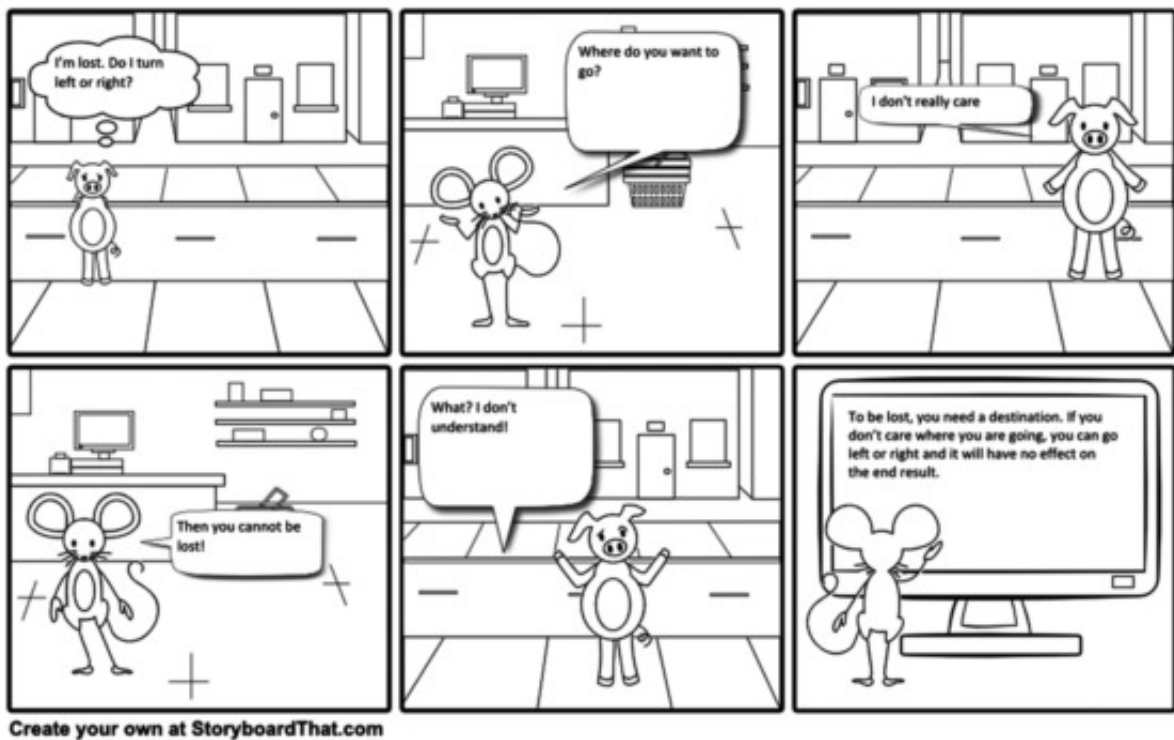# Study unit 7

Strategic management

7.1 BACKGROUND

You have probably climbed into a car with friends with no idea where you were heading or what you were going to do that day. During the trip, you did not know if you were getting lost and you could not determine whether the day was a success or a failure as you had made no plans and had no goals. It is much the same for an organisation. To know if it is succeeding or failing, it should have a goal and a plan to reach that goal. In business terms, we would say an organisation should have a vision, mission and objectives and a strategy to reach them.

Create your own at StoryboardThat.com

In this study unit you will learn how to create **strategies** and how to **manage** (steer) an organisation to reach its vision, mission, goals and objectives.

7.2 STUDY UNIT CHALLENGES

We are challenging you to:

● differentiate between a strategy and strategic management
● discuss the various phases of the strategic management process

Work through Chapter 11 in the prescribed book.

7.3 KEY CONCEPTS

- An **acquisition** is made when control of an organisation is taken by purchasing 51% (or more) of its voting shares.
- **Goals** are observable and measurable end results that have one or more objectives to be achieved within a more or less fixed time frame.
- A **grand strategy** is a comprehensive, long-term plan of essential actions that a firm needs to take to achieve its major objectives.
- A **merger** is the voluntary amalgamation of two firms on roughly equal terms into one new legal entity.
- **Mission statements** are written declarations of an organisation's core purpose and focus which generally remain unchanged over time.
- An **objective** is a specific result that a person or system aims to achieve within a time frame and with available resources.
- **Productivity** is a measure of the efficiency of a person, machine, factory, system, etc, in converting inputs into useful outputs.
- A **vision** is an aspirational description of what an organisation would like to achieve or accomplish in the long-term future.

