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Learning outcomes

After reading this chapter, you should be able to:

- explain the essence of strategy
- demonstrate an understanding of the historical context and perspectives of strategy
- discuss the nature and role of strategy
- explain the concept strategic management
- demonstrate an understanding of the framework for analyzing strategic management.

Opening case study

_Sandvik Mining and Construction RSA (PTY) LTD_

Sandvik Mining and Construction RSA (Pty) Ltd (SMC) is a subsidiary of the Swedish-based Sandvik Group, which operates in 130 countries. SMC is a major supplier and marketer of underground mechanized mining products to the mining and major infrastructure sector. Locally, SMC is run strategically by a board that is mainly non-executive and includes managing director and country manager, Jim Tolley.

SMC’s outstanding performance over the last six years is based on a strategy of improving customers’ operational efficiencies and profitability through the development of high-tech engineering products. SMC boasts an average global increase of 6% sales growth and an average 17% return on capital employed. SMC plans to double in size over the next five years. ‘We make it possible’, is SMC’s slogan.

Strategic strength: SMC is a service-orientated organization that prioritizes listening to clients’ needs in order to ensure that all products contribute to long-term success for its clients. Inherent value is seen in all staff expertise. Strategic challenge: South Africa needs technical expertise and knowledge with regard to mechanization and high-end technology. A constant challenge is to find new opportunities in the industry to ensure sustainable growth.

SMC works together closely with global mining companies to develop new products and invests nearly 4% of sales in research and development (R&D), employing more than 1 400 people in this function internationally. ‘Unless we can mine cheaper than the rest of the world, we will not have a sustainable industry. Mining is a commodity sold on a world currency of American dollars, and global economics suggest that companies move to where it is the most profitable to operate,’ says Tolley. ‘South Africa has fantastic potential and we are only now starting to tap the surface. Long-term, mechanization will be what creates the sustainability of the mining industry.’

An important focus of SMC’s strategy is to remove people from danger – most mining accidents happen within five metres of the rockface. Tolley says that mechanization will drive
growth, working across boundaries and into the global community. ‘Continuous improvements in training and skills transfer are essential to the success of the organisation. South Africa has some of the best possibilities in the world,’ suggests Tolley. ‘We have continuous breakthroughs in technology and unmanned machinery and a history of being able to do it! The more we can do to improve customer performance, the more we will be assisting the sustainability of the business and the issue of whether the product be mined in South Africa or overseas will become less important. It is imperative that we look at it from the customer’s perspective. South Africa is a fantastic place for entrepreneurs. The government is supportive of business and the people have a good work ethic.’

An essential component of SMC’s policy is a focus on quality. SMC South Africa implemented ISO 9000 standards eight years ago and was the first distribution operation to implement ISO 14001 standards globally within the group. A focused customer survey is implemented every 18 months to get feedback on potential areas of improvement. Various community programmes are managed with local schools, technikons and universities. SMC believes the key is getting involved in education; the company currently has more than 130 apprentices (three to four years ago, there were none). Over 70% of the apprentices are black and the intention is to grow this number to 250. A partnership with the Red Cross Foundation has been established to assist the group in implementing its policies and values and creating channels for communication.

Scenario planning through an audit and risk committee takes place bi-annually, ensuring that remedial steps can be immediately implemented, should the need arise. Knowledge management is largely system-driven. ‘It becomes tricky,’ Tolley says, ‘when you empower the organisation. Information needs to be recorded and shared. Power doesn’t come from what you know, but what you give, and we like to promote people on this basis. This is the best way to protect intellectual capital: when people are measured on what they leave behind. We are the market leaders in innovation, and this is one way that we retain our clients.’

Understanding the value of staff and ongoing skills development is key to the business. Tolley affirms, ‘We try to make employment equity a way of life rather than an intervention.’ Employees are paid well for what they do. Tolley believes, ‘Recognition, opportunities and creating a fun place to work add huge value to staff.’

SMC plans to plant its footprint firmly in the mining world in the next few years. Sustainable success will depend on how effective the company is in designing unique solutions for its customers. Rotation of staff internationally is another critical success factor that ensures focus on more global ideas and a movement deeper into customer operations in the future.

Tolley says, ‘The future is dictated by the ability to reduce customer costs of productivity. That is the only limiting factor to growth. The more technological breakthroughs we have, the more effectively businesses will run. We have truly unique possibilities in South Africa.’

For more information on SANDVIK refer to www.sandvik.com.

The following are the main points emanating from the SANDVIK case study:

- Strategy focused on improving customers’ operational efficiencies and profitability through the development of high-tech engineering products to suit customer’s needs.
- SMC is a service-orientated organization that prioritizes listening to clients’ needs.
- Innovativeness and R&D contribute towards long-term mechanization that will contribute towards the sustainability of SMC.
- Knowledge management is systems driven and strategy is implemented through empowered team members.
- Scenario planning is important.
- Contribution towards caring for the environment and social responsibility in a developing country – the tests of a winning strategy.
- Strategic challenges in a developing country – there is a need in South Africa for technical expertise and knowledge with regard to mechanization and high-end technology; and a constant challenge is to find new opportunities in the industry to ensure sustainable growth.

Overview

The purpose of this chapter is twofold: to introduce the nature and process of strategic management as relevant to the focus of our textbook; and to provide a guide to the structure and content of this book in the form of a strategic management process model.

Firstly, Chapter 1 reflects on the essence of strategy, historical context and strategy development, the nature and role of strategy, the conceptualization of and a framework for analyzing strategic management, and the tests of a winning strategy. Chapter 1 also explains why strategic management is important in establishing a competitive advantage in the South African market. Some of the main concepts and terms used throughout the rest of the book are also explained in Chapter 1.

