

Lesson 1. Introduction to strategy

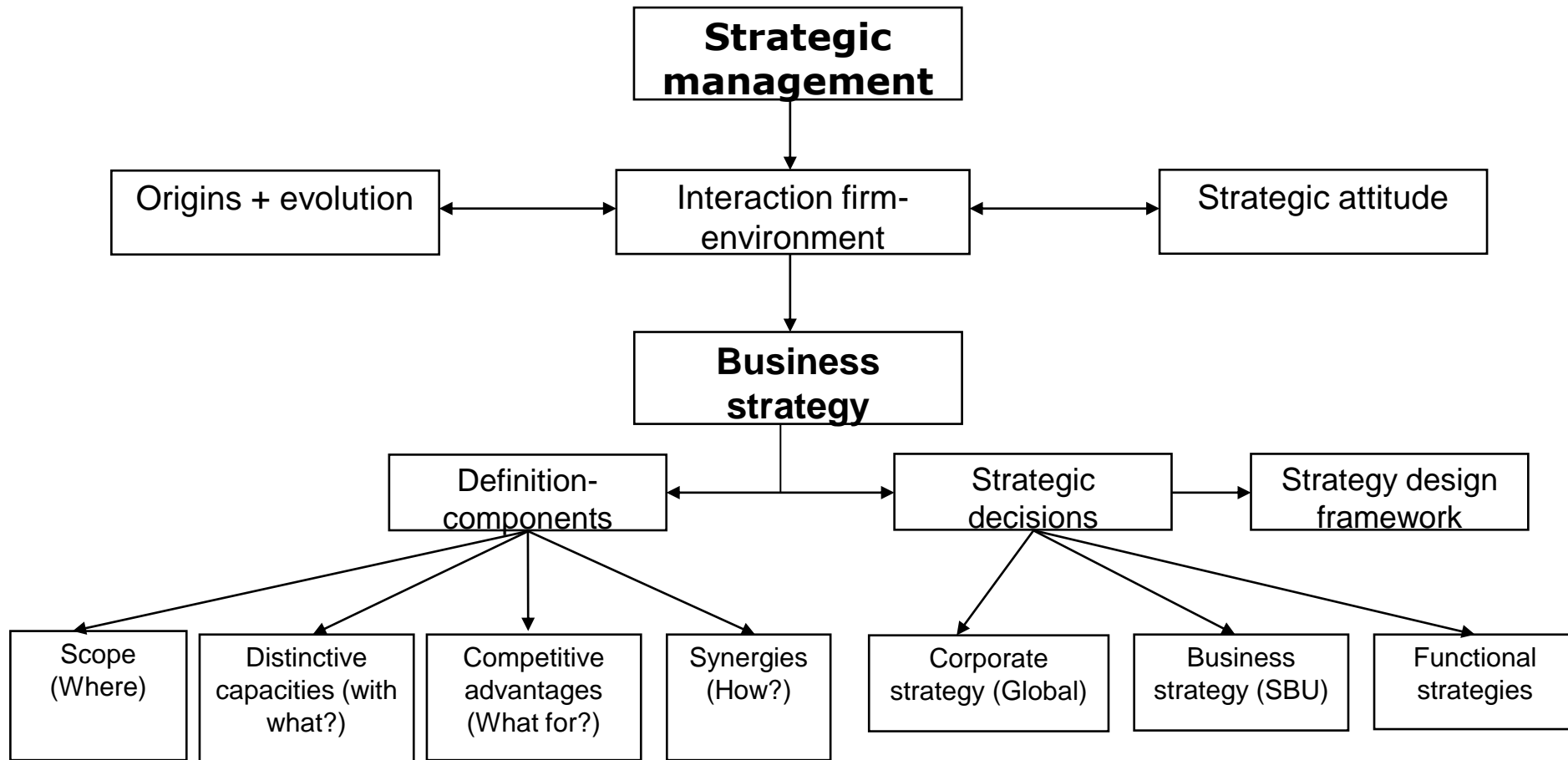
Basic references:

- Johnson, G., Whittington, R., Regner, P., Scholes, K., & Angwin, D. (2017). Exploring Strategy: Text and Cases. Pearson Education Limited.
- Thomson, A., Peteraf, M.A., Gamble, J.E., & Strickland, A.J. (2020). Crafting & Executing Strategy. Concepts and readings. McGraw-Hill Education.