7.4 INTRODUCTION

The word "**strategy**" originates from the Greek word *strategos, meaning "general". When we study business*, **strategy** refers to a **plan** made at various levels of the organisation and communicated downward. To be able to create a strategy, we must take the **general's view** of the organisation, department or business group. This means that you should **stand back** and look at the organisation, its interaction with the surrounding environment and its competitive position.

Now that you understand **where you are**, you should understand the **purpose** of the organisation, usually articulated as the organisation's **vision statement**. A vision statement should be able to tell you where the organisation is **heading** in the long term. We can refer to the **mission statement** of an organisation to determine if the organisation's products/ services, market and technologies are aligned

> The mission statement answers three critical questions:
>
> - What is our business?
> - Who are our clients?
> - How will we provide our product or service?

with its vision statement. Together, the vision and mission statement indicate the **purpose** of the organisation.

A **strategy** is a plan that tells you exactly **how** to achieve your purpose. Strategies should enable organisations to "win" in the marketplace while they remain acceptable to all stakeholders. Strategies that do this are known as **winning strategies**. Figure 7.1 graphically depicts the elements of a winning strategy.

Figure 7.1: A winning strategy

Strategies are the result of the **strategic management process**. This process consists of four distinct phases that are **iterative,** meaning that although there is an order to these phases, they are not necessarily conducted in sequence. These **four phases** are:

- strategic analysis
- strategy formulation
- strategy implementation
- strategic control

7.5   THE STRATEGIC MANAGEMENT PROCESS

The focus of this study unit is on the four phases of the strategic management process and the steps associated with each of the phases. Figure 7.2 is a mind map of the phases and their associated steps.
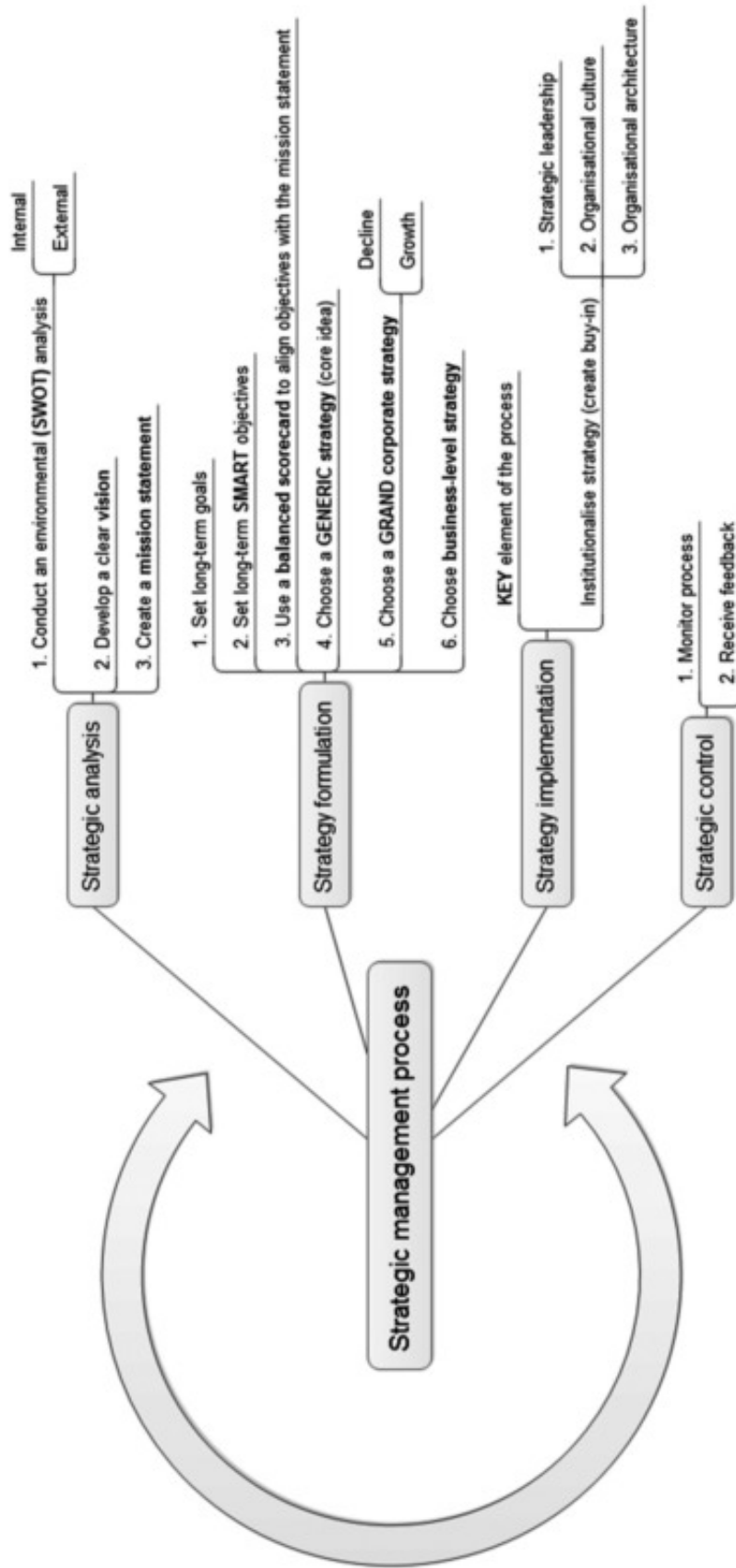
Strategic analysis