The framework for analyzing strategic management in this book is used to understand the strategic management process in the modern competitive landscape. Globalization has accelerated the free flow of goods between countries, constantly placing pressure on organizations to be more competitive. In turn, the technological revolution has brought product innovation, value-creation processes and network alliances, thereby increasing organizations’ flexibility to introduce new products and services (Porter 2001; Hamel & Prahalad 1993). An organization’s ability to be strategically flexible in order to position itself in the competitive landscape is largely determined
by its ability to sustain its competitive advantage. This can be attained by making optimal use of the organization’s resources (resource-based and dynamic capabilities viewpoint), i.e. inside-out perspective, and combining them with its external environment, i.e. outside-in perspective. The perspective taken in this textbook is that a sustainable competitive advantage with above-average returns can be achieved by creating value, managing ethically and being a good corporate citizen.

Secondly, the strategic management process is introduced by means of the strategic management process model. This model provides the framework for the process of strategic management in terms of understanding the overall strategy and intent of an organization (Chapters 1 and 2); the importance of strategic analysis in understanding competitive forces and developing competitive advantages (Chapters 3–5); how strategy develops and the different levels of strategy (Chapters 6–9); how managing economic, social and environmental strategies whilst engaging stakeholders impact on being a good corporate citizen (Chapter 10); and the ways in which strategy is implemented (Chapters 11–12); as well as considering important future perspectives (Chapter 13).

This book will assist you in understanding the process of strategic management and increase your ability to think strategically in order to diagnose an organization’s situation from a strategic perspective. Strategic thinking demands the ability to understand all possible impacts, relationships and interactions that affect both the present and future, so that strategic decisions will favour sustained competitive advantage and result in ‘perpetuity’. The emphasis is on thinking strategically, understanding the competitive forces, and developing competitive advantages in developing countries, particularly in South Africa.

1.1 Introduction

Managing an organization in the competitive landscape of the 21st century is a highly complex task, impacting on organizational leadership, strategies, and organizational architecture. Among the reasons for the heightened complexity are increasingly competitive business practices, the inclination towards strategic flexibility in order to accommodate change, and the emergence of networked organizations in the global arena. It is therefore vital that managers think strategically in order to achieve a sustained competitive advantage. They need to understand where they fit into the global competitive landscape and how they can contribute towards strategic developments and changes. The global competitive landscape has important implications for strategic management in developing countries, with specific reference to the African context. Consider, for example, how investments from various economic sectors in
South Africa have changed the nature of doing business in Africa, for example South African parastatals (Eskom, Spoornet, Portnet, Airports Company and South African Airways), the telecommunications sector (MTN and Vodacom), retail and food sectors (Shoprite, Pep Stores, Pick ’n Pay, Game, Makro, Woolworths and Nando’s) and the mining sector (Anglo American, De Beers, AngloGold, Gold Fields and BHP Billiton). Strategic management challenges in Africa include empowerment of previously disadvantaged persons and involving them in the formal economy, as well as thinking globally but acting locally.

In thinking strategically about their organization’s current situation and future prospects in a competitive landscape, managers are faced with three critical questions (Thompson, Gamble & Strickland 2004:3). In seeking to answer the first question ‘Where are we now?’ consideration has to be given to an organization’s competitive positioning, its resources and dynamic capability, appeal and value added to products and services, meeting the needs and expectations of customers and stakeholders, and its current performance. Consider how SANDVIK prioritizes listening to clients’ needs in order to ensure that value is added to all its products. It also meets the needs of stakeholders by being socially responsible and valuing the innovative behaviour of employees. The second question ‘Where do we want to go?’ refers to the purpose, strategic intent and overall direction that management believe the organization should adopt. SANDVIK’s sustainable success will depend on how effectively it designs unique solutions for its customers. Rotation of staff internationally is another critical success factor that ensures increased focus on global ideas and on customer operations. The future of SANDVIK will depend on its ability to reduce customer costs of productivity, and its effectiveness, which will be determined by the number of technological breakthroughs. The final question ‘How will we get there?’ will depend on how strategy is formulated at the different organizational levels, based on customer needs, stakeholder expectations and ethical perspectives; and, secondly, on the influence of leadership, values, organizational culture and organizational architecture in strategy implementation. SANDVIK empowers its staff, encourages innovative strategic thinking, has a flat organizational structure, has cross-discipline teams servicing client groups, and focuses on knowledge management principles. Additionally, it is ISO 14001 compliant, pursues employment equity and focuses on the overall well-being of team members, including educational programmes and counselling. Strategy development and implementation relate to the pursuit of organizational purposes. All organizations, whether large or small, profit-seeking or not for profit, private or from the public sector, need winning strategies to achieve their purpose.

Organizational strategies need to be formulated, developed and implemented; issues that are addressed by our study of strategic management. This opening chapter outlines the essence of strategy before exploring the nature of strategy in detail and
explaining the strategic management process in the context of the framework on which this textbook is structured. However, before the essence and nature of strategy (content) is explained, it is important to explain the developing country context applicable to this textbook.

As defined in the Bloomsbury reference book (2003:108), a developing country is often a ‘producer of primary goods such as cotton, that cannot generate investment income to stimulate growth and possesses a national income that is vulnerable to change in commodity prices’ and is characterized by low-income and middle-income economies. Developing countries’ economic development is at an ‘early growth stage’ and is growing more rapidly than the developed economies of Europe, North America and Japan (Napier & Vu 1998:40). Developing countries include most of South East Asia and Pacific, South Asia, some Latin American countries and the Caribbean, Central and Eastern Europe, Middle East, North and Sub-Saharan Africa (Definition of emerging economies 2006). These countries represent 20 per cent of the world’s economies and approximately 80 per cent of the global population (Heakal 2003; Siddiqi 2001:16).

The International Finance Corporation (IFC) of the World defines an emerging market in any developing economy as a market with the potential to emerge further, strongly linked to the economy’s overall development potential (Pagell 1997). An emerging market includes an economy with middle-to-high per capita income among the developing countries with stock markets in which foreigners can trade. (Definition of emerging economies 2006.) The GDP per capita income has been determined by the World Bank at about $8 355 per annum, and at below $8 625 by the IFC (Pagell 1997).

Sustaining a competitive advantage in developing countries would be influenced by the organization’s engagement with government, environmental focus (process improvement and product/services), and socio-economic development. Many organizations, however, are realizing that the opportunities represented by big emerging markets demand an entire new way of thinking. The better managers understand the nature of these markets, the more they have to rethink and reconfigure every element of their business models (Prahalad & Lieberthal 2003).

