country. These include the following factors: country position and history, individual/national values, political systems, and resource bases.

The situation in most countries is different from that in the US of large markets, many competitors, limited government intervention, and open and transparent capital markets, which is implicitly assumed by theories and mainstream case and business examples. This means that, in smaller countries, an emphasis on costs and economies of scale is less important and less feasible for international competition than for US companies.

Question 9: How do economic and organisational psychology theories impact on the views of the same strategic situation?

Answer:

Table 1.3 highlights the strategic perspectives that might be taken, depending upon the theoretical basis used by the observer/strategist. It can be seen that the economic theories tend to consider strategy from the perspective of markets, industries and competition, and how management can be encouraged to act on behalf of the shareholders rather than themselves. Economic theories of strategy tend to concentrate more on the externalities of the organisation, and discount the impact of individuals on firm performance. Psychological theories such as behavioural theory and managerial theory tend to focus more on the individual contribution to a situation, as well as the role of stakeholder power and goals. In contrast to agency theory, managerial theory posits that managers act in the best interests of their organisations and, when performance gaps are identified, increase their efforts to find a solution that is best for the organisation.

Question 10: What are the different components of the 'environment', a firm's 'capabilities' and their 'business strategy' that need to be analysed as part of the process of developing business strategy?

Answer:

The environment–strategy–capability (ESC) gap analysis model can be used to consider all of the issues in business strategy. The environment represents all those aspects outside the organisation that affect the business strategy of an organisation. The environment influences the business strategy that the organisation follows. However, the business strategy of the organisation may well aim to influence the environment. In other words, organisations around the world lobby governments to gain support for their particular desired strategy. Once strategic decisions have been made, implementation must consider the capabilities, systems, structures, leadership, people, culture and communication required to carry out the chosen business strategy. The strategic business plan that results from this thinking and analysis can be 'tweeked' through gap analysis. The analysis of the current capabilities of the organisation involves an assessing its resources and processes, identifying those that provide value to customers and that are unique and difficult to replicate, and ascertaining if they will continue to provide the basis for a sustainable competitive advantage.