1. Conduct an environmental (SWOT) analysis
   - Internal
   - External
2. Develop a clear vision
3. Create a mission statement

Strategy formulation

1. Set long-term goals
2. Set long-term SMART objectives
3. Use a balanced scorecard to align objectives with the mission statement
4. Choose a GENERIC strategy (core idea)
5. Choose a GRAND corporate strategy
   - Decline
   - Growth
6. Choose business-level strategy

Strategy implementation

KEY element of the process

Institutionalise strategy (create buy-in)
   - 1. Strategic leadership
   - 2. Organisational culture
   - 3. Organisational architecture

Strategic control

1. Monitor process
2. Receive feedback

Strategic management process

Figure 7.2: The strategic management process

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7.6 STRATEGIC ANALYSIS

The first step in the strategic management process is an environmental or situational analysis. Managers must understand the **environment** in which an organisation operates. This understanding will enable managers to **position an organisation in the minds of its customers and create a competitive advantage.** The environment, however, is constantly changing, as are the organisation's customers. It is, therefore, essential for managers to constantly **monitor** the environment for changes that can create either a **gap (opportunity)** or a **problem (threat)** for the organisation – **environmental scanning**.

Knowing what is happening outside the organisation is only one of the things managers need to know. They must also know what **resources, skills** and **capabilities** (referred to as resources from now on) they have. The organisation has the following types of resources:

- resources that every organisation in the industry **MUST** have (key success factors)
- resources that **ONLY** the organisation has that makes it better than its competition (strengths)

The resources the organisation **lacks** to be better than its competitors are known as **weaknesses**. These four elements (**strengths, weaknesses, opportunities and threats)** are then combined into a **SWOT analysis.**

Conducting a SWOT analysis

Step 1: What is happening in the macro environment – PESTLE analysis?

Step 2: What is happening in the market environment?

Step 3: Will these changes affect the organisation?

Step 4: Will this situation create an **opportunity** (advantage) for the organisation OR will it **threaten** (disadvantage) the organisation?

IF IT IS AN OPPORTUNITY

Step 5: What does the organisation have that will help it take advantage of the opportunity (**strengths**)?

Step 6: What does the organisation have that will hinder it in its pursuit of the opportunity (**weaknesses**)?

IF IT IS A THREAT

Step 5: What does the organisation have that will help it to fend off the threat (**strengths**)?

Step 6: What does the organisation have that will make the effect of the threat worse (**weaknesses**)?

The goal of a **strategic analysis** is to understand the current position of the organisation from the "general's" perspective. Managers must, therefore, analyse the organisation's current position in terms of its:

- internal and external environment (SWOT analysis)
- competitors
- customers
- suppliers
- vision
- mission

Once you know where you are, you must decide where you are heading. Is your vision and mission still aligned with the environment? Are they still **feasible**? Once you have answered all these questions, you can move on to the next phase in the strategic management process, namely, **strategy formulation**.

7.7   STRATEGY FORMULATION

Once you know what is going on in the environment, you must formulate a plan to make use of opportunities and fend off potential threats. To do this, you first need to formulate **long-term (strategic) goals** and **objectives**. **Goals** are the **targets** set by an organisation while **objectives** are what the organisation wants to accomplish. Objectives should be **SMART.**

7.7.1   Setting SMART objectives

The SMART criteria should be used to formulate effective objectives:

Specific – You must state **exactly what** you want to do.

Measurable – There must be something included in your goal that you **can measure.**

Attainable – It must be something that the organisation can do.

Realistic – It must not be a wild dream that you will never be able to fulfil.