### 1.2 Essence of strategy

In this section, an overview of the conceptualization of strategy and the historical perspectives of strategy development will be presented.
1.2.1 Strategy conceptualized

The concept of strategy dates back to the ancient Athenian position of strategos 507 BC and the documentation of Sun Tzu’s *The Art of War*, written about 500 BC. Strategy has always been considered as a key element of managerial activity and is still offered as a capstone course (strategic management) at business schools. But what does strategy really mean? To illustrate the complexity of concept strategy, selected definitions are offered in Table 1.1.

**Table 1.1: Selected definitions of strategy**

<table>
<thead>
<tr>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy: The art of war, especially the planning of movements of troops and ships, etc., into favourable positions; plan of action or policy in business or politics etc.</td>
<td><em>Oxford Pocket Dictionary</em></td>
</tr>
<tr>
<td>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.</td>
<td><em>Alfred Chandler, Strategy and Structure</em> (Cambridge, MA: MIT Press, 1962)</td>
</tr>
<tr>
<td>A strategy is the pattern or plan that integrates an organization’s major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocate an organization’s resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.</td>
<td><em>James Brian Quinn, Strategies for Change: Logical Incrementalism</em> (Homewood, IL: Irwin, 1971)</td>
</tr>
<tr>
<td>What business strategy is all about is, in a word, competitive advantage … The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company’s strength relative to that of its competitors in the most efficient way.</td>
<td><em>Kenichi Ohmae, The Mind of the Strategist</em> (Harmondsworth: Penguin Books, 1982)</td>
</tr>
<tr>
<td>Without a strategy the organization is like a ship without a rudder, going around in circles –</td>
<td><em>Joel Ross and Michael Kami – Business Authors and consultants</em></td>
</tr>
<tr>
<td>The flame of competition has changed from smoky yellow to intensive white heat. For companies to survive and prosper they will have to have a vision, a mission and strategy. They will pursue the action arising from the strategy with entrepreneurial skill and total dedication and commitment to win.</td>
<td><em>Peter B Ellwood, Chief Executive, Lloyds TSB Group</em></td>
</tr>
</tbody>
</table>

Source: Adapted from Grant, 2002:17
Thompson, Strickland and Gamble (2005:3) regard strategy as a game plan indicating the choices a manager needs to make for example about how to attract and meet customer needs, how to compete successfully, how to grow the organization, how to manage each the organizational architecture and develop needed dynamic capabilities, and how to achieve performance targets by implementing strategy successfully. Johnson and Scholes (2002:10) view strategy as 'the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholder expectations.' Some important vocabulary used in strategy is explained in Table 1.2.

Table 1.2: The vocabulary of strategy

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>A personal example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision or strategic intent</td>
<td>Desired future state: the aspiration of the organization</td>
<td>To run the Comrades Marathon</td>
</tr>
<tr>
<td>Mission</td>
<td>Overriding purpose in line with the values or expectations of stakeholders</td>
<td>Be healthy and fit pile</td>
</tr>
<tr>
<td>Goal</td>
<td>General statement of aim or purpose</td>
<td>Lose weight and strengthen muscles</td>
</tr>
<tr>
<td>Objective</td>
<td>Quantification (if possible) or more precise statement of the goal</td>
<td>Lose 5 kilos by 1 September and run the Marathon next year</td>
</tr>
<tr>
<td>Unique resources and core capabilities</td>
<td>Resources, processes or skills which provide 'competitive advantage'</td>
<td>Proximity to a fitness centre, supportive family and friends and past experience of successful diet</td>
</tr>
<tr>
<td>Strategies</td>
<td>Long-term direction</td>
<td>Associate with a collaborative network (e.g. join a running club), exercise regularly, compete in marathons locally, stick to appropriate diet</td>
</tr>
<tr>
<td>Control</td>
<td>The monitoring of action steps to: assess effectiveness of strategies and actions modify strategies and/or actions as necessary</td>
<td>Monitor weight and kilometres run, and measure times; if progress satisfactory, do nothing; if not, consider other strategies and actions</td>
</tr>
</tbody>
</table>

Source: Johnson & Scholes, 2002:13

A more comprehensive understanding of this concept is gained by considering its historical origins, context and perspectives.
1.2.2 Historical origins of concept ‘strategy’

Despite the numerous attempts to define ‘strategy’ over the decades, as shown in Table 1.1, attempts are constantly being made to redefine this concept (Ghemawat 2001:1). A less arbitrary approach to explaining this concept would be to consider the changing conceptions of strategy, as envisioned by academics, managers and consultants.

The concept strategy derives from the Greek word ‘strategos’, meaning ‘general’. Strategos, in turn, derives from stratos (the arm) and agein (to lead) (Cummings 1993). So, originally, strategy was associated with the military; the ‘art of leading the army’. (Heracleous 2003:3.) Sun Tzu’s (1981) primal work The Art of War is regarded as the first formal treatise on strategy. ‘All men can see the tactics by which I conquer, but what none can see is the strategy out of which great victory is evolved.’ Only in the twentieth century has the concept of strategy gained prominence in the business world (Ghemawat 2001:2). Military and business strategy share some common concepts and principles, particularly strategy and tactics. A tactic is a plan for specific action, while strategy is the overall scheme for leveraging resources to obtain a competitive advantage.

Strategic decisions, whether in the military or business sphere, share common characteristics (Johnson and Scholes 2002:4–9; Lynch 2003:10–11):

- Strategy is concerned with long-term direction and sustainable decisions.
- Strategies offer a competitive advantage.
- Strategy exploits linkages between the internal and external environments (the so-called strategic link).
- Strategies require major resources.
- Strategies develop processed to achieve its purpose.
- Strategies are likely to affect operational decisions.
- Strategies affect the values and expectations of stakeholders.
- Strategies are influenced by vision – the ability to move forward.

A brief historical overview explaining the changing conceptions of strategy as envisioned by academics, managers and consultants, is presented below.

