

STRATEGIC management

Thinking, Analysis, Action

Graham Hubbard, John Rice and Peter Galvin

5th edition

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This book is different.

We know you have a choice. Why choose this book to teach strategy at postgraduate or undergraduate level? The following features will make this book the one you should choose.

General advantages

The text:

- ▶ is rigorous, yet concise and easy to read
- ▶ is comprehensive, yet understandable
- ▶ is theoretically strong, covering all theories and major research, yet has a practical, unifying and integrated theme in the environment–strategy–capability gap analysis model
- ▶ covers all types of organisations, not just listed companies
- ▶ incorporates sustainability as an integrated concept for strategy throughout the book
- ▶ considers dynamic and interactive aspects of strategy over time, as well as the traditional perspectives
- ▶ has an effective balance of Australian and international content, both in the text and the cases
- ▶ has a great set of cases from renowned international and local case writers
- ▶ has a set of questions at the end of each chapter to test your knowledge of key concepts.

For postgraduates

The text:

- ▶ is written with practical usage in mind, highlighting issues that people with experience will understand
- ▶ includes worksheets and templates that can be used in real organisations, not just classrooms
- ▶ provides challenging alternative perspectives on major strategic issues, so that experienced students have more than one perspective to consider
- ▶ has access via the website to an outline for preparing a strategic business plan, perhaps the most used tool in practical strategy.

For undergraduates

The text:

- ▶ makes strategy concepts comprehensible to students without practical experience
- ▶ has real life mini-cases to open each chapter, making the material accessible to those with limited working backgrounds
- ▶ is theoretically strong, for those seeking to teach and learn from a theoretical perspective
- ▶ includes learning objectives, illustration capsules of strategy at work, and summaries for each chapter.

X PREFACE

This fifth edition of *Strategic Management: Thinking, Analysis, Action* reflects the combination of the major thoughts I have had about the teaching and practice of strategy and strategic management over the 25 years I have been working in this area. This is the eighth major strategy textbook I have authored over that period. It reflects the stream of thinking of all its predecessors. I have tried to capture the developments that I have seen and experienced in my thinking, research and consulting, as well as to highlight those issues that will influence strategic thinking and practice in the future.

In this edition, I have worked with Associate Professor John Rice from Griffith University and Professor Peter Galvin from Curtin University. John researches in areas of strategic alliances and networks, particularly in technology. Peter has just returned from three years in the United Kingdom and he has a focus on public sector organisations and the resource-based theory of strategy. Together, the three of us bring a variety of perspectives to this book, consistent with the needs of practical strategic solutions. In the title, the term *thinking* reflects a critical element of strategy, which is considerably under-emphasised in the field. Most texts concentrate on developing tools of analysis, but mere mechanical application of good analytical tools will not give the insights needed for successful strategy development. It is the thinking in the choice and use of tools, or in understanding the analysis that can emerge from those tools, which is necessary for analytical success.

The title also emphasises *action*, or implementation. Three chapters are devoted to this area of strategy, which is critical for strategy to succeed. Many people can successfully conduct strategic analysis, but too few can successfully implement strategy, so these three chapters are very important and might easily have been six, such is the volume of issues raised.

Though written primarily for Australian or New Zealand students, or students studying under Australian or New Zealand curricula, whether here or in Asian countries, the book assumes an *international perspective*. Virtually all organisations these days are affected by international issues, whether through suppliers, operations, competitors or customers, but we view them here from a local perspective.

If desired, the book allows lecturers to take a *more theoretical perspective* than is normally possible in strategy texts. This suits undergraduate courses where students have little practical experience and where conceptual principles are being developed. However, experience has shown that postgraduate students seeking a more conceptual understanding also find this emphasis valuable. Chapter 1, in particular, outlines the wide variety of different theoretical approaches that currently coexist in the strategy field, and uses the assessment of a common strategic issue to demonstrate how the perspective taken will affect the analysis and resulting recommendations for improvement. While a consistent approach is taken throughout the book, where possible, each chapter introduces the effects of different theories to demonstrate to students the importance of understanding the implicit assumptions they may be making in their own analysis. References to much of the research literature are included in chapter endnotes for those students or instructors with a research orientation or wishing to follow up a particular topic.