Lesson 1. Introduction to strategy

- 1.1. Company-environment relationship and strategic attitude
- 1.2. Strategy: concept and components
- 1.3. Importance of designing and executing strategies
- 1.4. Strategic decisions: corporate, competitive, and functional
- 1.5. Strategic hierarchy and strategic segmentation
- 1.6. Framework for design of strategy

1.1. Company-environment relationship and strategic attitude



1.1. Company-environment relationship and strategic attitude

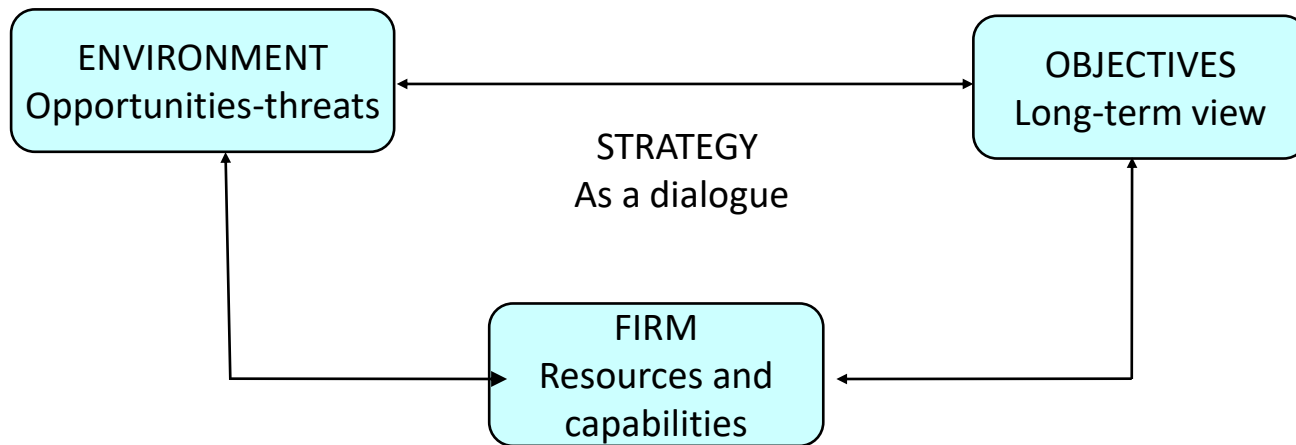
Influence of the company on environment: CSR

Influence of environment on the company: strategy

Flexibility: ability to adapt to changes

Efficiency (doing things right) and effectiveness (doing the right things)

Analysis of the environment: study of environmental factors



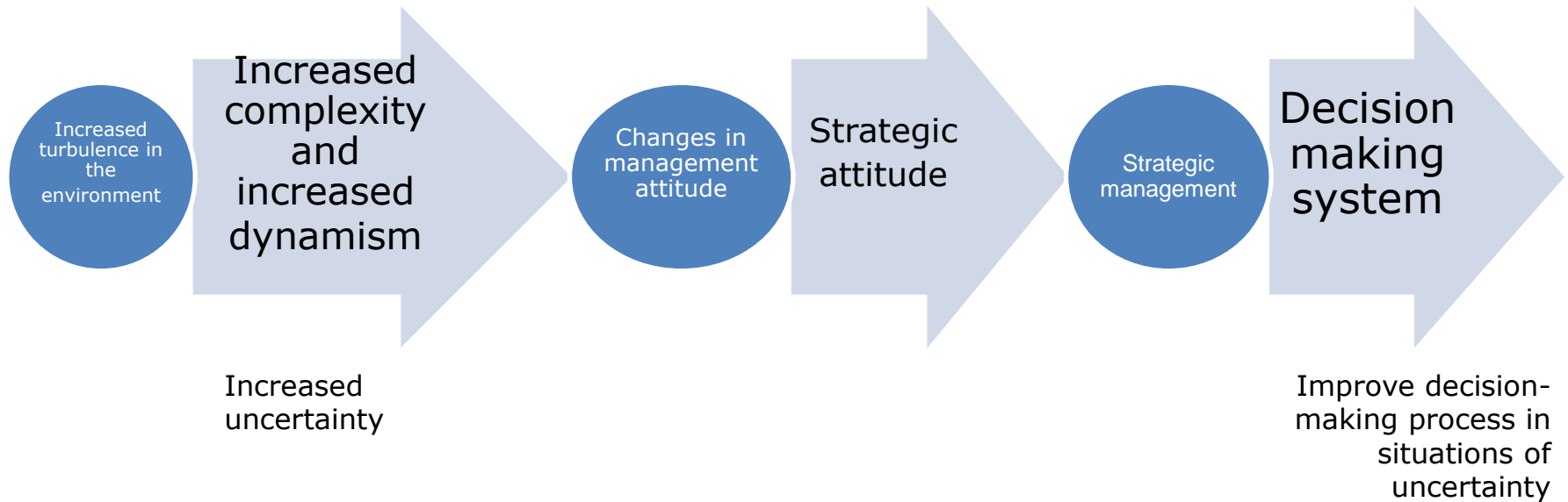
1.1. Company-environment relationship and strategic attitude