1.2.3 Historical context and strategy development

During the early 20th century, managers rather than academics began to explore and define the management task. Examples include industry leaders such as F W Taylor in the USA and Henri Fayol in France. Other important contributors include Henry Ford (1908–15) and Alfred Sloan from General Motors (1920–35). Henry Ford
focused on innovative technology, mechanization, quality standards, redesign and cost cutting, while Alfred Sloan emphasized rapid model changes, niche marketing, structured management teams and separated operational and strategic planning. (Lynch 2003:39.) Later, Drucker (1954) argued for proactive planning to shape the organization’s environment. Philip Selznick (1957) proposed the notion of distinctive competence that became the core concept of the resource-based organizational perspective (Wernerfelt 1984).

In 1912, the Harvard Business School introduced a capstone course in Business Policy. To this day, strategy is positioned as a cornerstone of high-performing organizations, while strategic management is offered as a capstone course in MBA programmes. Research has confirmed that an organization’s strategy is more important to its performance than industry context (Heracleous 2003:4).

See Appendix 1 for Table 1.3, which deals with the evolution of strategic management.

1.2.3.1 Strategy in the mid-twentieth century
During the Second World War, the game theory originated. The general theory of competitive behaviour evolved after Von Neumann and Morgenster’s *The Theory of Games and Economic Behaviour* was published in 1944 (Ghemawat 2001:3). From the 1950s to the 1970s, writers such as Ansoff developed corporate strategy concepts, even defining diversification decisions (Ansoff 1985:18). According to Ansoff (1985) two environmental factors accelerated the development of strategy during the 1950s and 1960s, namely the accelerated rate of change and the greater spread of wealth, especially in Europe. Research focused on general management and business policy issues to develop better ways of making decisions and maintaining coordination in increasingly large and complex organizations. Rational planning was preferred to the haphazard workings of the market economy (Grant 2002:20). The rational viewpoint contributed towards what became known as the prescriptive approach to strategy. Well-known researchers during this era include Kenneth Andrews (1971), Alfred Chandler (1962), and Igor Ansoff (1965).

During this era, strategy was essentially defined as a process, comprising the following sub-processes (Sanchez & Heene 2004:28):
- identification and analysis of threats and opportunities
- response to aforementioned by formulating strategic plans
- implementation of strategic plans
- design of control systems for implementation processes.

This early research led to the second most important viewpoint of strategy, the emergence approach to strategy, which came to the fore in the 1970s and 1980s.
1.2.3.2 Strategy into the twenty-first century

In the 1970s, circumstances changed, largely influenced by the major increase in oil prices. Diversification did not deliver the anticipated synergies and increased international competition was brought about by Japanese, European and South East Asian organizations (Grant 2002:20). This led to the questioning of the prescriptive and predictive approach to strategy and the beginning of the emergence approach, as mentioned previously. Organizational positioning, attaining a competitive advantage in a changing environment and maximizing profit potential, came into its own in the early 1980s, i.e. outside-in perspective. Focus was on the analysis of the external environment, and strategy was viewed as a quest for positioning and market leadership. Contributions were made by, inter alia, proponents such as Porter (1980), Boston Consulting Group, and the Strategic Planning Institute (Profit Impact of Market Strategy) project.

In the late 1980s and early 1990s, the focus shifted to the internal organizational environment, and from strategic planning to strategic management (inside-out perspective). Stimulated by the accelerated rate of technological change and greater spread of wealth, new demands for strategy development were created. Consequently, the source of profitability and the basis of long-term strategy resulted from developments in the resource-based and dynamic capabilities viewpoints (Grant 2002:21). These viewpoints argue that any form of sustainable competitive advantage results from an organization’s unique resources and dynamic capabilities. Unlike the external approach, the internal focus emphasized the differences between organizations to achieve a competitive advantage.

At the beginning of the 21st century, key theoretical developments included the application of game and complexity theory to business (Moldoveanu & Bauer 2004; Black and Farias 2000; Brown & Eisenhardt 1998; Waldrop 1992; Kauffman 1980); analysis of the disruptive effect of technology (Christensen 1997). Complexity theory is a science of complex interacting systems (Marion & Uhl-Bien 2001:389) and characterized by non-linear, unpredictability and aperiodicity (Black & Farias 2000: 101). The question is how to incorporate the conditions of non-linearity, uncertainty and ambiguity into the organization’s strategy in order to ensure sustained management of innovation and change. Other developments include the diagnosis of the 21st century competitive landscape and impact of globalization; strategic use of knowledge in organizations; and application of real options thinking (Grant 2002:21) and scenario planning. Ilbury and Sunter (2001) suggest the re-emergence of scenario planning as a valuable tool in planning for possible different futures. According to a survey, over 50 per cent of the Fortune 500 organizations use scenario planning methods (Hill & Jones 2004:22).
Even though many aspects of strategy have been examined in the historical overview, a more complete perspective on this concept will be given by considering the nature and role of strategy.

1.3 Nature and role of strategy

The nature of strategy will be explained by considering Mintzberg’s (1987) five Ps for strategy. The role of strategy will be dealt with in terms of an explanation of the levels of strategy in an organization.

1.3.1 The five Ps of strategy

The five Ps of strategy, namely strategy as a plan, pattern, position, perspective and ploy, as shown in Figure 1.1, will be discussed briefly.

Figure 1.1: Five perspectives of strategy

Strategy as a plan provides overall direction and a course of action. The planning viewpoint or ‘design school’ of strategy (Mintzberg et al 1998:24) views strategic decision-making as a formal, logical, top-down structured process (Thompson & Martin 2005:25), in which strategy is formulated through a rational analysis of the organization, its performance and external environment. As a plan, strategy formation is a process of conception and formal in nature (Mintzberg et al 1998:5). Strategy is then implemented through organizational layers, structure and control systems. This approach seeks to attain a match or strategic link between the internal organizational capabilities and external possibilities, forming the basis of the resource-based and dynamic capabilities perspectives, discussed later in this chapter, and the foundation framework for analyzing strategy.
Although the planning approach to strategy has been criticized for being a too rational, top-down management approach and not realistic enough, given the unpredictability of the 21st century competitive landscape, research suggests that formal planning systems contribute towards better strategic decision-making and have a positive impact on organizational performance (Hill & Jones 2004:22).