Time – There must be a time constraint on your goal.

7.7.2   The Balanced Scorecard

The Balanced Scorecard is usually used as a strategy performance measurement tool. This concept, as put forth by Drs Robert Kaplan and David Norton, can be used to guide managers in creating **long-term (strategic) objectives** which are aligned with the organisation's mission statement. It will also allow managers to link strategies to appropriate performance measures. Figure 7.3 is a diagram of the balanced scorecard framework.
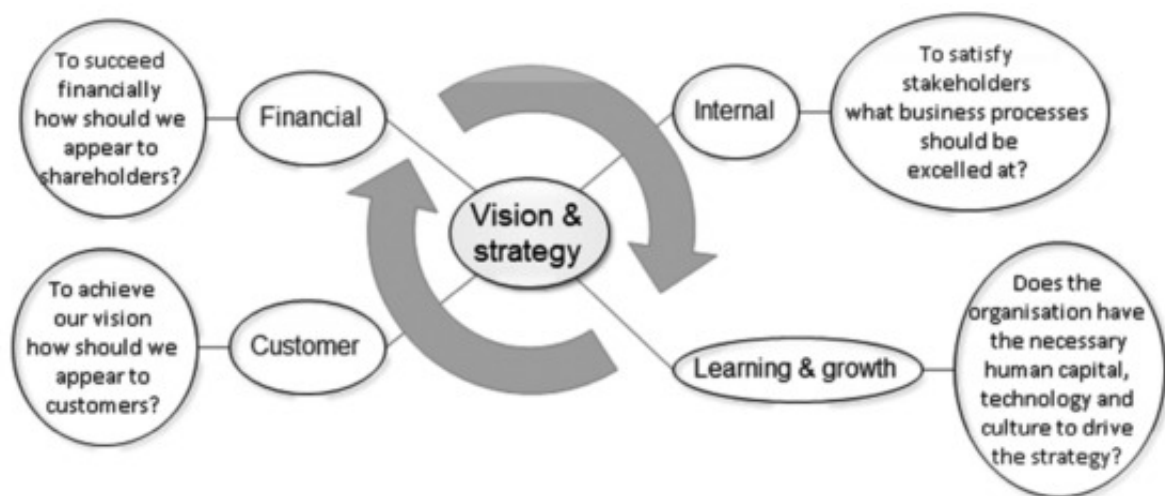
Adapted from: Kaplan and Norton (1996)

Figure 7.3: Balanced scorecard framework

7.7.3   Generic strategies

Now that the organisation knows where it is heading, corporate and business strategies should be developed. Managers should first decide **on how the organisation will best compete in the marketplace**. This is known as the organisation's core idea or **generic strategy**. Figure 7.4 is a diagram of Michael Porter's four generic strategies.
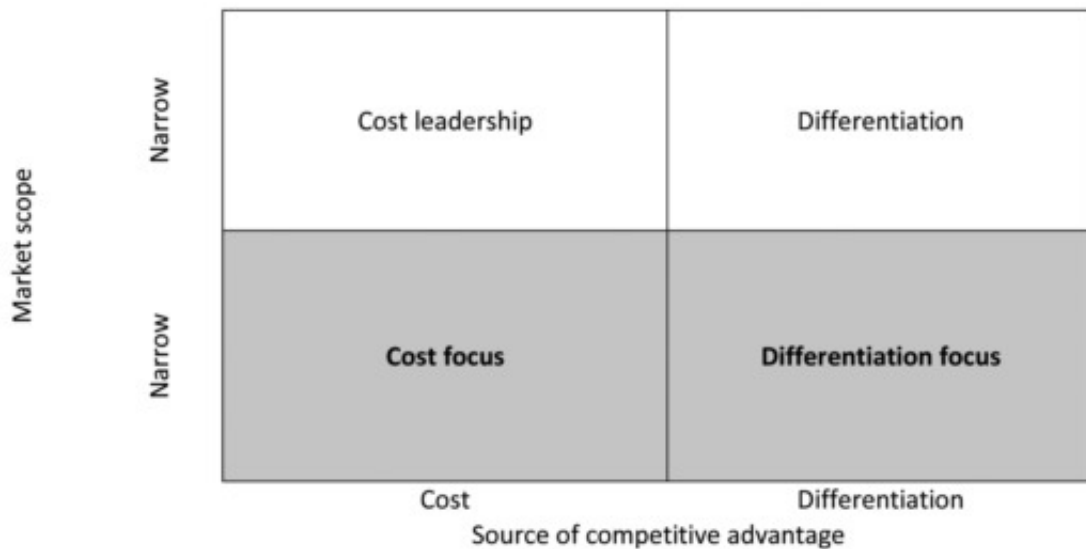
Figure 7.4: Michael Porter's generic strategies