ENVIRONMENTAL UNCERTAINTY MATRIX

		Stable	Dynamic
Complexity	Simple	Cell 1 Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	Cell 2 Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
	Complex	Cell 3 Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	Cell 4 Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

Source: Robbins, Decenzo & Coulter (2013)

1.1. Company-environment relationship and strategic attitude



1.1. Company-environment relationship and strategic attitude

<u>Strategic attitude</u>				
Extro- verted	Pro-active	Anticipated	Open to change	Self - critical

1.2. Strategy: concept and components

Definitions of strategy

‘. . . the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals’

Alfred D. Chandler

‘Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value’

Michael Porter

‘a firm’s theory about how to gain competitive advantages’

Peter Drucker

‘a pattern in a stream of decisions’

Henry Mintzberg

‘the long-term direction of an organisation’

Exploring Strategy

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, ‘What is strategy?’, *Harvard Business Review*, November–December 1996, p. 60; P.F. Drucker, ‘The theory of business’, *Harvard Business Review*, September–October 1994, pp. 95–106; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

1.2. Strategy: concept and components

Strategic decisions

Strategic decisions are about:

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Buiding on resources and competences (**capability**)
- **Values and expectations** of stakeholders

Therefore they are likely to:

- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

Source: From G. Johnson, K. Scholes and R. Whittington. *Exploring Corporate Strategy*, 8th edn, Pearson Education 2008.

1.2. Strategy: concept and components

Three horizons for strategy (1 of 2)

- **Horizon 1:**

Current core activities – extend and defend these activities.