For undergraduate students, each chapter has learning objectives, opening mini-cases and illustrative features (called 'Strategy @ work') for students and instructors to use. The learning objectives simply outline the main issues to be covered in the chapter. The opening mini-cases at the start of each chapter provide small, accessible illustrations of practical examples of issues covered in the chapter. The 'Strategy @ work' illustrative features provide examples of key ideas.

For postgraduate students the book features many practical worksheets, which have been popular and successful for real strategic analysis and implementation and which I use in my own consulting practice. Experienced students will find that these worksheets can be used to develop a practical, but theoretically sound, business plan that actually works! In this way, we have tried to keep a balance between introducing a strong theoretical and conceptual background, and making the book valuable to practitioners and experienced postgraduate students.

The book features chapters on several important practical issues that are not well highlighted in most texts:

- ▶ The book is based on the *integrated environment–strategy–capability gap analysis framework* for business strategy analysis. This integrated E–S–C gap analysis approach favourably surprises most experienced strategy students whose previous experience is with interesting strategic concepts, but ones that are not well integrated. This E–S–C gap framework provides a comprehensive integration of strategy concepts at the business strategy level—the main level for strategy analysis.
- ▶ We have always found that students have a poor understanding of *organisational performance*, despite its fundamental importance to the field. Consequently, a whole chapter—Chapter 5—covering shareholder value, stakeholder theory, balanced scorecard and sustainability conceptual approaches, together with important practical issues of presentation, communication and traps in performance communication, is devoted to this issue.
- ▶ Chapter 6 includes a practical section on *identifying gaps* between the elements of the conceptual analytical framework. This concept is often ignored in texts, but it is very important—both for organisations with real strategic issues, and for ensuring that a logical and comprehensive approach is taken—that all the points of analysis are in fact captured.
- ▶ Chapter 7 is devoted to *decision-making processes*, critical to what choices are undertaken. Consideration of this step in strategic thinking, analysis and action is usually omitted.
- ▶ Chapter 8 introduces a higher level of business strategy analysis—dynamic strategic *interactions between competitors* played out over time—using game theory principles as the theoretical base.
- ▶ Chapter 10 is devoted to the very important issues of *mergers and acquisitions* and *alliances*, including their implementation. These strategic activities are now integral to the growth, development and performance of organisations.
- ▶ Chapter 11 addresses *international strategy* issues, which are now commonplace for most organisations, whether in terms of production, sales or suppliers.
- ▶ Chapters 12 to 14 cover the *undervalued implementation process*, which is vital for true success in strategic management.
- ▶ A practical framework for *preparing a business plan*—one of the most important practical tasks for many students who become involved in strategy within their organisations—is accessible on the website. This issue of great practical importance is rarely addressed in texts.
- ▶ *Opening mini-cases* begin each chapter to bring life to the issues in the chapter.
- ▶ The issue of *sustainability* is incorporated specifically in each chapter, recognising the new environment that organisations will have to deal with in the future.

- ▶ Throughout the book, the *findings of our major research into long-term successful organisations in Australia* (Hubbard, Samuel, Cocks & Heap, 2007, *The First XI: winning Organisations in Australia*, 2nd ed, Wiley 2007) are included.
- ▶ *Ten brand-new cases* have been written, covering a wide variety of international and Australian situations, industries and organisation types.

In terms of producing this edition in particular, we would like to thank Delyth Samuel (University of Melbourne), Sandie de Wolf (Berry Street), Chris Roberts (Cochlear), Mitchell Taylor (Taylors Wines) and John Taya (Main Roads WA) for their assistance in developing new cases for this book. We would also like to thank Elise Carney, Katherine Horsey, Bernadette Chang, Kim Morgan, and Kathryn Lamberton for their roles in the various stages of the publishing process. Their enthusiastic support and efficient and helpful processing has been greatly appreciated!

We hope that this fifth edition of the book continues to be well received by instructors and students, and we encourage you, the reader, to provide us with direct feedback in the hope of continuing to improve the ideas incorporated here and their representation in future.