7.7.4   Grand strategies

Once managers know what generic strategy they must use, they must decide on a **corporate grand strategy** for each **business unit**. Figure 7.5 is a diagram of the various corporate grand strategies available to managers.
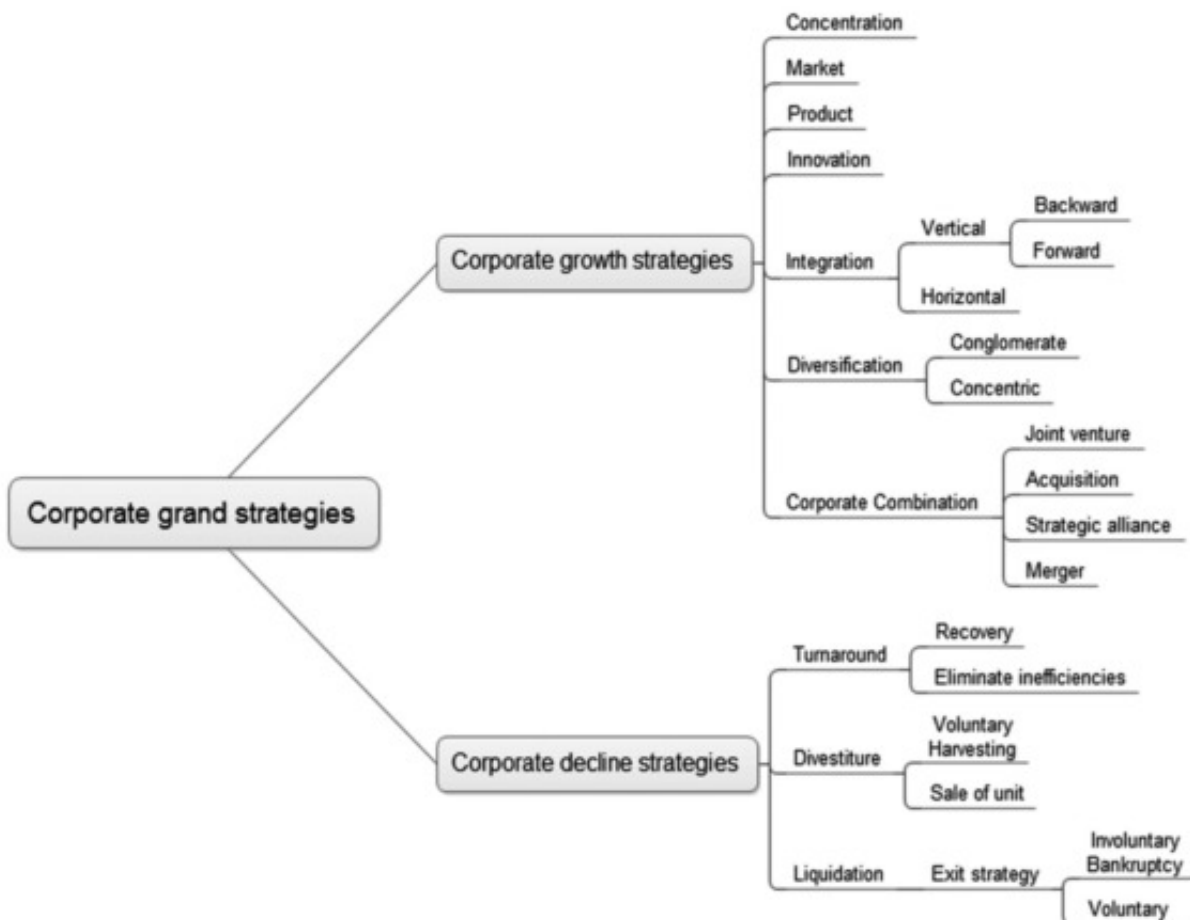

Figure 7.5: Types of corporate grand strategies

7.7.5   Selecting a grand strategy

Various techniques are available to guide managers in selecting a grand strategy, such as the SWOT analysis, business portfolio analysis, the portfolio analysis, and the BCG growth share matrix.