- **Horizon 2:**

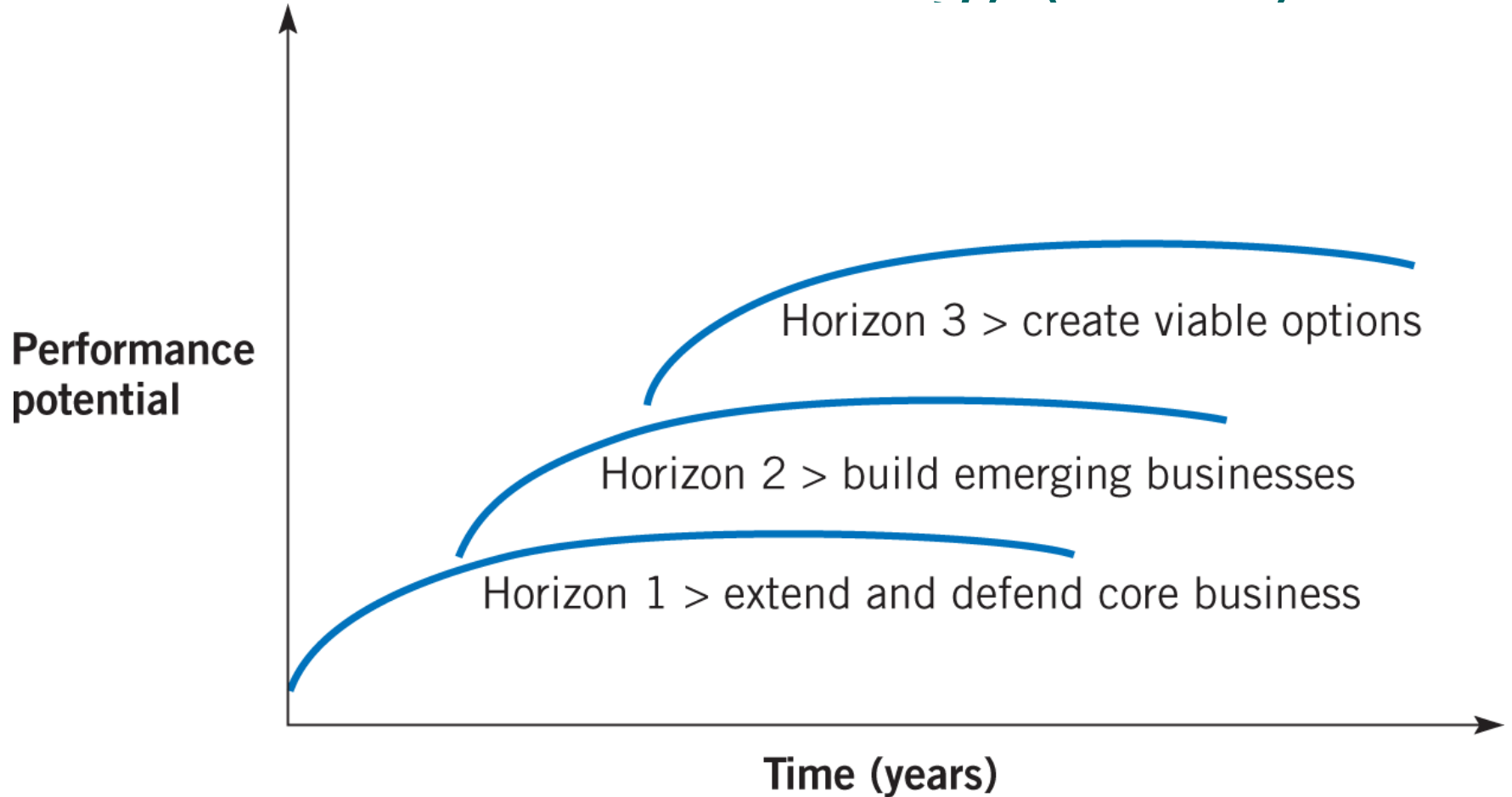
Develop emerging activities – generate new sources of growth and/or profit.

- **Horizon 3:**

Create viable strategic options for the future – higher risk activities that may take years to generate growth/profits.

1.2. Strategy: concept and components

Three horizons for strategy (2 of 2)



Source: Adapted from M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

1.2. Strategy: concept and components

Stakeholders

What is strategy for?

- To define and express the purpose of an organisation to ***stakeholders***.
- ***Stakeholders*** are individuals or groups who depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends.
- Four ways to define an organisation's purpose:
 - Mission statement
 - Vision statement
 - Statement of corporate values
 - Statement of objectives

1.2. Strategy: concept and components

Mission statements

A mission statement provides employees and stakeholders with clarity about what the organisation is fundamentally there to do.

- ‘What business are we in?’
- ‘What would be lost if the organisation did not exist?’
- ‘How do we make a difference?’

1.2. Strategy: concept and components

Vision statements

A vision statement is concerned with the future the organisation seeks to create.

- ‘What do we want to achieve?’
- ‘What do we want to have created or achieved if we are here in 20 years?’

1.2. Strategy: concept and components

Statement of values

Statements of ***corporate values*** communicate the underlying and enduring core 'principles' that guide an organisation's strategy and define the way that the organisation should operate.

NB. These values do **NOT** change with circumstances.

1.2. Strategy: concept and components

Statement of objectives

Objectives are statements of specific outcomes that are to be achieved.