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Graham Hubbard

Graham Hubbard was Professor of Strategic Management in the School of Business at the University of Adelaide. Previously he was Head of the Graduate School of Business at the University of Adelaide, Professor of Strategic Management at Mt Eliza Business School and Head of the Marketing Group at RMIT University. He has also taught at Monash, Melbourne, Deakin and Swinburne Universities in Australia, Cranfield School of Management in the UK and the Carlson School of Management, University of Minnesota. He has consulted to many organisations, including AAMI, IAG, Medtronic Australia, BHP Billiton, Monash University, the National Wine Centre, Chartered Institute of Purchasing and Supply, Taylors Wines and CGU.

Graham Hubbard is the author or co-author of numerous books, mainly in the area of strategic management, including *The first XI: winning organisations in Australia* and *Practical Australian strategy* and three books of case studies of real organisations designed for MBA and executive programs. He is the co-designer of the Environment-Strategy-Capability (ESC) Gap Analysis strategic framework, the Performance Cube and sustainable balanced scorecard organisational performance measurement frameworks and the Winning Wheel framework for managing winning organisations.

In 2013, Graham was awarded a Citation of Excellence—one of only 50 in the world—for his article, 'Measuring organizational performance: beyond the triple bottom line'.

Professor Hubbard holds a PhD from the University of Melbourne, for his work 'A strategic analysis of takeover behaviour in Australia', an MBA from Cranfield University, UK and BEc from the University of Adelaide.

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John Rice is an Associate Professor in Strategic Management at Griffith University's Gold Coast campus. He has previously worked at the Universities of Adelaide, South Australia and Canberra. He has taught at undergraduate and postgraduate levels for more than two decades, in Australia, Singapore, Hong Kong and China. He has authored three strategic management texts and numerous teaching cases in the strategy area.

John's research interests include innovation, strategic management, climate change and education policy. He has worked in an executive leadership role in a government research agency and has also worked in local government and funds management. He has published widely, including more than fifty refereed journal articles in many leading academic journals.

John's PhD (in strategic alliance management) was awarded by Curtin University. He has other postgraduate degrees from the University of Adelaide, QUT and Griffith University.

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Peter Galvin is Professor of Strategic Management at the Graduate School of Business, Curtin University and has held the roles of Deputy Dean and MBA Director at the same. He has previously held positions in Newcastle Business School, Northumbria University,

xiv ABOUT THE AUTHORS

California Polytechnic State University (part of the California State University system) and Queensland University of Technology (QUT). Peter has held visiting positions at Ilmanau University of Technology (Germany), ESC Toulouse (France) and the Hariman School of Management, State University of New York, at Stony Brook. Outside of these positions, Peter has taught in South Africa, Malaysia, Singapore, Brunei, Indonesia, Hong Kong and Thailand.

Peter has won university and faculty level teaching awards and in 2009 was a recipient of a National Citation for 'Outstanding Contribution to Student Learning' from the Australian University Learning and Teaching Council. Peter has subsequently been an assessor for the same organisation to assist in determining the winners of different national teaching awards.

In 2011, Peter moved into the role of Editor-in-Chief of the *Journal of management and organization* (Cambridge University Press) following a period as an Associate Editor. His research covers a range of strategic management topics has been published in a number of outlets ranging from the *Journal of business ethics* to *Managerial and decision economics*. Peter has supervised over 20 doctoral students to successful completion of their degrees.

Prior to moving into academia, Peter worked in management consulting and he continues to consult through Curtin to a range of local and international organisations. He has been a Board member of the Australian and New Zealand Academy of Management and is a member of the Strategic Management Society and the Academy of Management.

Peter has PhD and BCom (Hons) from the University of Western Australia.

PART 1

Business strategy

CHAPTER 1	What is 'strategy'?
CHAPTER 2	Analysing business strategy: creating value
CHAPTER 3	Analysing the external environment
CHAPTER 4	Analysing the organisation's resources and capabilities
CHAPTER 5	Measuring strategic organisation performance
CHAPTER 6	Gap analysis and business-level strategic options
CHAPTER 7	Strategic decision making
CHAPTER 8	Dynamic competitive strategy

CHAPTER 1

What is 'strategy'?