Figure 7.6 is a grand strategy selection matrix, which can be used by managers when they need to select a grand strategy.
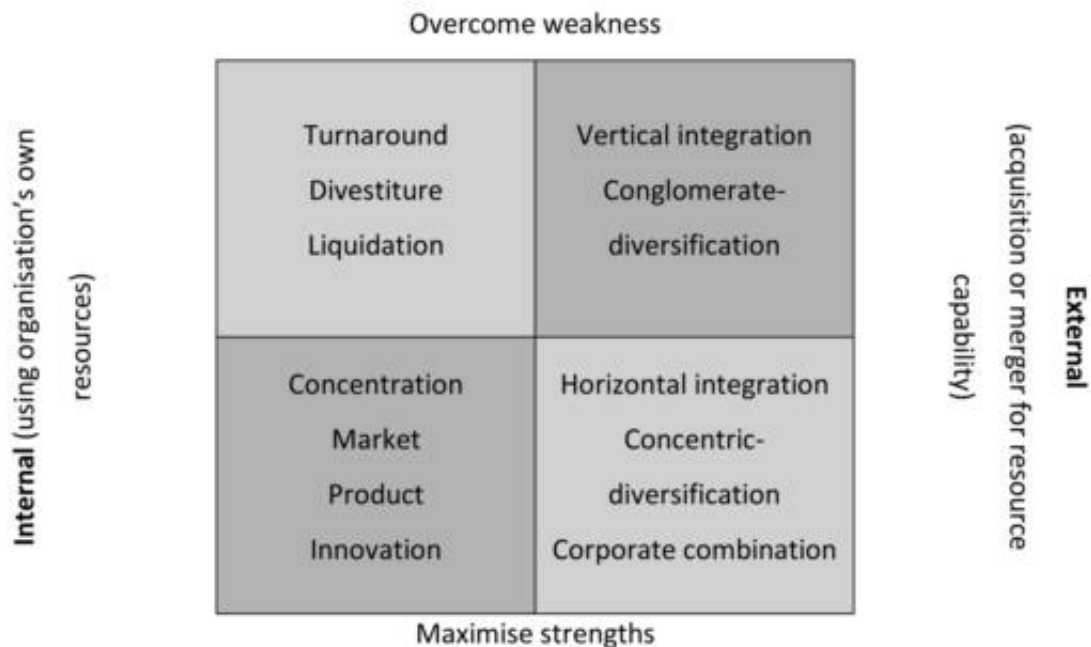

Figure 7.6: Grand strategy selection matrix

Once managers have selected one or more of the grand strategies, they must develop **business-level strategies** (medium- and short-term objectives and plans) for each business unit.

7.8   STRATEGY IMPLEMENTATION

You may have some of the best strategies in the world, but if you cannot implement them, they are of no value. **Strategy implementation** is the **most important** phase of the strategic management process.

Once medium- and short-term objectives have been set, managers can begin to implement a strategy. To do this, they need every member, work group, department and division to **buy in to** and **support** their strategy with all its associated objectives and actions. Creating this **buy-in** is known as **institutionalising** a strategy. It is only possible to institutionalise a strategy if there is a fit between the strategy, **strategic leadership, organisational culture** and **organisational architecture** of an organisation.

7.9   STRATEGIC CONTROL

The last phase of the strategic management process is **strategic control**. Here managers determine if their plans have worked. To **measure success or failure,** managers must measure total effectiveness and productivity, as well as management effectiveness. The **balanced scorecard** is very efficient at measuring strategic success or failure, i.e., **measuring** to what extent management's plan is allowing the organisation to attain its vision and mission.