**Strategy as a position** concerns the determination of particular products in particular markets, as supported by Porter (1980). As a position, strategy looks downwards (meeting customer needs) and outwards, towards the external competitive market. The focus is on an outside-in viewpoint, which will be discussed later in the section on a framework for analyzing strategy.

**Strategy as a perspective** refers to the organization’s way of doing things, also referred to as the interpretative view (Heracleous 2003:18) or as experience (Johnson & Scholes 2002:43). Future strategies are based on the adaptation of past strategies, based on the collective experience of individuals and the way of doing things embedded in the cultural web of an organization. It is a product of the minds and ideologies of individuals, groups and management in the organization. Resolving different views and experiences requires negotiation and bargaining. In other words, the extent to which the strategic link is attained between the organization and its competitive environment is mediated by how the individuals and management interpret the internal resources and capabilities with the environment. As a perspective, strategy looks inside the organization – inside the mindset of the collective strategists, and ‘upwards’ toward the strategic purpose, intent and direction of the organization (Mintzberg 1994:27–28). The focus is on an inside-out viewpoint, as discussed later in the section on a framework for analysing strategy.

**Strategy as a ploy** is a specific manoeuvre to outwit a competitor. For example, in order to give the impression of expanding capacity, an organization may purchase land to discourage a competitor from building a new plant. The real strategy is not the expansion itself, but the threat – a ploy.

**Strategy as a pattern** concerns consistent behaviour over time. For example, an organization that perpetually markets cheap products pursues a low cost strategy. Previously, it was stated that strategy needs to be planned (looking ahead), i.e. intended strategy, while as a pattern (looking at past behaviour), strategies also evolve out of their past, i.e. realized strategy. The answer to the question whether realized strategies are intended is *not always*. Intended strategy is the envisioned strategy of top management and is achieved by managers shaping and reshaping strategy as circumstances dictate and as they learn from experience and seek out improvements. Grant (2002:26) cautions that only 10 to 20 per cent of intended strategies are realized. Intended strategies that are fully realized are referred to as deliberate strategies, and those not realized, as unrealized strategies (Mintzberg 1994:24) or abandoned strategies.
INTRODUCTION – THE NATURE AND PROCESS OF STRATEGIC MANAGEMENT

(Thompson, Gamble & Strickland 2004:7). When the pattern realized is not explicitly intended, it is referred to as an emergent strategy, as shown in Figure 1.2. An emerging strategy is ‘the patterns of decisions that emerge from individual managers adapting to changing external circumstances and the ways in which the intended strategy is interpreted’ Grant (2002:26). Emergent strategies are therefore the unplanned responses to unforeseen circumstances; they are not a product of formal top-down planning. For example, rather than pursuing a comprehensive diversification strategy, an organization may first test the market by purchasing a restaurant, then a resort hotel, and then an urban hotel, until a strategy pattern of diversifying into urban hotels with restaurants has emerged (Mintzberg 1994:25).

The most classical case of strategy as a pattern is the Honda Motor Company’s entry into the US motorcycle market. To learn more about this case, refer to the article by Richard Pascale (1984). The conventional explanation of Honda’s success is that it redefined the US motorcycle industry with a well conceived intended strategy. Despite the fact that Honda’s strategy was close to disastrous, the Japanese management astutely and flexibly responded to unforeseen circumstances. Honda’s reaction was unplanned and emerged as circumstances changed. An important lesson for strategists is that they need to recognize the process of emergence and to intervene where appropriate; and that strategies can grow from any point in the organization, provided people have the capacity to learn and the resources to support that capacity. Ilbury and Sunter (2001:15) state that 80 per cent of the success of world-class organizations can be attributed to the implementation of emergent strategies – ‘the trick is to co-ordinate the 101 little things that make the idea happen’ rather than the major innovative ideas. Management has the responsibility of evaluating the appropriateness of emergent unplanned strategies. As illustrated in Figure 1.2, this is done by comparing the emergent strategy with the organization’s external environment and internal resources and capabilities to assess whether there is a strategic link between these two, and whether there is alignment with the organizational purpose.

According to Mintzberg (1994:25), it is normal for organizations to pursue an umbrella strategy in which broad outlines are deliberate, while the details emerge within, provided learning takes place. Figure 1.2 illustrates that it is normal to find deliberate and emergent strategies simultaneously in an organization.

Despite the differences highlighted in the previous discussion on the essence and nature of strategy, there are also some areas of agreement, for example:

- strategy concerns the organization and its environment;
- effective strategies are important to value creation for all stakeholders and above-average earnings for the organization;
- strategy sets direction; focuses effort, and provides consistency (Mintzberg, Ahlstrand & Lampel 1998:15–17).
The essence of strategy is complex and unstructured. Strategies can be deliberate, intended but unrealized, or emergent, and exist on different levels, namely corporate, business and functional.

### 1.3.2 Levels of strategy

As mentioned previously, the primary objective of strategy is to achieve a competitive advantage, as this leads to above-average returns (increase profitability). However, after strategy has been analyzed and developed (formulated), it needs to be implemented successfully. The overall strategy is the collection of the strategic initiatives and actions developed by managers and key employees in the organizational hierarchy, as shown in Table 1.3.

