Instructor Resource Guide

to accompany

**Contemporary Strategic Management
An Australian Perspective**

#### Prepared by

**Dr Yuliani Suseno**

**Edith Cowan University**



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Chapter 1 – Strategy: Concepts and Perspectives

**Self-study questions**

**1. Can an organisation survive without strategy and why?**

Strategic management is the ongoing process of considering operations and the environment, testing the available strategic options, planning for the implementation and management of the strategies produced to reach a final, as well as intermediate, goal(s). Strategic management is concerned with survival and competition for the organisation. History shows that when an organisation harnesses its innovative products in an original manner, it creates an unpredictable and difficult-to-imitate advantage. Setting up an innovative organisation and directing it to achieve a competitive advantage is, in itself, a challenging task.

A strategy is the plans and actions a company selects to achieve its strategic goals. Irrespective of an organisation’s size, research has determined that long-term survival of all types of organisations without strategic planning is unlikely. This includes government departments and NGOs (non-government organisations). Some organisations do survive and even prosper in the short term without a formal strategy, however, by employing quite clever people who are individually aware of the organisation’s environments and constraints and are able to make appropriate decisions and coordinate with other decision makers, without the framework of a strategy or set of clearly developed organisational goals. This applies particularly to organisations which include a number of highly educated professionals (although some might argue the contrary). These people effectively develop strategy on a case-by-case basis, which is equivalent to the emergent approach to strategy development.

Survival requires a strategy which includes:

* a focus on competition for customers and resources
* effective and efficient operations that enable an organisation to build sufficient reserves for development and survival during difficult periods
* an ability to deal with change as a learning organisation and so improve its responses to the pressures for change as it learns how best to deal with them and so be more innovative when making changes
* a focus on retaining a competitive advantage
* sufficient time is allowed for deciding on and implementing changes in order to gain a return from them.

It is therefore difficult for an organisation to survive without strategy.

**2. What are the main characteristics of the four strategy formulation processes?**

The main characteristics of the four strategy formulation processes are: classical, evolutionary, processual, and systemic formulation.

Classical formulation is when the ends/outcomes are achieved using rational planning to maximise profit. The classical approach uses profits as the principal objective in a rational and calculating manner. This approach possesses strong linkage with military history where strategy is driven by a single decision maker with a single objective. Financial goals are often the principal driver of this strategy formulation process.

Evolutionary formulation focuses more on the environment rather than internal planning in the decision-making process. In order to survive, organisations need to adapt to environmental pressures. This certainly becomes a useful reality check when making strategic decisions.

Processual formulation reflects the realities of organisational life, which are influenced by politics, divergent interests of various stakeholders and organisational culture. This approach focuses on incremental strategy formulation and implementation. It often involves a compromise and is in line with human behaviour, i.e., settle for the best alternative based on the constraints and limitations.

Systemic approach reflects the internal and external context for the strategy formulation and implementation. It considers the behaviour of people, organisational culture, resources, institutional context, and is also influenced by the social interests and economic systems in which the organisations operate.

**3. What are the principal reasons for strategic management and thinking?**

Researchers such as Mintzberg believe that strategy is a planning process aimed at identifying:

* where the organisation has come from
* where it wishes to be
* what is required to get it there.

Strategic thinking is required as organisations need to understand the environmental conditions for the formulation and implementation of a strategy in developing an organisation that will be competitive in such conditions. One of the major reasons for considering organisational strategy is when the organisation is facing a crisis or major change, such as the acquisition of business units or a change in CEOs. The current intensified attention to strategic planning practices (and corporate governance) could be attributed to:

* the mounting pressures on all organisations from globalisation (rising numbers of competitors with greater and greater levels of resources)
* increased regulatory authorities’ scrutiny of the business control activities of boards that have resulted from spectacular governance failures in recent years.

Political and institutional relationships are another reason for the need for strategic approaches in other areas such as religion, regional political behaviours (such as trade controls) and the industrial revolution.

Globalisation, reductions in the cost of transportation and information access, have also created an opportunity for strategic management to have a significant impact on organisational performance.

**4. What are the mechanisms by which sustainability can be incorporated into strategic management?**

The mechanisms by which sustainability can be incorporated into strategic management involve identifying sources of competitive advantage that arise from organisational processes and organisational sets of assets. The complexity of internal processes and multiple assets make them difficult to imitate. Organisational processes depend on internal relationships and these are often developed over time. The relationships between specific processes, assets and competitive advantage are often difficult to identify and therefore, hard to imitate. Organisations that are able to incorporate such sustainability in their formulation of strategy will be able to create core competencies for a competitive advantage.

Organisations could incorporate sustainability into strategic management in a number of steps. Firstly, by scanning the external environment, using for examples the PESTEL analysis, five forces analysis and scenario planning. Secondly, by scanning their internal environment to identify core competencies and deficiencies. By scanning the internal environment, organisations are able to identify the availability of resources and competencies using the theories of the resource-based view and knowledge-based view, and also reflecting on the suitability of structures and cultures of the organisation for the implementation of strategy. Thirdly, by setting strategic objectives that reflect the needs of the key stakeholders, the organisation’s purpose, corporate social responsibility (CSR), the industry conditions and any improvements senior management wish to achieve. These objectives can be used to justify or reject the various number of strategy designs. Fourthly, by determining the interplay between internal and external forces and develop action plan meeting these strategic objectives. Finally, by implementing, monitoring and measuring the end outcomes to provide sustainability in strategic management.

**5. Define competitive advantage and core competency.**

A *competitive advantage* is a characteristic of the organisation’s product, services, behaviour, or opportunity that an organisation possesses which can enable it to win business from competitors. A competitive advantage is therefore any source or difference that distinguishes an organisation from its competitors.

The *core competencies* of the organisation are the resources or strengths that create the organisation’s *competitive advantage.* Core competencies are at the heart of the organisation. These could also refer to activities in which an organisation performs better than its competitors for its competitiveness and profitability. Core competencies are often complex, path dependent, casually ambiguous and difficult to imitate. They warrant and should receive much of the strategic development focus of the organisation. Strengths and activities that are not core competencies do not lead to a competitive advantage and do not warrant this level of attention from the strategic perspective.

**6. How do strategic concepts apply to not-for-profit organisations and non-government organisations?**

The pressures on organisations to be more careful with their strategic planning appears to now apply to all organisations—even NGOs. For example, charities are now experiencing increasing pressures from globalisation. Consider the charitable organisation Oxfam which was, until a few years ago, a local community charity based near Oxford University in the UK. It is now a global charity organisation competing for donations, volunteer resources and recognition with other local charity organisations, in other countries, as well as global charity organisations, such as World Vision.

The reason for this is that all organisations compete for two things:

* the attention and participation of customers/stakeholders/patients
* the resources they require to provide a service.

Customers are often flooded by various organisations’ offerings and therefore, there is always competition in any organisation’s environment. If the organisation loses the battle for customers/stakeholders and resources, then it loses the opportunity to provide value/make a profit no matter how noble its objectives.

**7. Identify the different levels at which strategy can be created in an organisation.**

The levels of strategy are corporate-leve, business-level and functional-level strategy. Corporate, business and functional level strategies can be found in all organisations, although the difference is particularly evident for larger organisations.

Corporate-level strategy reflects the broad purpose of the organisation. This level of strategy defines the scope of the organisation’s activities, the types of businesses it has, and the geographical scope of its operations.

Business-level strategy (business-unit strategy) refers to how the organisation will compete within a particular market. Organisations adopting the business-level strategy will come up with actioins to create a competitive advantage over their competitors in a chosen market or industry.

Functional-level strategy is concerned with how the organisation supports its business-level strategies by allocating resources, structuring the organisations and managing control to create specific competitive advantages.

In a well coordinated organisation, each level of strategy is derived from the level above, is focused on the particular issues pertaining to that section of the organisation and is more specific in detail.

In addition to the levels of strategy, the position the organisation wishes to occupy can fit into several generic categories. These can include:

* being an industry leader (IBM held this position for many years)
* occupying a niche (such as a specialty retail shop)
* being the best value provider of goods and services
* servicing geographically poorly supported regions (such as developing countries), or
* holding and promoting impeccable ethical standards (such as the Body Shop).

# Discussion Questions

**1. Does there always need to be a formally expressed strategy? Why?**

Frequently small businesses and businesses with owner managers do not formally express their strategy, instead holding it as tacit understandings and mental plans. Studies have shown that this approach for expressing a strategy does not have a negative impact upon company performance. Larger organisations, however, will usually find that their strategy needs to be formerly expressed because of their larger numbers of stakeholders and the greater complexity of the organisation which requires input from a larger proportion of the organisation, as well as the attentions of the board. So, when the tacit understandings can be held by the chief decision maker, formerly expressed strategies may not be required, although the strategies themselves are just as important.

**2. How can the strategy formulation process involve more of the organisation?**

Modern strategy formulation recognises the importance of the input of all levels of the organisation and key stakeholders (even including customers and suppliers in some cases). Whilst the board must ultimately take responsibility for the strategy, its expression and implementation, input into design and important factors such as objectives and associated timeframes can come from all parts of the organisation. Communication and opportunities to provide input into the strategy formulation process (using processes such as company workshops) are important, as well as sharing an understanding of the key objectives of the organisation with its staff.

Strategy formulation also involves identifying the external environment, including the general environment of political, economic, demographic, social, technological and legal environments, as well as the industry environment in which the organisation is operating in.

**3. Does anyone outside an organisation really care about its strategies? Explain.**

Stakeholders such as institutional and private investors will have considerable interest in an organisation’s strategies. Communities that are dependent on the organisation (if it is a major employer for example) will also have considerable interest in the directions of the organisation and whether it is likely to develop, shrink or change. If the organisation is a public sector organisation, and then the constituency that it is responsible for will also have particular interest in the objectives and how the organisation plans to achieve them. Strategies that are poorly expressed, not well aligned with the external environment, do not take into account key needs of stakeholders or are not focused on developing the organisation effectively will not be of interest to stakeholders. Components of strategies, such as mission statements can be very effective in attracting the attention and interest of these stakeholders if they are well constructed and equally effective in diverting their attention away from the organisation’s strategies if they are generic and are interesting.

**4. Are various levels of strategy created separately or are they normally the result of an integrated process? Explain you reasoning.**

The various levels of strategy are normally the result of an integrated process. As earlier mentioned, strategy formulation requires an analysis of the environment using PESTEL analysis, five forces analysis and scenario planning. Strategy formulation also requires an analysis of the organisation in terms of the resources it has for competition, the corre competencies of the organisation, the suitability of the structure and the match of the organisation’s culture with its competencies and the external environment. Only when an organisation considers the external environment and its internal analysis can strategy be developed strategically for competitive advantage.

After scanning the external environment and the internal characteristics, the organisation is able to set objectives, craft its strategies, implement the necessary change, measure its performance and finally, make adjustment if this is required.

**5. Can an organisation be successful by only responding to the external environment? Why?**

External environment scanning alone is not sufficient to guarantee an organisation success. An organisational succss is dependent on its effectiveness and efficiency to manage the external and internal environments. The external environment is usually beyond the control of the organisation; an organisation needs to recognise such external environment in order to identify opportunities and formulate strategies to counteract on the threats presented by the external environment.

The internal environment is significant for the organisation as it is something that is controllable by the organisation. The internal analysis provides information about the skills, resources and activities to create a successful interface between the organisation and its markets to achieve a more holistic coverage. Doing this will enable the organisation to fully understand its strength and weaknesses, and also identify various opportunities and threats.

**Exercises**

**1. Identify the resources that give the company in this chapter’s Scene Setter a competitive advantage.**

The case that is used as the Scene Setter is Qantas. Qantas has economies of scale from its size and cash from its strong revenue growth. As an airline business player since early 1990s, Qantas has a very good knowledge and resources in the area of airline industry. It also possesses a significant share of the Australian domestic and international travel market particularly the kangaroo route. These attributes placed Qantas in a position that is highly competitive to compete with the emerging trend and growth of low-cost airlines.

With strong operations, Qantas’ leaders decided to venture into the low-cost airline market to tap into an opportunity for a different market based on pricing differentials. The result is the introduction of a low-cost carrier, Jetstar. Having possessed the knowledge to operate as a high quality carrier with service and strong brand name, Qantas is able to transform Jetstar to provide best value with service, rather than soley being a cost leader. Qantas is also able to draw upon its existing resources, for example by transferring some of its under-utilised aircraft, over to Jetstar.

**2. Review the mission and values statements of the Body Shop (**[**www.bodyshop.com**](http://www.bodyshop.com)**). Identify what you think the needs of their key stakeholders would be. Explain whether the mission and values statements match the stakeholder needs you have identified?**

The Body Shop's 2013 Values Report, states that its five core values are:

* opposing animal testing
* supporting community trade
* activating self-esteem
* defending human rights
* protecting our planet

This report also referred to a stakeholder panel which reviewed its performance in relation to these values. The stakeholder panel was somewhat narrow compared to the definition which would normally be used stakeholders and which has been used in this textbook. The stakeholders that the Body Shop consulted were the British Union for the Abolition of Vivisection (BUAV), Oxfam-UK, Traidcraft, and World Wildlife Fund (WWF). They found that the organisation had performed well in very specific areas such as reductions in the use of palm oil (associated with the destruction of rainforest and orangutan habitats), but that the Body Shop need to be more systematic in its approach to incorporating its values at the strategic level. Other stakeholders that should be included to this list would include customers, its owner (L’Oreal), government, communities which were affected by the body shop's campaigns and retailer and trade associations (reflecting the fact that the Body Shop is a significant employer).

These organisations would be concerned with financial performance, working conditions, economic impact, conformance with regulations and impact on community social sustainability, as well as the environmental and social performance of the Body Shop.

The values would not meet their financial performance needs, however, concerns for working conditions, economic impact, regulation, social sustainability and environmental and social performance expectations would have been met by these values.

# 3. Visit Qantas’ website ([www.qantas.com.au](http://www.qantas.com.au)) and review the latest annual report. Identify what strategic actions Qantas has taken in reaction to the global financial crisis and its ongoing effects.

According to Qantas's 2012 annual report, the year 2011/2012 was a year of transformation for the organisation. The company recorded profit before tax of $95 million in spite of significant challenges that the company faced in the year. Qantas also continued to build its strong domestic network, with Qantas and Jetstar, as well as building its Qantas Frequent Flyer. Qantas performed very strongly in the domestic market, with higher EBIT (Earnings. Before Interests and Taxes) as compared with 2010/2011. Jetstar also reported record EBIT of $203 million, with an increase in revenue by 18% and a reduction in unit costs. Jetstar in fact is on track to maintain capacity and passenger growth in all markets the airline serves. In addition, Qantas Frequent Flyer delivered record EBIT of $231 million with an increase in billings by 14% to $1.2 billion and with membership at 8.6 million people.

The CEO, Mr Alan Joyce, also mentioned that the organisation has formulated and made a significant progress to its five-year plan to turn around Qantas’ international network. The poor performance of Qantas’ international network contributed to EBIT loss of $21 million. One of the ways in which they attempted to do this is by forging an alliance with Emirates. The organisation also made an exit from loss-making routes such as Hong Kong-London, Bangkok-London, Sydney-Buenos Aires, Singapore-Mumbai and Auckland-Los Angeles.

Qantas maintained profitability and significant cash reserves ($3.4 billion) in that financial year. In 2011/2012, the Qantas Group launched a significant program for business transformation in order to improve productivity, reduce the cost gap with other global airlines as well as to utilise and reap technological benefits.

This organisation appears to have moved very quickly to reduce operating costs through reducing capacity and staff levels.. This is a form of reactive strategy; another option would have been to have attempted to have increased sales by acquiring business from airlines which had collapsed, however, this would have meant adding new routes, which would have probably been seen to be too great a risk.

The goals that Qantas had set which related to the GFC were to reduce costs to maintain revenues and (over the next three years) returning to pre-GFC profitability to allow for investment in new planes. Interestingly, Qantas's vision remains quite ambitious — to be one of Australia’s great businesses and among the world’s great airline groups. The organisation is organised by ways of its differentiating offering with Qantas and low-cost leadership offering with Jetstar. This reflects a high degree of confidence in Qantas's ability to control costs and invest in improvements in the short to medium term — it is to achieve this vision. The ongoing global challenges require Qantas to formulate and implement strategies to achieve the necessary staffing levels to expand its operations and increase its service differentiation in the current global economic return to growth. In the medium-term, this ‘belt tightening’ may impact upon its ability to continue to offer the service levels necessary to support its business level strategy of broad differentiation.

**4. Visit the BHP Billiton website (**[**www.bhpbilliton.com**](http://www.bhpbilliton.com)**) and view its sustainability report. Compare this with its strategic objectives (see BHP Billiton’s charter in Strategy capsule 1.2). Determine whether environmental performance is slightly, strongly or fully represented in its core strategies.**

BHP Billiton’s Sustainability Report 2012 indicates that the company values sustainability with a focus on putting health and safety first, being environmentally responsible and supporting the communities. The report outlines the company’s performance in 2012 financial reporting year which marks the end of their HSEC (Health, Safety, Environment, and Community) target period from FY2007-FY2012. The company’s sustainability performance is measured in 5 areas: zero harm, health, safety, environment, and community. Out of the 11 targeted outcomes in these 5 areas, the company has not been able to achieve 5 outcomes for the period of 2012 in comparison to the base year of FY2007, namely:

- zero fatalities (recorded 3 fatalities at their controlled operations);

- 15% reduction in potential employee exposure (only recorded 8% reduction);

- 30% reduction in the incidence of occupational disease (only recorded 22% reduction);

- 50% reduction in injury frequency (recorded 36% reduction);

- 10% improvement in the land rehabilitation index (recorded 1% decline).

In general, the company’s sustainability performance is well on target. For FY2013-FY2017, the company once again sets a new benchmark for its HSEC with target areas of safety, health, environment, and community.

The BHP Billiton’s Charter certainly encompasses not only integrity, respect, performance, simplicity and accountability as the company’s values, but also ‘sustainability’ as the foremost importance value of the company. Their principles of operations outlining the importance of the health and safety of their people, the importance of their communities, customers and suppliers, the importance of their asset portfolio being sustainably developed, all reflect the fact that environmental performance is strongly and fully represented in the core strategies of BHP Billiton.