A photograph of a multi-lane highway at night, shrouded in fog. The road is illuminated by a series of bright, circular streetlights that create a hazy, atmospheric effect. A large truck is visible in the distance on the right side of the road. The overall scene is dark and moody, with the fog obscuring the details of the landscape and buildings in the background.

Your learning objectives for this chapter are to be able to:

- define strategy
- highlight the major aspects that are essential to strategy
- understand the development of strategic thought
- identify the major theoretical approaches to strategy
- identify three levels of strategy
- understand a model of business strategy analysis and management
- explain why strategy might be different in countries with smaller economies

Facebook and 'strategy'

The 2010 film, *The Social Network*, captured the heady early days of Facebook. Established in a dorm room at Harvard University in autumn 2003 by Mark Zuckerberg, few could have predicted the ebullient years ahead for what was to become an extraordinary success story.

When Facebook was established, it was aimed only at Harvard University students, before opening to other university students and later to anyone over 13 years of age. Today, it is truly global in reach, with members from every nation.

According to its March 2013 accounts, Facebook had more than 1.1 billion users, 4000 employees, US\$5 billion annual revenues (mostly from advertising, not from individual users), around US\$2.5 billion in annual earnings fit and a listed market value of over US\$60 billion.

So what is Facebook's 'strategy'? Several different representations of Facebook's 'strategy' are given by its organisation and its people, and by analysts. Facebook itself says that its mission '*is to give people the power to share and make the world more open and connected.*' Many people think of it as a *social networking facilitation organisation*. More prosaically, its steady stream of 'traffic' makes it a valuable place to advertise just about anything. Some see Facebook's strategy as being a hub site for customer interaction through the internet—with Facebook offering a means by which they will connect by voice and video with one another, further driving regular visits by their customers to the site. But it is also *the largest gaming organisation in the world* and some analysts think it could be *a new breed of telco*. Or is Facebook's strategy to be *an open technology platform—a digital content exchange platform for social networking*? Clearly it *does* a lot of things and does them very well to attract such a large global market.

Additionally, when the Facebook IPO was launched on the NASDAQ stock exchange, founder Mark Zuckerberg, who still owns more than 20% of the shares and has more than 50% voting rights, posted a vision statement of sorts on his own Facebook profile page. He said:

People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them.

Contrary to the financial aims of most traditional organisations, Zuckerberg, aged 27, said in his letter to potential IPO investors:

We don't build services to make money. We make money to build better services.

In many ways, Facebook is a new breed of company that challenges our notions of what it means to have an organisational strategy. Its growth was so steep and unexpected that its corporate leaders had to continuously go back to the drawing board, thinking again about what it could, and should, aim to achieve with its access to its 1 billion regular users.

It has deep and complex competencies in programming and in the commercialisation of content. Facebook saw off early challengers by MySpace and others, and now dominates the social networking 'industry'. As such, it is in a position to create, to a great degree, its own strategic destiny.

In accounting, every organisation uses the same income statement, balance sheet and cash flow statement, in the same format. In marketing, everyone learns the same 4 Ps and the expanded 7 Ps. But with strategy, each company has a different view of what strategy is, what content it embraces, how it is expressed. What is Facebook's strategy? Is it a good strategy? What makes it 'good'? Or is it just very good at doing things? If it does have a good strategy, which would help to explain its phenomenal performance, why is it so hard to agree on it?

'Strategy' defined and its major aspects

This book is about the key concepts, issues, techniques and tools involved in strategic thinking, analysis and action. As you will see, there are many different definitions of 'strategy'.

We define **strategy** as:

strategy

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.

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.

This definition highlights seven aspects of strategy:

- 1 Strategy is about *decision making*—with decisions based on rational analysis of organisations, their customers and their industry competitors. Because strategic decisions are based on future expectations and are wide ranging in their effects, uncertainty is always present. It is always tempting to seek more information before making a decision. However, a complete set of relevant information is never available. Strategy is not simply about analysis. It involves action. For strategic action to occur and for strategy to be implemented, decisions must be made.
- 2 Strategy is about *long-term* impacts of important decisions for the organisation. Strategy involves commitment.¹ Strategic decisions cannot easily be reversed and have long-term impacts (positive or negative) once they are made. Such decisions might include what product range to sell, which geographic market to serve, where to locate operating facilities, how to structure the compensation/reward system, what activities to outsource/insource, or what information systems to use.

But what is the definition of 'long term'? 'Long term' depends on the nature of the industry. In high-tech industries with short product life cycles, two years may be long term. In other industries, such as resources, the decision to develop a resource can take several years before production can commence, so 10 years may be long term. As a rule of thumb, in practice we find that three years normally qualifies as long term for strategic plans and decisions for most organisations.
- 3 Strategy is about '*organisations*' and not simply '*businesses*' or '*corporations*'. Strategy principles and practice are needed for all types of organisations—large and small, private and public, profit and not-for-profit (NFP). The development and focus of strategy will vary according to organisation type. We see '*businesses*' as a subset of the more general '*organisations*'. For businesses, profits and shareholders are more important than for other types of organisations, but stakeholders, performance and beating competitors (current or potential) are important for all organisations.
- 4 Strategy is about *creating value for customers and key stakeholders*. Organisations do not carry out activities for their own interest. They carry them out because customers and key stakeholders want them to, or need them to, perform those activities. Organisations in the same industry with different types of customers and key stakeholders will carry out different activities and act differently, because they will have different views of what is value/valuable.
- 5 Strategy is about the *integration and focus* of organisation functions. Strategic decisions are designed to impact on the *whole organisation*, not just a particular function or activity. Decisions about what particular geographic market to serve do not simply affect the marketing function. They also affect operations (where to produce), logistics

(how to store and transport to serve the market), personnel (which market to hire in), finance (where to locate accounting) and other functions.

- 6 Strategy is about *implementation* of the decisions. While many organisations are good at strategic thinking and analysis, if they do not implement, they will not achieve the expected outcomes from their strategy. Many organisations want to be 'world class' or 'number 1', but very few achieve it. Implementation—often the forgotten part of strategy—is *critical* to successful strategy. This aspect is the 'management' part of strategic management.
- 7 Strategy is about *outperforming competitors*. If the organisation is satisfied being a 'me-too' competitor, it does not need strategy. It simply needs to copy its competitors' actions unthinkingly. However, if the organisation does nothing different, it is unlikely to create any special value for its customers and key stakeholders. Most restaurants and cafes are good examples of organisations where strategy is either not used or not wanted (but consider the McDonald's restaurant and Starbucks coffee shop chains as examples of applying strategy to those industries). The end purpose of strategy is to do something better than competitors and so to outperform them. Public sector organisations often do not have 'competitors', but their work can be outsourced, and they can be closed down, privatised or opened up to competition, so even public sector organisations in monopoly positions need to consider what might happen if they are not efficient.

Strategy @ work 1.1 on Singapore Airlines gives an example of some of the strategic decisions that have resulted in Singapore Airlines being consistently voted one of the best airlines in the world for many years.

Together, the elements of strategy aim to assist an organisation to achieve its long-term aims, which is the essence of operating an organisation, whatever its size or nature.

STRATEGY @ WORK 1.1

THE BUSINESS STRATEGY OF SINGAPORE AIRLINES AND HOW IT IS SUPPORTED BY FUNCTIONAL STRATEGIES

Singapore Airlines' (SIA's) business strategy is to deliver the highest quality of customer service that is safe and reliable, and to deliver a satisfactory return to its shareholders. Consistent strategic decisions have been taken over more than 40 years that have created a highly successful company in an industry that is dogged by volatility and poor performance.²

SIA's core competency is its service excellence. This is based on its innovation capabilities (in terms of continually upgrading its service quality on and off board), its aligned and supportive human resource management practices (focusing on customer service excellence), its diversified global revenue base (meaning it is not impacted by regional downturns and is aware of new trends

anywhere in the global industry), its modern and technologically leading fleet, its support for high-quality, fast-service maintenance, catering, training and other support facilities from having a strong home base at Changi Airport in Singapore (an airport renowned for high-quality customer service) and strong long-term capital support from the Singapore government (helping to avoid short-term industry volatility). This set of consistent, globally benchmarked functional strategies has enabled SIA to rise from nothing to global industry leader and retain its position over the last 15 years. SIA's recent development of entering the low-cost sector of the industry through launching Silk Air and Tiger Airways demonstrates continued product innovation as the market changes.

However, the essential question in strategy is not just achieving its aims but:

Why do some organisations perform better than others?

For individual organisations, this translates to:

How can my organisation perform better than my competitors?

Some organisations perform better than their competitors, whatever their aims are. For instance, some sports teams perform better than others consistently, over long time periods: for example, Manchester United, Real Madrid and Inter Milan in football; Australian swimming and cricket teams; New Zealand rugby teams and Chinese gymnastics teams. Strategy is concerned with understanding what factors enable such outperformance, highlighting the thinking, analysis and action that brings those results, whatever the field of endeavour, and implementing them appropriately in our own organisation.

In this chapter, we first outline how the field of strategy has developed and built its ideas over its relatively short history as an identifiable academic discipline. We then outline the wide variety of current theoretical perspectives in the discipline. It is the existence of this wide variety of perspectives and the lack of agreement in the field that causes us to be cautious about the use of the term 'strategy' in the title of this chapter and throughout the book.³

Next, we discuss the three levels of strategy that exist within a typical organisation. We then outline the environment–strategy–capability gap analysis model of strategic thinking, analysis and action that we will use as the main framework for discussion in this book. Finally, since the development and most of the main concepts of strategy have originated in the United States, a country with a large economy, we consider to what extent the concepts, issues and solutions of strategic management might be different for countries with small economies, which is pertinent, in fact, to most countries in the world. We also consider how strategy is developed in China, given the important role China and Chinese organisations now play in most industries.

Strategic management is an exciting subject, critical for delivering good performance for most organisations. It requires understanding and integration of material from functional areas such as marketing, operations, human resources, finance, accounting and information technology, which you have probably already studied.

A warning, however! Strategy looks easy, but it requires an understanding of and an ability to integrate and manage many variables in a world of rapid change, widening scope and uncertainty about the future. It requires an ability to critically evaluate—and not just accept—analysis, and to be flexible and adaptable as organisation circumstances change in the dynamic world in which we live. In fact, it is very difficult to be a good strategist and to implement good strategy. This book will help you to understand the nature of strategy and improve your strategic skills.

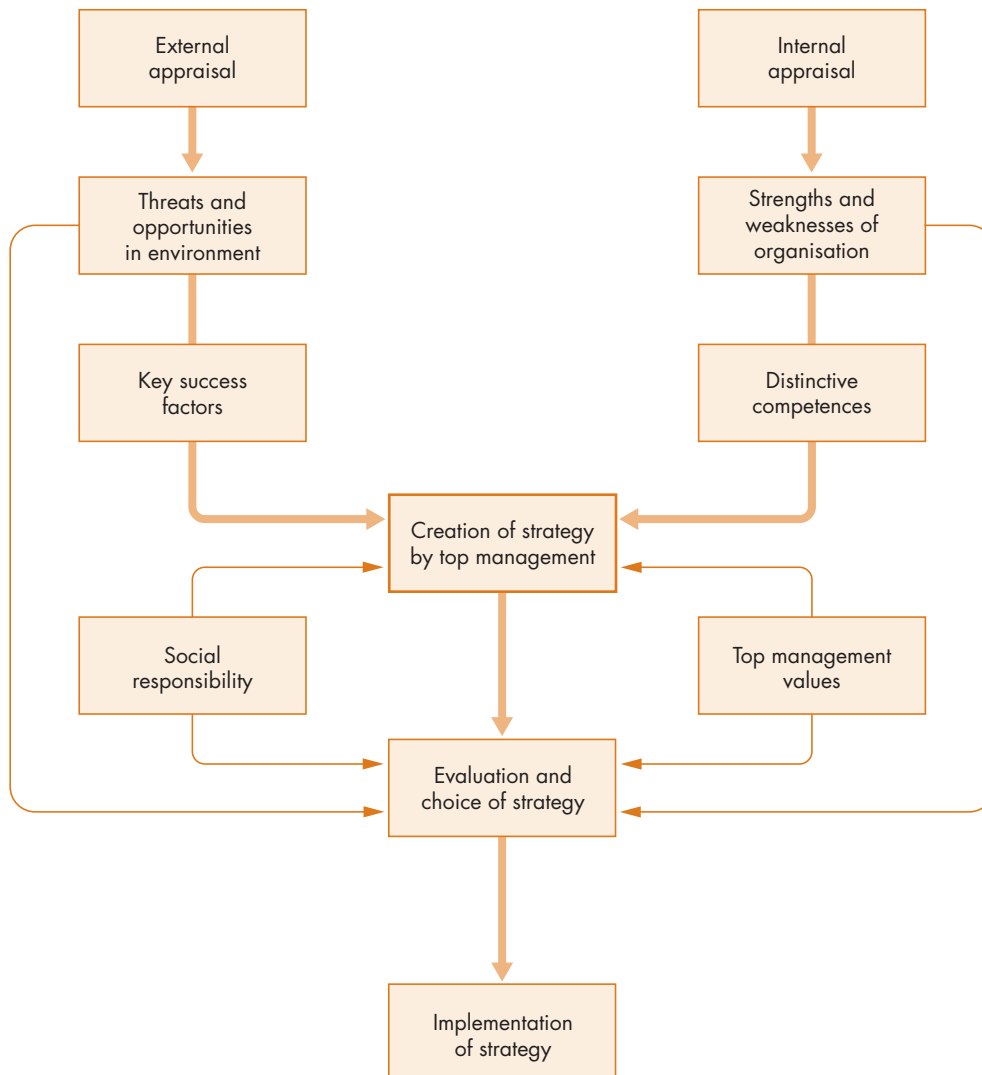
The development of strategic thought: a brief history

Strategy as the task of the top manager ▶ ▶ ▶

The history of strategy can be traced to the military in ancient times. Sun Tzu's *The Art of War* dates back to 500 BC, while stories from Greek and Roman military campaigns demonstrate the importance of strategy.⁴ However, as an academic discipline, the first books in

the field are considered to be the Learned, Christensen, Andrews and Guth book developed for teaching business policy at the Harvard Business School⁵ and Ansoff's book on corporate planning,⁶ both published in 1965. The essence of the model in both books was to match the internal resources and capabilities of the organisation (referred to then as the organisation's strengths and weaknesses) with the demands of the environment (referred to then as its opportunities and threats). Crafting the resulting organisational strategy was seen as the province of the chief executive officer. The CEO had to evaluate the organisation's position, decide which strategy to choose and arrange for implementation of that strategy (see Figure 1.1).

►► **FIGURE 1.1** Strategy as the task of the top manager



Source: Based on Mintzberg, H 1990, 'The design school: reconsidering the basic premises of strategic management', *Strategic Management Journal*, 11:171–95.

This model, along with the continuing work of the staff at the Harvard Business School where the model originated, has remained enormously influential in the field.⁷ Described as complex by its originators, it is viewed by others as a simple model because:

- ▶ it is linear, with implementation following strategic analysis
- ▶ it presumes that all strategic information is available to the top management, originally perceived to be only the CEO
- ▶ it presumes that the enormously complex environment that exists outside the organisation can be satisfactorily analysed and summarised
- ▶ it presumes that the future is closely related to the past, so that analysis of past performance is a useful guide to future action.⁸

This model was appropriate for developing strategy in a generally favourable post-World War II environment, where satisfying demand was a major theme for most organisations. It led to the development of long-range planning, which was based on the extrapolation of existing or known trends. The position of corporate planner was created and planning departments came into existence in organisations at this time to assist the CEO with the detailed tasks of strategic planning.

Development of corporate strategy and associated techniques ▶ ▶ ▶

In the late 1960s, many industries in the United States underwent a conglomerate diversification merger and acquisition wave. As a result, many multi-business corporations emerged as they sought growth within other industries to avoid anti-trust laws, which discouraged high market shares in any particular industry. However, the techniques of strategy at this time were largely designed for *business* strategic analysis and it was unclear what techniques or processes a *multi-business* corporation could use to determine its multi-business, or corporate, strategy. As a result, in the period of the late 1960s and early 1970s, consulting firms developed business portfolio techniques for multi-business corporations. For instance, the Boston Consulting Group (BCG) developed a 2 × 2 market growth/relative market share matrix, which categorised businesses as dogs, question marks, stars or cash cows, depending on the analysis of their relative positions. From this analysis, corporations tried to balance their portfolio mix of businesses.

BCG also developed the concept of the experience curve, which showed that unit costs in some industries declined with accumulated volume of production because of productivity improvements occurring due to cumulative production experience. This encouraged corporations to go for size to develop economies of scale. The Profit Impact of Market Strategy (PIMS) industry analysis, which related profitability of a firm within an industry to market share and other operating variables, was also developed.⁹ Profitability was found to be related to market share, which also encouraged corporations to seek size growth. Notably, each of these concepts was developed by large-scale empirical data analysis, rather than having any underlying theoretical base from which scientific hypotheses could be developed and tested.

Focusing on industry and competitive analysis ▶ ▶ ▶

In 1980, building on his industrial organisation economics background, Porter produced a book which changed the focus of strategic analysis.¹⁰ The industrial organisation field of economics deals with the structure of markets, the conduct of firms in those markets and the industry performance that results. This structure–conduct–performance model of economics assumes that firms largely replicate each other and that industry performance depends on

the structure of the market. In this model, firms are seen as little more than 'black boxes' following paths determined by market structures.

Porter turned this deterministic economic model on its head and concluded that managers within firms could use a variety of tools to make unique decisions that would influence conduct within the industry and even influence the structure of the industry. Firms could position themselves within an industry by offering products or services that gave them a sustainable competitive advantage, which would enable them to achieve superior performance to that of competitors.

The persistence of differing profit levels by firms within an industry had long worried economists, who dismissed it as a short-term phenomenon. Porter's work suggested that it could be a long-term phenomenon. The 'five forces' model of industry analysis that he developed (see Chapter 3) focused managers on analysing their industries, but used a range of standard microeconomic tools to isolate ways for firms to achieve a sustainable competitive advantage.

In 1985, Porter produced another book which focused more on the specifics of how to compete within an industry. He suggested that there were only three generic strategies—low delivered cost, differentiation and focus—available for achieving sustainable competitive advantage.¹¹ Organisations needed to adopt one of these three strategies to outperform competitors. This concept was equally influential in the field and remains so today.

In 1990, Porter completed a third book, this time focusing on how *countries* could develop appropriate structures so that whole industries made up of clusters of competing but cooperating firms, and not just isolated large 'national champion' firms, could be internationally competitive.¹² Based on extensive empirical analysis of internationally competitive industries in a variety of countries, this book moved the previously domestically focused industry analysis to the issue of how internationally competitive firms and industries were developed, an issue which has become more and more important over the last 25 years as trade barriers between countries and regions have been progressively reduced.

Another focus from this work was on how networks or clusters of firms in the same industry, supported by government policy setting, cooperated and competed to develop international competitive advantages for the whole industry. This led to the development of a strategic focus on the value of networks of organisations and of strategic alliances.

Focusing internally: the resource-based view ▶ ▶ ▶

In 1990, Prahalad and Hamel's concept of the 'core competence' of an organisation, coupled with work by Wernerfelt and Barney, developed the concept that strategy could be developed from within, by leveraging the resources of the organisation.^{13, 14} Unlike traditional economics, the assumptions of what became known as the resource-based view of the firm were that firms in an industry were heterogeneous and unique in their makeup due to the specific set of resources available to each firm. Resources, including tangible and intangible assets and know-how, could, if well managed, be 'bundled together' to form a unique and defensible portfolio of capabilities that would sustain competitive advantage over time.

Since resources were not perfectly mobile between organisations due to asset specificity, stickiness, transaction costs, sunk costs and information asymmetry, sustainable competitive advantage based on this heterogeneity could well remain for long periods without being eroded by the competition.