**Corporate level strategy** is concerned with the overall purpose and scope of an organization and addresses the question of how value can be added at all business levels and lines. General decisions about what business the organization is in or ought to be in are taken at this level. This could include aspects such as geographical coverage; diversity of products/services; turning cross-business into competitive advantage; and divestments (Grant 2002:24; Johnson & Scholes 2002:11). Senior managers are normally responsible for orchestrating corporate strategy, with input from the key senior executives who head lines of business. Corporate level decisions are usually reviewed and approved by the organization’s board of directors (Thompson, Gamble & Strickland 2004:24). Corporate level strategy is discussed further in Chapter 7.
Business level strategy is concerned with how the organization competes and attains a competitive advantage in each and every area of business, i.e. through the products or services developed for markets, and the creation of value for customers. The strategic link between internal capabilities and external relationships is important (Lynch 2003:7). The general manager in charge of a line of business is responsible for orchestrating business level strategy, ensuring that lower-level strategies are well conceived, consistent and matched to the corporate level strategy and getting business-level strategies approved by corporate level executives and the board of directors (Thompson, Gamble & Strickland 2004:24). In Chapter 8, business level strategy is examined in detail.
Functional level strategy, also comprising of operational level strategy, underpins business-level strategy by implementing business strategies through the functional areas such as marketing, human relations, production, information systems and finance. The primary role of functional strategy is to support the overall business strategy and competitive approach by performing strategy-critical activities (Grant 2002:26.) The decision-making responsibility at functional level resides with the heads of the respective functional areas, with the general manager at business level approving the content of these strategies. Often the links between business level and functional level strategy are tenuous. If there is no clear direction at business level, functional level strategies are unlikely to be mutually supportive and consistent. There should also be synergy and co-operation between the functional areas in an organization in order to achieve a competitive advantage.

Ideally, unity should be achieved between these three levels of strategy. Generally, the strategic management process begins with the corporate level, cascading down the respective levels to functional level, also known as the top-down approach or hothouse model (Mintzberg, Ahlstrand & Lampel 1998:197). Cohesive strategy-making becomes easier to achieve when the organization’s strategy is understood by all the organizational members at different levels, thanks to clear communication and guiding principles (Thompson, Gamble & Strickland 2004:27).

1.4 Strategic management

Strategic management encompasses more than the management of the strategic decision-making process. The success of an organization is mainly determined by the effectiveness and efficiency of its management. In the words of Peter Drucker (1997:44), efficiency is concerned with ‘doing things right’, while effectiveness is concerned with ‘doing the right things’. Likewise, the management of an organization can be divided into operational and strategic management. A detailed discussion of how operational level management fits into the levels of strategy was given in the previous section on levels of strategy.

Strategic management is concerned with the overall effectiveness and choice of direction within a dynamic, complex and ambiguous environment. Strategic decisions have long-term implications and concern the entire organization. Strategic management is not concerned with strategic planning only, but has to ensure that strategy is also implemented, i.e. that strategies are working in practice. According to Sanchez and Heene (2004:4), strategic management refers to the management processes that define the organization’s goals for value creation and distribution, and design the way the organization will be composed, structured and co-ordinated in pursuing its goals.
for value creation and distribution. Rowe, Mason, Dickel, Mann and Mockler (1994:2) state that strategic management is the process by which organizations determine what value is needed and how to add that value. It means ensuring that organizations can cope effectively with the myriad of demands place on them from within and without.

From our perspective, strategic management is concerned with:
(a) effective strategies that balance the organization’s resources and capabilities, values and goals with its external environment. In doing so, strategic managers are responsible for establishing a clear direction for the organization and a means of getting there, which requires the creation of strong competitive positions; and
(b) the implementation of a strategy in such a manner that all the organizational architecture and activities are synergistically integrated in order to achieve effective performance.

Thompson and Martin (2005:12) cautioned that strategic management per se based on past and current success will not guarantee continued prosperity and success. Constant organization-wide learning, visioning of the future, strategic flexibility to deliver, and a team approach towards employees and stakeholders, would, however, assist in sustaining prosperity and establishing a sustained competitive advantage. The primary objective of strategic management is to achieve a competitive advantage for the organization, because above-average returns or superior profitability will follow. However, this can be achieved only if strategy is formulated and implemented properly.

Good strategic management = Good strategy + Good strategy implementation

In order to position an organization strategically, there needs to be a conceptual fit or a strategic link between the internal and external environments. Matching the conditions of the internal and external environments is the foundation the organization needs to form its strategic intent, develop its mission and take strategic actions in the pursuit of strategic competitiveness and above-average returns, namely, winning in the market place. The inside-out and outside-in perspectives, that explain how a strategic link between these two environments can be achieved, are subsequently discussed.
1.5 A framework for analyzing strategic management

Based on research by Christensen and Overdorf (2000:67) and Grant (2002:13), the factors in the organization’s internal environment that influence what it is able to do can be divided into three groupings, namely resources and capabilities; strategic architecture (structure, systems and processes); and goals and values. To achieve a competitive advantage, strategy has to be consistent with the organization’s internal environment and its external environment (macro and industry environments). Our framework for analyzing strategy, as shown in Figure 1.3, views strategy as a link or conceptual fit between the organization’s internal environment, referred to as the inside-out perspective, and its external environment, referred to as the outside-in perspective. Successfully attaining this strategy link will shape the strategies formulated.

This in turn will lead to a competitive advantage and above-average returns. Formulated strategies will build and reinforce organizational resources and capabilities, strategic architecture and goals and values.

What distinguishes strategic appraisal between the inside-out and outside-in perspectives is in-depth analysis of these factors rather than a superficial classification of whether they are internal strengths and weaknesses and external opportunities and threats. These two perspectives will subsequently be discussed.

Figure 1.3: Strategy link framework
1.5.1 Inside-out perspective

Strategic leaders adopting an inside-out perspective believe that strategies should be designed and developed around the organization’s resources and dynamic capabilities (Thompson & Martin 2005:112–113; De Wit & Meyer 2004:252–253) to take advantage of the opportunities in the external environment. From this perspective, the organization leverages its resources and dynamic capabilities by ‘stretching’ its resources and capabilities to achieve a competitive advantage and/or yield new opportunities. The ability to be innovative and strategically flexible is critical to achieving a competitive advantage (Johnson & Scholes 2002:8). In this perspective, the resource-based and dynamic capabilities viewpoints form the basis and are explained next.

1.5.1.1 Resource-based and dynamic capabilities viewpoints

The answer to the question is ‘What can this organization do for me?’ usually resides in the organization’s resources, which are at the core of the resource-based viewpoint (RBV). The RBV is a theoretical framework for understanding how competitive advantage within organizations is achieved and could be sustained over time (Teece, Pisano & Shuen 1997; Prahalad & Hamel 1990; Wernerfelt 1984). This view assumes that organizations are conceptualized groupings of resources that are heterogeneously distributed across the organization and persist over time (Eisenhardt & Martin 2000; Wernerfelt 1984). Unique resources can be used to implement value-creating strategies and to exploit new market opportunities (Christensen & Overdorf 2000; Eisenhardt & Martin 2000; Wernerfelt 1984).