The strategic management process is not linear, but **circular**, suggesting that once management know how they have performed, they can start to **analyse their performance** and make the necessary **adjustments**. This brings them back to the first phase of the strategic management process, **strategic analysis**. Figure 7.7 depicts the circular nature of the strategic management process.
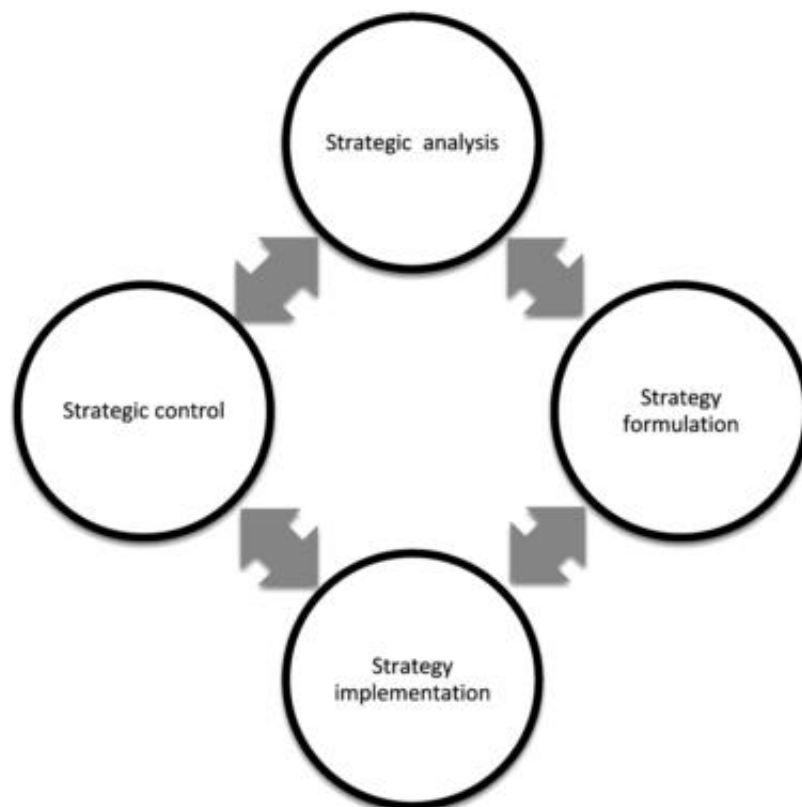

Figure 7.7: Strategic management process

7.10   CONCLUSION

In this study unit, you were introduced to the world of **strategy** and **strategic management**. You should now be able to choose a **grand** and **corporate strategy** that best fits an organisation's mission statement, and know how to **steer** an organisation to **reach** its vision, mission, goals, and objectives.

7.11   ADDITIONAL LEARNING EXPERIENCES

If you have access to the internet, you should consider visiting the following websites. This is NOT COMPULSORY, but these websites all contain interesting information and examples about the content in this study unit.

- Strategic planning

   http://www.youtube.com/watch?v=sU3FLxnDv_A

- Strategic management

   http://www.youtube.com/watch?v=rJ2tmqRkiCM

- Balanced scorecard

   http://www.youtube.com/watch?v=AdXt8BfiGJg

- Vision statements

   http://www.youtube.com/watch?v=ioY-YSOKBtY

- SWOT analysis

   http://www.youtube.com/watch?v=GNXYI10Po6A

- Generic strategies

   http://www.youtube.com/watch?v=-FA-eJvHP_shttp://www.youtube.com/watch?v=hQAoB2oKbjI

- BCG share matrix
   http://vimeo.com/27043386
   http://www.youtube.com/watch?v=A0zIdVKVnqg

Interesting **tweeple** that you could follow on Twitter:

@MichealEPorter

@GuardianSustBiz

@Hackmanagement

@HarvardHBS

7.12   ASSESSMENT

This section contains self-assessment questions that you can use to assess your knowledge of the study unit.

SECTION A: MULTIPLE-CHOICE QUESTIONS

7.1 Woolworths make use of a _____ strategy, which means that they can charge higher prices for their products as their customers perceive the products to be of a better quality than those of their competitors.

   1   differentiation

   2   low cost leadership

   3   focus

   4   growth

7.2 Which of the following is **not** a growth strategy?

   1   concentration strategy

   2   innovation strategy

   3   divestiture strategy

   4   product development strategy

7.3 Which statement is **incorrect**?

   1   The turnaround strategy focuses on eliminating inefficiencies in an organisation by means of cost and asset reduction.

   2   A harvesting strategy is used when an organisation wants to maximise cash flow in the short-term, regardless of the long-term effect.

   3   Horizontal integration is used when one or more organisations are taken over for reasons such as scale-of-operations or a larger market share.

   4   Conglomerate diversification involves the addition of a business related to an organisation in terms of technology, markets or products.

7.4 Wal-Mart's entry into the South African market by purchasing a 51% stake in Massmart Holdings Limited is an example of a(n) _____ .

   1   merger

   2   acquisition

   3   strategic alliance

   4   joint venture

7.5 Apple Computer has a large share in the rapidly growing market for portable music players. According to the Boston Consulting Group growth/share matrix, Apple Computers is a _____ .

   1   star

   2   cash cow

   3   question mark

   4   dog

SECTION B: PRESCRIBED TEXTBOOK

Try to answer the review questions in the prescribed textbook.

SECTION C: TUTORIAL LETTER 101

Complete the questions that relate to this study unit from the assignment found in Tutorial Letter 101.

7.13   END OF STUDY UNIT CASE STUDY

To further your understanding of the strategic management process, read the following case study and the study unit review questions.

Building a competitive advantage

A Bryant Homes case study

A major difficulty facing homebuilders in recent years has been the government's insistence on a change in emphasis in local development plans. There is a move away from building on greenfield sites, and a new emphasis on urban renewal and new housebuilding on brownfield sites. For Bryant Homes, this has created a fresh challenge: how best to make its higher density brownfield homes distinct from rival offerings so that it stays 'ahead of the game'.

The market for new housing has improved steadily over the last few years. Consumers have benefited from these improvements; they are offered more attractive designs, better use of space through improved design, and a higher specification.

However, the market is now very crowded, and any innovation by one company is soon copied. Bryant Homes has risen to the challenge of a situation in which consumers were talking about builders as 'much of a muchness'. The company has engaged in a positioning exercise designed to make clear to customers that Bryant Homes has a distinct market position that is different from, and superior to, that of rivals. Bryant has reviewed many aspects of its operations, and its customers can now see that Bryant Homes has a clear competitive advantage over rivals.

Bryant has become far more market focused. It now carries out extensive market research to discover what the market is looking for. The challenge was to identify a compelling insight through which to reframe the way people think about new homes. All homebuilders tend to speak to potential customers in the same way, showing them exterior shots of dream homes and characterful designs. One problem for many homebuyers is that it seems to them that different companies are all supplying highly similar products. For example, Bryant's market research found potential buyers making comments such as 'You see three of the same on one newspaper page!' Bryant realised that, in order to excite its audience, the company would need to go beyond the standard methods of communicating with them.

Bryant has been able to restore its premium position, which used to be based on competitive pricing, in a new environment of urban renewal and building on brownfield sites by adopting the following practices:

Address the audience challenge with a simple universal recognisable truth (SURT). Research showed that there are differences between what people look for when buying a home, and those factors that affect their long term quality of life. At a simple level, the main factors that people consider when buying a home are price, number and size of bedrooms, curb appeal, and spaciousness.

However, other factors that influence quality of life are also very important, e.g., privacy, views, aspect, light, and garden. Bryant has, therefore, set out its SURT as: 'Enjoyment of life at home is about much more than bricks and mortar'.

Bryant Homes operates in a highly competitive environment that has recently been reshaped by government legislation. The company has had to develop a new strategy to ensure its premium position in the market. It is not enough simply to provide the best product at a particular moment in time; it is also vital to have a clear set of objectives and sense of purpose that enables the company to have clear and focused communication with all its stakeholders in a way that inspires confidence.

Recently, Bryant has improved its communications process by developing a sophisticated new website. It has also engaged in national advertising campaigns aimed at putting across the message using the strapline. 'Anything else is just a house'. This conveys the message that the company is far more than a home builder: it is a creator of living environments based on communal areas, views, environmental layout, local sensitivity and neighbourliness, as well as the traditional factors of price, availability and location. Bryant also purchased a 51% share in a conveyancer.

Bryant is now communicating a much clearer message to stakeholders about how it is different from rivals, and how the company has a clear understanding of the importance of creating homes that are not merely bricks and mortar; they are complete living environments.

Adapted from: *Times 100 (2013e)*

7.14 STUDY UNIT REVIEW QUESTIONS

The following questions are based on the Bryant Homes case study:

Questions 1 to 4

Consider the following list of variables and answer questions 1 to 4:

a   Government requiring urban renewal

b   High levels of capital expenditure

c   Development of internet marketing

d   Reputation and brand image

e   Lack of a focused strategic plan

f   Overcrowded market place

g   Perception that Bryant dictates what customers would have

h   Emphasis in new house building on Brownfield sites

i   Size of company

7.1 Variables _____ can be regarded as the **strengths** of Bryant Homes.

    1   b, d and i

    2   b, c and d

    3   d, c and i

    4   b, c and h

7.2 Variables _____ can be regarded as **opportunities** for Bryant Homes.

    1   a and d

    2   c and h

    3   c and f

    4   d and h

7.3 Variables _____ can be regarded as **weaknesses** of Bryant Homes.

    1   b and e

    2   e and g

    3   b and f

    4   e and f

7.4 4. Before its repositioning, Bryant followed a _____ **generic strategy**.

    1   focused cost

    2   cost

    3   focused differentiation

    4   differentiation

7.5 After its repositioning, Bryant followed a _____ **generic strategy**.

    1   focused cost

    2   cost

    3   ocused differentiation

    4   differentiation

7.6 Purchasing a 51% stake in a conveyancer is an example of a(n) _____ **strategy**.

    1   product development

    2   horizontal integration

    3   unrelated diversification

    4   concentration