- Often stated in financial terms (e.g., profit).
- May also be market-based objectives (e.g., market share).
- May emphasise basis of competitive advantage.
- ‘Triple bottom line’ – economic, social, and environmental objectives.

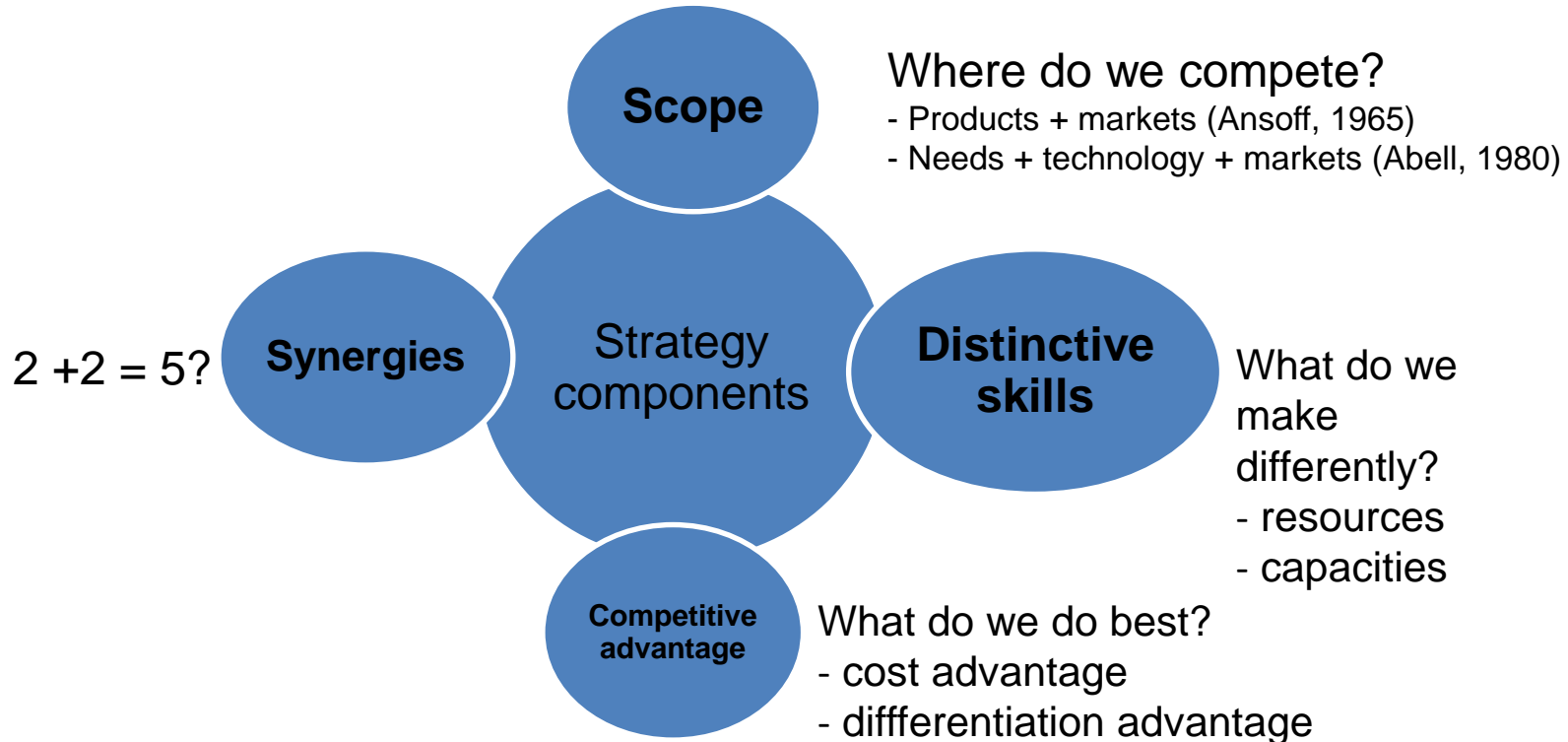
1.2. Strategy: concept and components

Strategy statements

Strategy statements should have three main themes:

- Fundamental **goals** that the organisation seeks, which reflect the stated mission, vision, and objectives.
- The **scope** or domain of the organisation's activities.
- The particular **advantages** or **capabilities** it has to deliver.

1.2. Strategy: concept and components



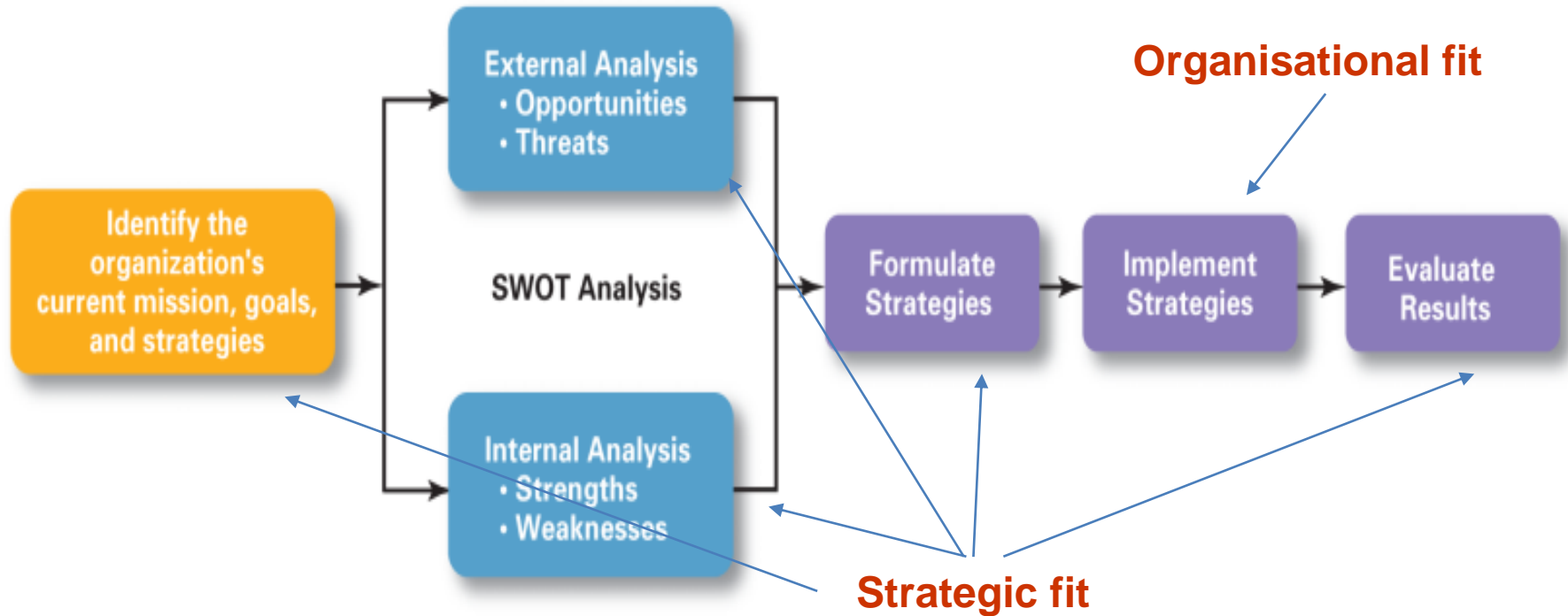
1.2. Strategy: concept and components

An example of scope definition: packaging industry



1.3. Importance of designing and executing strategies

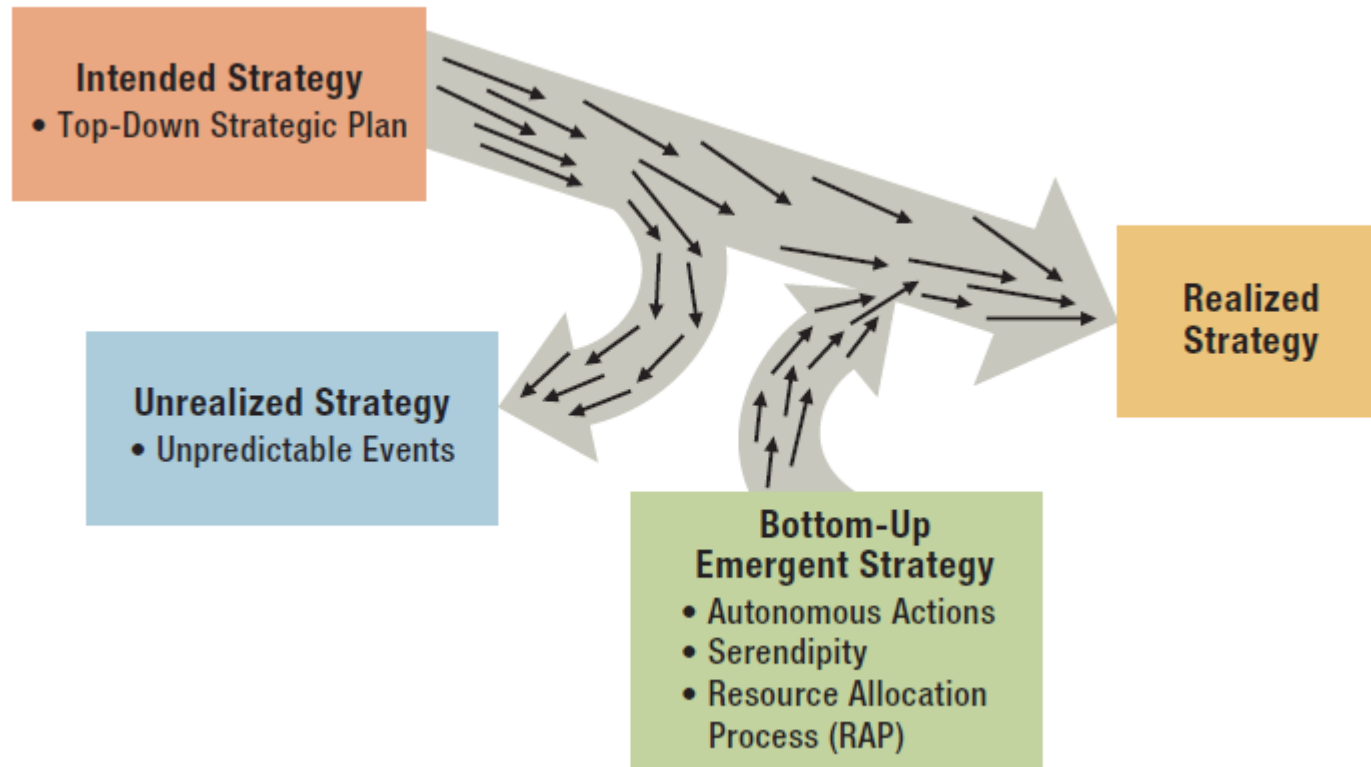
EXHIBIT 5-2 The Strategic Management Process



Source: Robbins, Decenzo & Coulter (2013)

1.3. Importance of designing and executing strategies

Strategic process: Realized strategy as a combination of top-down intended strategy and bottom-up emergent strategy



Source: Rothaermel, 2015

1.3. Importance of designing and executing strategies

Deliberate strategy focus:

Systematic process of strategy development

Positive aspects:

Forces us to ask and question (analysis and reflection)

Easier to communicate strategy to staff,

and this favors their involvement

Serves as a reference for control

Encourages long-term vision

Negative aspects:

Does not consider cultural and political dimensions:

importance of human factor

Possible disconnection between planners and executors

Overly detailed and inflexible approach

Emerging strategy approach:

Preparation of strategy is not continuous, regular, or systematic

Strategy is a pattern of behaviors or actions... whether they are wanted or not.

Causes: changes in the environment, accumulation of managerial work.

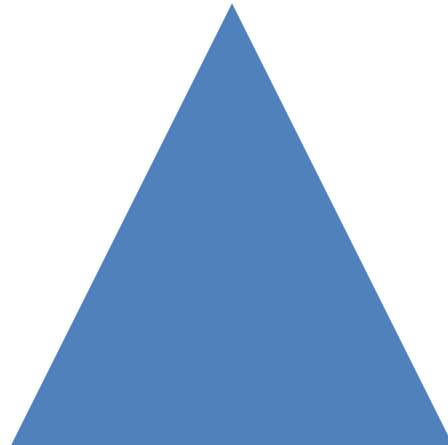
Strategic decisions are about:

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1.4. Strategic decisions: corporate, competitive, and functional



Corporate

Where will we compete? Scope

Competitive

How do we compete?
Competitive advantage

Operative /
functional

How to improve use of resources
in each functional area?
HR, marketing, production
strategies ...

1.5. Strategic hierarchy and strategic segmentation

Is it necessary to define strategic business units (SBUs)?

▪ SBU:

- Homogeneous set of businesses from a strategic point of view. For example: banks divide their businesses into individuals and companies.
- A group of businesses in which it is possible to design and implement a common business strategy, and at the same time differ from another business group.

▪ WHY?

- Within an organisation that operates in several businesses, there is no global competitive position, but a different one for each business.
- Each of the businesses has a specific competitive environment that requires different capabilities.
- Some businesses and activities have common basic capabilities, which increase synergies and improve competitive advantage.

1.5. Strategic hierarchy and strategic segmentation

- Level of authority and hierarchy between SBUs and senior management:
 - Autonomy-independence: autonomous but not independent of global strategy
 - Coordination-competition between the SBU: cannibalism
- Segmentation criteria for creating the SBU:
 - Grouping of company's activities
 - Criteria to be used: customers-products-markets
- The right number of SBUs:
 - Not too big: avoiding excessive organisational complexity
 - Not too small: reflecting diversity of the company
 - Depending on size and degree of diversification of company


1.5. Strategic hierarchy and strategic segmentation



1.5. Strategic hierarchy and strategic segmentation

- **Corporate-level strategy** is concerned with the overall scope of an organisation and how value is added to the constituent business units.
- **Business-level strategy** is concerned with the way a business seeks to compete successfully in its particular market.
- **Functional strategy** is concerned with how different parts of the organisation deliver the strategy effectively in terms of managing resources, processes, and people.

1.6. Framework for design of strategy

- 
- Where will the firm compete?
 - Activity top performer: **businesses**
 - Geography: **markets**
 - Which arguments to use?
 - For each business
 - Based on cost of differentiation
 - Which options/instruments to use?
 - Modes of strategic development
 - Strategic options

**QUESTIONS THE FIRM
MUST POSE WHEN
DESIGNING STRATEGY**

Responses will be conditioned by:

- **Environment variables**
- **Internal variables**

1.6. Framework for design of strategy

Where will the firm compete?

- Decisions related to businesses (Lessons 5, 6):
 - Specialisation / expansion / diversification
 - Internalisation / externalisation
- Decisions related with markets (Lesson 7):
 - Expansion or market development
 - Internationalisation

1.6. Framework for design of strategy

Which arguments will it use?

- Determination of competitive arguments (Lesson 2):
 - Cost-based arguments
 - Differentiation-based arguments

- Strategic options (Lesson 2):
 - Cost leadership strategy
 - Differentiation strategy
 - Mixed strategies

1.6. Framework for design of strategy

Which options or instruments to use?

- ❖ Strategic development modes
 - ❖ According to where it will compete
 - ❖ According to competitive arguments used

- ❖ Strategic options: (Lessons 6, 8,9)
 - ❖ Internal vs external development
 - ❖ Fusion / acquisition / mergers
 - ❖ Restructuring / harvesting / disinvestment / liquidation
 - ❖ Strategic alliances

Michael Porter on Strategy, English, 5 min
<http://www.youtube.com/watch?v=0E0e6NqcT0M>

Henry Mintzberg on everything 22 MIN English
<https://www.youtube.com/watch?v=Wi78IXfurgA>

Steve Jobs presentation of the Iphone 2007 English 10 min
<https://www.youtube.com/watch?v=MnrJzXM7a6o>

IEB Michael Porter, 42 min English, Spanish subtitles
https://www.youtube.com/watch?v=RI4QJzXiKBc&list=RDLVWi78IXfurgA&start_radio=1&rv=Wi78IXfurgA