The perspective of this textbook is that strategic competitiveness can be achieved by formulating and implementing value-creating strategies. When an organization implements value-creating strategies that other competitors are unable to duplicate or are too costly to imitate, it has achieved a competitive advantage (Porter 2001). Organizations with resources that are valuable, rare, costly to imitate and non-substitutable value creating strategies that contribute towards achieving sustainable competitive advantage and above-average returns (Hitt, Ireland & Hoskisson 2001:25; Wernerfelt 1984).

Strategy is neither a quest for the universally best way of competing, nor an effort to be all things to every customer, but rather the manner in which (how) the organization competes to deliver unique value (Rowe, Mason, Dickel, Mann & Mockler 1994:9). The term value used here refers to the contribution that strategic leaders make to their organizations, products, customers and stakeholders. Value is created through flexibility and innovation. Strategic flexibility implies that the organization has sets of capabilities in different areas of operation that add value to how it responds to external opportunities and challenges in a dynamic and uncertain environment (Hitt, Ireland & Hoskisson 2001:20).
Competitive advantage can be achieved only when the organization’s products or services are perceived as having value, determined by customer acceptance. As Ohmae (1982) asserted ‘strategy isn’t about beating the competition; it’s serving customers’ real needs’. The key challenge is to sustain the competitive advantage. A competitive advantage can only be sustained for a certain period, given the speed with which competitors are able to copy value-creating capabilities (Grove 1995:229). Kodak almost lost its competitive advantage by focusing on film technology for too long. In 2004, Kodak was forced, by declining consumer film sales, to restructure in order to accelerate its digital transformation (Willis 2006).

However, given the current competitive environment of rapid and unpredictable change, the emphasis has shifted towards an organization’s competencies rather than its resources. Consequently, the competence-based view (Prahalad & Hamel 1990) or capabilities-based view (Teece et al 1997) has gained popularity. Core or distinctive capabilities are distinctive skills that yield a competitive advantage. Such competencies are difficult for competitors to imitate or obtain (Teece, Pisano & Shuen 1997). Prahalad and Hamel (1990) suggest that the core/distinctive competencies are inherent in the technologies, processes and strategic architecture of an organization. Somewhat different from the above viewpoint, dynamic capabilities, which are process-based capabilities, have a higher order or resource and competency (Collis & Montgomery 2005:31).

The ability to stretch resources, competencies and capabilities is largely dependent on the strategic architecture competencies (Thompson & Martin 2005:117). The ability to manage architecture strategically is supported by effective functional process and strong technological competencies. According to Thompson and Martin (2005:117–118), internally, organizations must behave in a synergy-creating, coordinated manner integrating functions, systems, processes, people and structure, i.e. systems thinking. Woolworths’ functional competencies and brand technology create both an image and a capability that enable it to trade in clothes, foods, cosmetics, household furnishings and credit. Externally, integrating value-adding networks contributes to adding value in the value chain.

Critical to the effective functioning of the strategic architecture is the concept of dynamic capabilities. Dynamic capabilities are activities and processes through which strategic leaders integrate, build, and reconfigure internal and external competencies to address rapidly changing environments, which become the source of sustained competitive advantage (Eisenhardt & Martin 2000). As such, they are the drivers behind the creation, evolution and recombination of other resources into new sources of competitive advantage (‘Teece et al 1997) and cut across the entire organization. Consider Michelin’s complex technological process in manufacturing radial tyres and Coca Cola’s specialized marketing and merchandising know-how.
However, resources and capabilities can become a threat to an organization if they become lost or too entrenched to change quickly enough (Thompson & Martin 2005:113). Figure 1.4 illustrates the importance of resources and capabilities as the initiator of superior returns.

**Figure 1.4: The Inside-out perspective of superior returns**

- **Resources**: Identify the organization’s resources and strengths and weaknesses compared with those of competitors.
- **Distinctive capability**: Capacity of an integrated set of resources to perform a task or activity.
- **Competitive Advantage**: Ability of an organization to outperform its rivals.
- **An Attractive Industry**: An industry with opportunities that can be exploited by the organization’s resources and capabilities.
- **Strategy Formulation and Implementation**: Select a strategy that best allows an organization to use its resources and capabilities relative to opportunities in the external environment.
- **Superior Returns**: Earnings of above-average returns.

Source: Adapted from Hitt et al, 2001:25
An organization can build on its internal resources (technological infrastructure) and capabilities (IT capabilities) to take advantage of the external market forces. For example, ABSA has learnt how to be strategically competitive in the local market by applying insights gained locally on a global scale (Dawar & Frost 1999). ABSA has provided technical assistance, training and other information to raise the quality of the supplier’s product in Africa. This was achieved mainly through its network capabilities of establishing backward vertical linkages with suppliers and forward linkages with buyers/customers. The following case example explains how ABSA achieved its competitive advantage in Tanzania.

**Case example**

**ABSA’s investment in the National Bank of Commerce in Tanzania: Serving financial and community needs**

ABSA provides the pioneering example of a successful retail investor. In March 2000, it purchased a majority stake (70 per cent) in Tanzania’s nearly insolvent and previously nationalized National Bank of Commerce. The project had a significant development impact by introducing previously unknown consumer services to far-flung communities and improving existing services. However, the transaction was not problem-free: the Bank’s trade union launched a (failed) court action to halt the privatization, mainly because of concerns about job losses.

ABSA’s investment has had major developmental benefits for Tanzania. The company recruited local IT specialists who employed satellite technology to ‘leapfrog’ missing generations of technological infrastructure, thus accessing remote rural areas and making it possible to process data from outlying branches centrally.

Source: Adapted from Heese, 2003:167–168

Two significant lessons may be singled out. Firstly, a formerly overlooked retail niche can be as promising as more competitive trade and corporate niches, despite low levels of human development and neglected infrastructure. Secondly, taking a long-term view of African retail markets and their growth potential, the investment may indeed be more sustainable than others, bringing with it greater benefits for local populations whose financial needs have been poorly served until now. The resource-based and dynamic capabilities viewpoints suggest that an organization’s unique resources and capabilities are the critical link to sustained competitive advantage and above-average returns. However, failure to match the organization’s resources and capabilities with the external environmental factors could be a critical error.

Finally, the importance of goals and values cannot be ignored. In this textbook, values have a wider meaning than mere ethical connotations. We define values as the standards by which all employees set priorities and define the rules that should be
followed to achieve a sustainable competitive advantage. In doing so, prioritization decisions regarding what is attractive or unattractive or more or less important are made by employees at every level, and not just at the strategic top level of management. Given the hypercompetitive 21st century environment, a new mindset has emerged in which values such as flexibility, speed, innovation, integration are pertinent. It has been said that a key assessment of ‘good strategic management’ is whether clear and consistent values have permeated the organization (Christensen & Overdorf 2000).

In conclusion, it can be stated that the factors that define an organization’s internal capabilities evolve over time, beginning in resources, then moving to visible, articulated processes and values, and finally becoming ingrained into the organization’s culture. Being flexible and ensuring the strategic link between the inside-out and outside-in perspectives is a challenging strategic task.

### 1.5.2 Outside-in perspective

The outside-in perspective (De Wit & Meyer 2004:250–251) is also referred to as the market-driven strategy (Thompson and Martin 2005:112–113) and the industrial organization model (Hitt, Ireland and Hoskisson 2001:21–22). Strategic leaders adopting an outside-in perspective believe that strategies should be designed and developed as determined by the market needs and an understanding of and response to the external environment. The value of a distinctive competitive advantage is synonymous with the market-pull approach. From this perspective, the organisation identifies opportunities in the external environment, creatively defines its competitive industry and then adapts its resources and dynamic capabilities to take advantage of these, known as strategic fit (Johnson & Scholes 2002:5). The key to this perspective is competing successfully in an attractive (i.e. profitable) industry, with the external environment as the initiator of strategy. Competing in an attractive industry would require of the organization to develop new resources. Dynamic capabilities need to be developed to establish a first mover advantage (De Wit & Meyer 2004:251). Alternatively, new opportunities can be created by entering into strategic alliances with organizations with superior resources. As shown in Figure 1.5, the outside-in perspective suggests that above-average returns are earned when the organization develops or acquires the internal resources and dynamic capabilities needed to implement strategies as dictated by the external environment.
The external environment, as the initiator or strategy in this perspective, consists of the macro and industry environments, as discussed in Chapters 3 and 4.

One example of how the external environment acted as an initiator of strategy is illustrated by Pep Stores investment in Malawi. In this case the governmental policies and laws influenced where, when and how Pep Stores choose to compete.

**Case example**

*Pep Stores' investment in the Malawi clothing industry: Rise and demise*

In 1996, Pep invested R100 million from retained earnings in Malawi, establishing clothing manufacturing operations in Blantyre. These factories produced garments for export to retail outlets in South Africa.
A number of factors influenced the decision by Pep Stores to invest in Malawi:

- A bilateral trade agreement, with its soft rules of origin, gave the company better access to the South African market.
- South African government’s relaxation of exchange controls.
- Labour market flexibility.
- Malawian government provided a host of incentives to reduce costs and improve profit margins for investors.

At the height of its Malawian operations, Pep employed about 800 Malawian citizens. Around the end of 1998, garment producers in South Africa were feeling threatened by the cheaper, duty-free imports from Malawi. The bilateral agreement was questioned – in particular, the rules of origin, which seemed to encourage Pep to import fabrics and other inputs from outside the SADC rather than using more expensive local versions, thus allowing it to compete unfairly in the South African market. When further pressure was brought to bear by the SA trade unions, the bilateral trade agreement was renegotiated. Pep had to procure locally rather than in the Far East and complete the processing in Malawi, which limited its competitive advantage. By March 2001, Pep Malawi had shut up shop.

Source: Matsinhe, 2003a:174–175

Pep Stores’ abortive venture into Malawi highlights a number of important lessons:

- Reduced regulatory and institutional risk encourages investment. From South Africa’s point of view, onerous labour market regulations were seen as increasing the risk and cost of investing in South Africa, and investors were encouraged to seek alternative locations. From Malawi’s viewpoint, preferential access to the lucrative South African market gained through the bilateral trade agreement was crucial in reducing the risk of investing in Malawi.
- Government-sponsored incentives reduce the cost of investment.
- Dependency on incentives should be avoided. In this case, the renegotiated agreement raised the risks and reduced the profits for Pep, leaving it no alternative but to terminate its operations.

Another example of how technological changes and the flood of information processing capabilities have impacted on the competitive actions and responses of Kodak is explained in the following case study. When confronted with the new IT-based technology, Kodak realised that new resources had to be developed to better position itself and to regain its ‘first mover advantage’.
KODAK: Refocusing on digital imaging

In 1888, inventor and entrepreneur George Eastman launched a new type of photographic camera that was pre-loaded with a roll of the light-sensitive film he had recently invented. This ‘Kodak’ camera marked the start of snapshot photography: ‘You push the button – we do the rest’. Kodak remained at the forefront of technological developments in photography, introducing colour film, pocket-size cameras and photo-developing machines. Along the way, the company diversified into the related chemicals business, and from there into pharmaceuticals. By the beginning of the 1990s, Kodak was an unwieldy giant.

Then came the impending digital revolution. Kodak’s picture-making technology was chemical-based, while the upcoming technology was IT-based, requiring different cameras and different ‘information carriers’. For Kodak, the initial question was how deeply its markets might be penetrated by the rival technology. Would digital imaging be largely confined to the high-end ‘studio’ market for professional photographers, or would it be equally successful among the midrange segment of photo-journalists and serious hobbyists? Or might it even invade the ‘Point’n’Shoot’ part of the market, where Kodak’s 35 mm film had a dominant position? Furthermore, