CHAPTER 1

STRATEGIC MANAGEMENT

INTRODUCTION

Many works on strategic management treat the subject as consisting of several component parts such as goal formulation, strategic evaluation, strategy implementation and strategic control, but advise that these are components of a framework and may not exist as discrete orderly steps in a strategic management decision-making process. It is further suggested that there are a number of characteristics of strategic decision making concerned with the scope of an organization's activities, the matching of the organization to the environment and then matching the organization's activities to its resource capability.

Within this first chapter there are a number of well-known business models, many of which help to achieve a comprehensive analysis of the business in order to determine its future direction, or at least make decisions based on informed choice and then plan how this can be best deployed or realized. In addition, the words "strategy" and "strategic management" relate to a number of levels within an organization and a hierarchy of these together with inter-related strategies is shown in this section (see Figure 1.1). The lowest level of strategy is

Figure 1.1 Hierarchy of strategies.
From *The Essential Management Toolbox: Tools, Models and Notes for Managers and Consultants*, S.A. Burtonshaw-Gunn, 2008. Reproduced with permission.

often referred to as "Functional strategy" which focuses on the day-to-day operational activities that the organization is involved in. Within a business there are often a number of functional strategies which take their lead from the next level of "Business strategy". This intermediate level business strategy covers the aggregation of the functional strategies for a single business unit or organization with a concentration on the tactics that the business will use to address its threats from competitors and market opportunities with present or targeted customers. The business strategy should reflect the higher level "Corporate strategy". This highest strategy level needs to consider the overarching strategy of the business to address questions concerning the arena in which the business should compete and how the organization's activities contribute to its competitive advantage and longer-term sustainability. It should also reflect the organization's mission, vision and objectives seen in its business plan and covered in detail in Chapter 2.

Whilst there are many books on strategic or corporate management with a natural focus on long-term organizational development, this chapter examines strategic management from the context of operations management and how these two topics can coexist. The strategic "big picture" decisions should not just be about the commercial performance of the business, as they should also include the commitment and development of its operational performance; none more so than with quality, environmental and business continuity management – as these three become more closely aligned through common external standards and interoperability of customer requirements. This first chapter, then, examines how corporate strategy is established, its role and benefits as a prelude to the other chapters and then explores the areas of business operations management.

STRATEGY AND PERFORMANCE DRIVERS

It is useful to remember that within both commerce and industry the *raison d'être* for the senior level of management, normally the executive board of directors, is to examine the nature of the business and steer the company to its future sustainability. Such direction requires the establishment and implementation of a robust strategy, which will be primarily concerned with the company as a whole, its environment and its future course. Indeed, such strategy formulation will inevitably have to draw on an analysis of its present business role, the future business direction it wishes to take and how the board's vision and objectives can be successfully implemented and achieved. It has to be said that strategic management is a general term, whereas the above decisions regarding what business to be in are generally covered under the term "corporate strategy". This task of strategy development involves decisions on plans at the most senior level which recognize both the financial and organizational

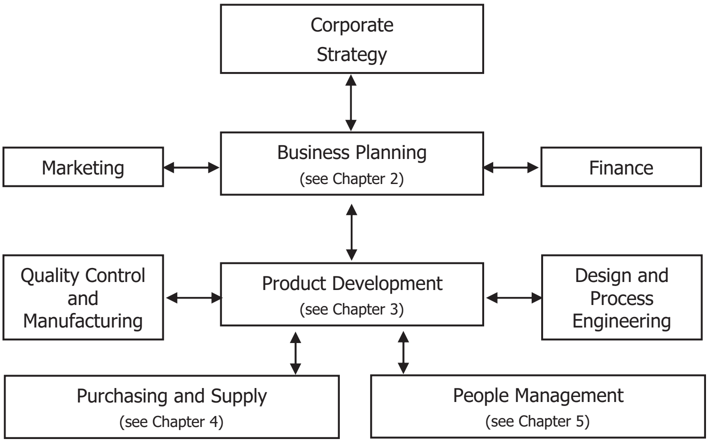

Figure 1.2 Strategy integration.

development of the company with such major decision making regarded as being at the very heart of this branch of management. However, development of a corporate strategy should not be regarded as an isolated task limited to a few but rather it must be integrated with other key corporate or stakeholder functions, as shown in Figure 1.2. As seen, the model also provides a natural linkage to the other topics within this book.

The model in Figure 1.2 demonstrates the importance of the relationship between corporate strategy and business strategy. This must then be articulated in integrated business plans to envision how the organization will engage in its business activities and in turn how these drive the functional strategies such as product development which details the value-adding work that the organization undertakes.

Strategic management involves not just trying to exploit the strengths of the organization and minimize any weaknesses, but requires that the organization also considers the external environment in which it operates, typically looking for opportunities and threats which it may have to respond to. The strategic perspective goes beyond operational efficiency improvements as the development of an effective strategy will need to focus on delivering and maintaining distinctive quality products, high customer and brand awareness and trust, and must also be seen to support overall business growth targets. In general terms the development of a strategy, whether for a newly established or a mature organization, will involve addressing the following four key areas:

- **Analysis** of strategic goals (vision, mission and strategic objectives) along with the analysis of the internal and external environment of the organization.
- **Decision making** on the key areas of organizational development and the most effective ways to address them.
- **Implementation** by identifying and deploying resources, structures and systems to implement the strategy efficiently and effectively.
- **Support** from the provision and maintenance of policies, organizational infrastructure, governance, culture and leadership which all play a role in supporting strategy implementation.

To achieve any degree of success many writers on the topic of strategic management stress that the organization's corporate vision must be aligned to its core values; to the organization's mission; and also to its goals and the objectives it wishes to pursue in the short, medium and long term. In general, it is also recognized that the absolute prime importance to any company, irrespective of its size or its public/private ownership state, must be its desire to survive over the long term. This may be achieved by balancing the need to earn an economic profit (and satisfy its shareholders) with the need to invest in its own resources; typically its systems, processes, plant, machinery or its employees. The efficient use of these "human resources" largely governs the success of the organization as it is ultimately reliant on its employees to both formulate and implement strategy. Strategic management may therefore involve the development, review and remoulding of the organizational structure that will best ensure survival within its operating environment, taking into account the internal and external pressures which currently impact or have the potential to impact business operations, as shown in the model of Figure 1.3.

The analysis stage should be fully integrated with wider competitor knowledge and how this will influence the business operation of the organization. The simple Strengths, Weaknesses, Opprtunities and Threats (SWOT) analysis is often a good starting point in exploring the internal and external influences which can then be further

- Potential reduction in staff
- Moratorium on new recruitment
- Reduction in skills and knowledge and/or loss of process knowledge
- Squeeze on current spending and planned budget reductions
- Staff training and development seen as discretionary
- Ability to maintain standards of service quality and quality assurance systems
- Increased pressure on staff performance with corresponding increase in risk of accidents

- Shareholders' expectations
- Reduction in suppliers
- Reduction in customer base
- Increased operating costs
- Need to maintain business reputation
- Need to protect brand
- Additional resources needed on supply chain issues
- Need to adhere to legislative requirements
- Needs to maintain health, safety and environmental standards

Figure 1.3 Business pressures influencing strategy.

refined with other tools and models such as those described below.

1. The Ansoff Matrix

This covers the relationship between market and product and suggests four possible strategies which the business may adopt for each product or service (Figure 1.4). This widely applicable matrix can be used to provide guidance for companies in setting their strategic objectives or for analysis to understand their current market position. It examines choices based on the relationship between the organization's products and their market position and is usually undertaken for each product or service within the company's portfolio. Understanding this position offers some direction to future strategy.

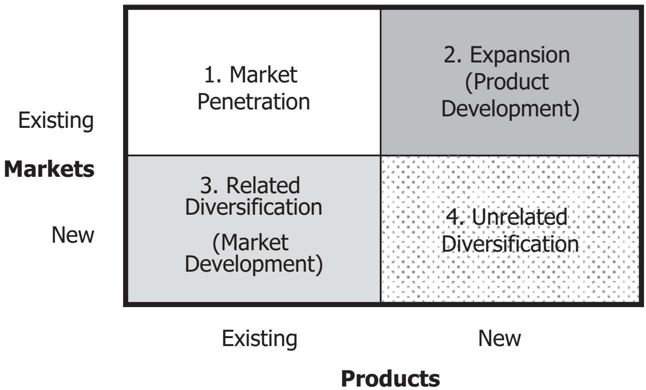

Figure 1.4 Product–market growth strategies.
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2. Porter's Generic Strategies

Professor Michael Porter sugests that three generic strategies can be adopted, these are:

- Cost leadership.
- Differentiation.
- Focus.

The simplest of the above strategies is **cost leadership** and by achieving the lowest cost of production in an industry or market sector, a company can either reduce its selling prices or keep the increased profits to invest in research and develop new and more of existing products. The second option of **differentiation** involves making the product or service appear different in the mind of the consumer, this may be by offering better design, reliablity, service and delivery; for services this may include courtesy, availability, expertise and location. The third strategy of **focus** is where a company concentrates on a market area, or to deliver niche products or services.

3. "Five forces model"

Professor Porter's "Five forces model" can be used as part of the organization's strategy planning process and also to ensure that the actions (current or proposed) are aligned with its strategy and its market position aspirations. The use of the model can help to identify where additional information may be required to assist the company in its strategy development with suggestions for future competitive strategies. Porter's model covers:

- the bargaining power of suppliers and buyers;
- the threats from subsitutes and new entrants; and
- the intensity of rivalry among competitors.

This model is shown also in *Essential Tools for Management Consulting* as it provides a good structure to consider the "big picture" external perspectives.

4. Elements of Corporate Strategy

This model is the main proposition for strategic management shown in the textbook *Exploring Corporate Strategy* by Professors Gerry Johnson and Kevan Scholes. This summary model of the strategic management process concerns three major elements: strategic analysis; strategic choice; and strategic implementation with each having its own inter-related subsets of supporting considerations/actions (Figure 1.5). Each of these inter-related elements is crucial in defining and succeeding in establishing a robust strategy to take an organization forward. The supporting parts of Strategic Analysis identify the company circumstances. The topics with Strategic Choice will prompt an assessment of the suitability and rationale based on strategic logic, research evidence and cultural fit. Finally, the Strategic Implementation elements need to be considered and addressed in translating the selected strategy into action.

5. Portfolio Strategies

There are a number of approaches available; however, the most widely used is that from the Boston Consulting Group which, through a matrix model, provides guidance on current and future market positions and how these may be managed. This is shown as Figure 1.6.

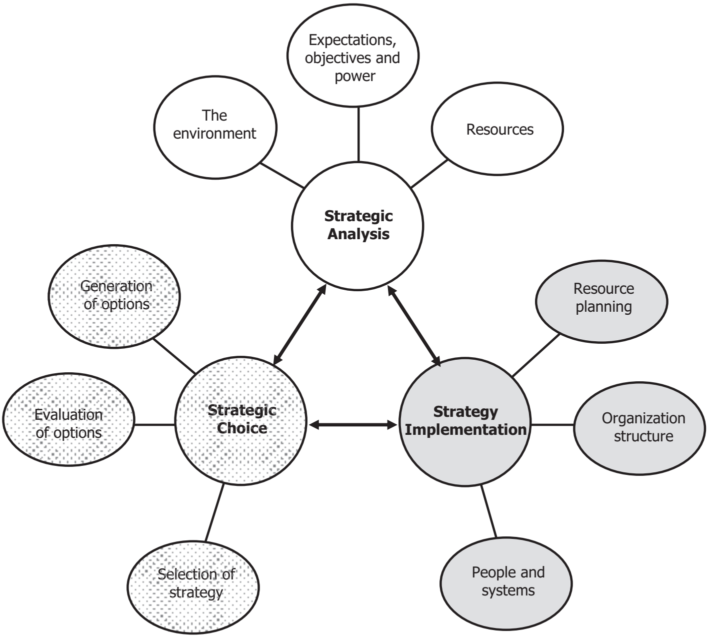

Figure 1.5 Elements of corporate strategy.
From Professor Gerry Johnson and Professor Kevan Scholes, *Exploring Corporate Strategy*, 2002, 6th edition text and cases. Reproduced with permission of Pearson Publishing.

The BCG model matches high and low industry growth with the company's high and low relative market share. From this model four main categories are then established relative to the product and its performance:

- The Star is a high-market share business in a high-growth industry, providing high cash flow but requir-

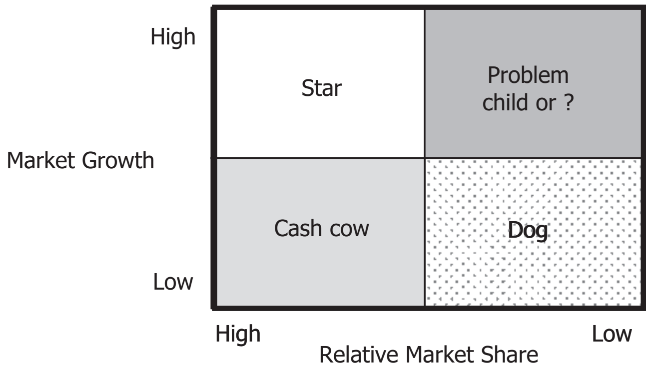

Figure 1.6 Product performance matrix.
The BCG Portfolio Matrix reproduced with kind permission of the Boston Consulting Group.

ing high levels of funding. Star products or services grow and finance themselves.

- The Question mark – high industry growth with low relative market share, providing low cash generation but needing high levels of funding. These are also referred to as "problem children" because of the amount of time that is required and that they need funding to grow. If they become successful they become "stars" or "cash cows".
- The Cash cow is a high-market share business in a low-growth industry, providing large positive cash flow with low levels of funding.
- The Dog is a small market share business in a low-growth industry providing positive or negative cash flow. These businesses are at the end of the product

lifecycle and need a face lift or to be phased out if going nowhere; they also consume corporate funds and management time in an attempt to stay competitive.

It has to be said that portfolio strategies have their drawbacks as they do not take into account the linkages between products (or services); it has to be remembered that many organizations share technical, marketing and support functions and the costs of these may often be amortized across all products; they may also be difficult to apportion from a business reporting performance perspective. In addition, some products or services may be offered as non-earning, private venture, development projects requiring investment with no identified reward.

Having analysed the organization and its business environment, and concluded by making appropriate decisions, the next stage is in strategy implementation. Whilst this implementation may be a continuation of established strategic plans it may also necessitate an organizational change. Strategy implementation will need to recognize the level of difficulty of introducing change and the model shown as Figure 1.7 shows a range of change options which an organization may need to adopt. The model also suggests that the easier changes at the bottom of the pyramid offer the least level of discomfort for, and resistance from, employees and that these lower level changes also require the least amount of time and cost. Similarly, the higher levels necessitate substantial time and

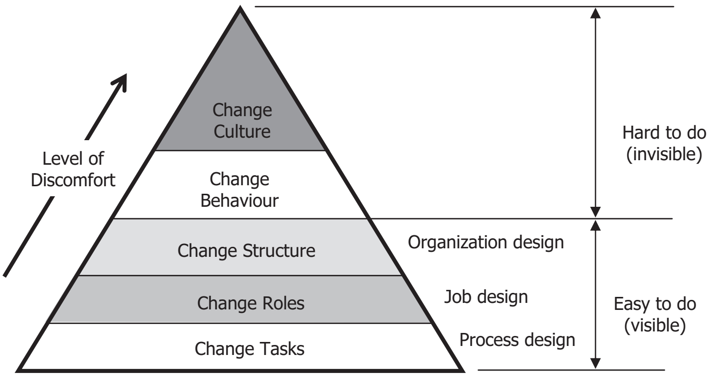

Figure 1.7 Change pyramid.
From *The Essential Management Toolbox: Tools, Models and Notes for Managers and Consultants*, S.A. Burtonshaw-Gunn, 2008. Reproduced with permission.

investment and as such are generally more difficult to implement. The pyramid model also suggests that embarking on the lower level changes first may be a good way to develop involvement and an acceptance to a change programme especially if quick, beneficial and easy to observe changes can be realized by this staged approach – a clear example of harvesting "the low hanging fruit" first.

After considering the above factors it is proposed that there will be a number of approaches which can be deployed in change implementation. (The subject of change management is covered in greater detail in the *Essential Tools for Organizational Performance*, also published by John Wiley and Sons.)

STRATEGIC PERFORMANCE TOOLS

Having spent time, effort and no doubt money on the activities associated with strategy analysis, identification and development, this chapter now looks at some of the other "big picture" strategic management tools which have become widely used in practice in large international organizations and are increasingly being considered in other businesses. The first of these is quality – a term not to be confused with "luxury". In this sense quality relates to the product or service provided meeting customer requirements, its suitability or fitness for purpose, how the product provides customer satisfaction and finally questioning if the product or service provides value for money in terms of quality and price. This approach is sometimes called total quality management (TQM) or just TQ or QM depending on the company. Some 50 years ago the focus was on quality control with an emphasis on inspection and reducing scrap; this moved to quality assurance in the 1970s with a concentration on working to systems and procedures to help maintain consistency and conformance; finally, since the 1980s there has been a move to TQM where people are responsible for the quality of their own work to a standard often set by the customer. Indeed, the focus here is on the results of the output.

At the same time as these advances there has been a shift to performance management and the measuring of key performance indicators as a predictive means of identifying deterioration of performance and helping to gain greater value from performance management by identifying areas of improvement. The management of performance in organizations typically covers:

- Linking corporate goals with department and/or individual performance.
- Identifying the key results areas.
- Identifying critical success factors.
- Clarifying key competences.

Widespread adoption of this approach has grown in number and has enabled companies to realize the benefits from sharing, in a non-competitive way, the working methods with other companies and from this the establishment of best practice and "benchmarking" has become commonplace since the 1990s. In support of all of the above was a move for formal external recognition of good practice and two quality frameworks are described below as examples of cross-industry sharing and commitment to continuous improvement.

The first of these is the US Quality Award which uses a point scoring framework to assess company performance as follows:

- Customer satisfaction 30%
- Leadership 10%
- Quality results 18%
- Information and analysis 7%
- Human resource utilization 15%

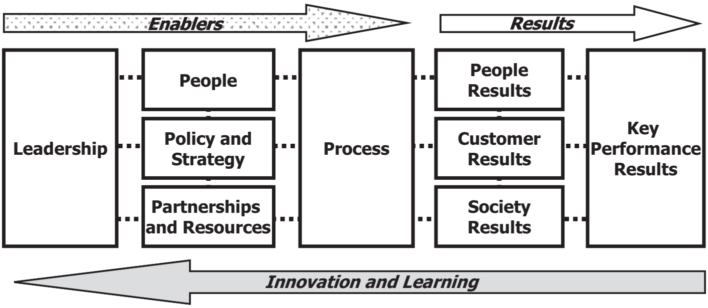

Figure 1.8 The EFQM Business Excellence Model. Reproduced with thanks to the European Foundation of Quality Management. Copyright © 1999–2003 EFQM.

- Strategic quality planning 6%
- Quality assurance systems 14%

This is known as the Malcolm Baldrige National framework and is the forerunner to the second example, the European Foundation for Quality Management's (EFQM) Business Excellence Model, which since its launch in 1989 has become the most widely used non-prescriptive management model in Europe. Again, as in the Baldrige framework, a similar scoring system is employed but the linkages between the enabling functions and the business results are more obvious, as shown in Figure 1.8. Each of the nine key areas is scored using the following weighted scoring system:

- Leadership (10%): How the behaviours and actions of the executive team and all other leaders inspire, support and promote excellence as the best way to achieve the organization's objectives.

- People management (9%): How the organization formulates, deploys, reviews and turns policy and strategy into plans and actions.
- Policy and strategy (8%): How the organization releases the full potential of its people.
- Resources (9%): How the organization manages resources effectively and efficiently.
- Processes (14%): How the organization manages, reviews and improves its processes.
- People satisfaction (9%): What the organization is achieving in relation to the satisfaction of its people.
- Customer satisfaction (20%): What the organization is achieving in relation to the satisfaction of its external customers.
- Impact on society (6%): The organization's impact on local, regional and national society.
- Business results (15%): What the organization is achieving in relation to its planned objectives and expectations of everyone with an interest or stake in the organization.

Although many companies have for a long time measured their strategic performance and the quality of their product or services, there has been less emphasis on the measurement of employee and customer satisfaction until the use of the above model. There is also a growing use of performance measures which are financial and non-

Performance indicator	Performance measure
Employee related	Employee satisfaction Attendance Turnover or “churn” including attrition rates, recruitment success, etc. Safety Suggestions
Operational	Reliability Delivery Processing times Lead times Inventory turnover (stock turn) Errors Costs of rework, etc.
Customer satisfaction	Overall index Retention Complaints
Market and financial	Market share Cash Profit Return on assets Return on stock Sales per employee

Figure 1.9 Identifying performance measures.

financial, internal and external, tangible and non-tangible and top-down and bottom-up. Figure 1.9 also supports the above quality models in linking performance to key business areas.

These performance measures can be used to show which of the strategic objectives are critical to the business, how the actual performance fits with the long-term business plans and what areas need to be addressed as a matter of urgency. However, it should be remembered that the customer will always be the true judge of performance, hence the emphasis on customer satisfaction scoring in the Baldrige and EFQM models.

Returning to the general topic of quality management, many companies work to prescribed systems not just to ensure their own business performance but also to demonstrate to potential customers that they are professionally managed with external accreditation to an acceptable and established recognized standard. The International Organization for Standardization is the world's largest developer and publisher of International Standards with a network across 159 countries based in its central headquarters in Geneva, Switzerland. This organization publishes the ISO9001-4 series of standards covering quality management which are also aligned with the similar management standard covering environmental management, ISO14001. This is the most widely used standard for environmental risk management and is closely aligned to the European Eco-Management and Audit Scheme (EMAS). Whilst the most basic reason for accepting environmental responsibility is to stay within the law, as environmental legislation becomes more stringent such conformance will affect an increasing number of companies' ability to deliver sustainable growth and even their survival. In addition, often "society" has increased expectations or demands, particularly on large companies. This is partly based on the perception that the larger organiza-

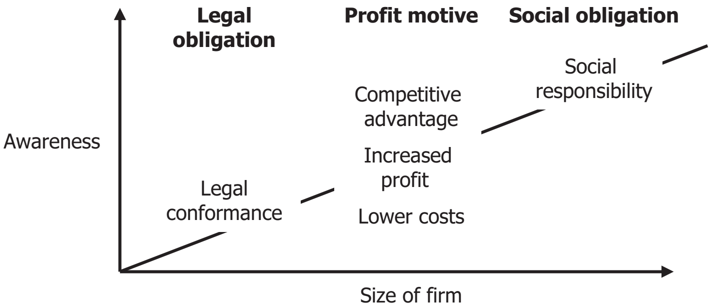

Figure 1.10 Environmental drivers.
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tions should lead by example and that in proportion to their turnover or profit they are better able to afford the investment in meeting even tighter environmental requirements fulfilling a corporate responsible existence, as shown in Figure 1.10.

From a strategic perspective, one standard which has yet to be accepted with the same status as quality or environmental management is that covering business continuity management (BCM). This is a management process designed to provide a framework to ensure the resilience of an organization in any eventuality, with the aim of ensuring continuity of service to key customers and importantly protection of the company's brand and business reputation. As such BCM should be considered by small companies as well as larger corporations as the key five steps will be the same for all organizational sizes:

- Understand the vulnerabilities of the business.
- Define a business continuity strategy.
- Develop a plan.
- Undertake cultural change with appropriate training.
- Rehearse the plan.

Guidance for this strategic management topic can be seen in the British Standard 25999, rather than the ISO series; in addition, for those tasked with the development of their own organization's approach to BCM there are a number of websites sharing their approaches of BCM. BCM is gaining in use particularly in those critical national industries such as airlines, for example, especially where they also have public service obligations as one of their strategic drivers.

The final strategic performance tool of this chapter is the incorporation of strategic planning and objective setting with a recognition of the advantages of a knowledge economy, where business is supported by the intellectual property of its resources rather than its more reproducible operational products or services – a point also recognized by the difficulty in trying to identify an organization's unique selling proposition (USP) when compared to its competitors. It has to be said that over the years many companies have been trying to develop techniques to capture and share knowledge across their operations. In this regard organizations often view knowledge management as a relationship between people, technology, processes, strategy and a cultural context and on this basis usually consider that it requires inputs from human resources management, strategic management, organizational studies and IT systems. The initial challenge for many organizations eager to adopt knowledge management to stimulate innovation and growth has been in bringing these together to establish initially what they already know. Typically, the most easily accessible knowledge within any business is the "potential knowledge" in the form of raw data. However, the level of difficulty increases markedly for any business when attempting the acquisition of "tacit knowledge" and its accompanying synthesis by the organization's leadership population. This higher level of analysis relies heavily on the organization's ability to successfully convert tacit knowledge into explicit or transferable forms in a timely manner, which then can be shared across the business to contribute to the longer-term strategic direction of the business.

There are a number of strategies open to knowledge management for actively managing knowledge such as encouraging individuals to share their knowledge through a reciprocal knowledge sharing repository, such as a database, or allowing individuals to make knowledge requests to subject matter experts when specialist knowledge is required. Other knowledge management strategies for companies include:

- Cross-project learning.
- Project close-out and after-action reviews.

- Knowledge mapping of skills and topics by individuals.
- Establishing internal communities of practice.
- Best practice transfer, use of external benchmarking clubs.
- Introduction of competence management systems providing evaluation and planning of competences and succession planning for key organizational roles.
- Establishing a "master–apprentice" relationship providing coaching, mentoring and career support.
- Collaborative technologies and partnering arrangements.
- Performance measuring and reporting intellectual capital (a way of making explicit knowledge for companies).
- Social software such as social bookmarking, blogs, twitter, Web2, 2nd Life, etc.

Having mentioned that knowledge management may be considered as a strategic performance tool, it has to be said that for those embracing this it will also be a requirement to ensure that appropriate governance is in place to protect both the employee and the business – especially when considering the interaction between specialized knowledge and scarce skills. With competitive pressures on businesses which may include downsizing and undertaking major corporate change in the organization's strategic direction, it has also to be remembered that it is easy for valuable knowledge to be lost forever by such action. Of course, whilst there are normally advantages in such organizational changes this has to be balanced with the risk that such change will be undermined by corporate amnesia witnessed by examples across all businesses by spending hours on issues that previously took minutes. The final point also to recognize is that the loss of staff and valuable knowledge arises not only from the organization's actions but also with increased knowledge worker mobility. This can have a significant impact on the market capitalization of the business, thus impacting on shareholder value and eventually threatening its survival.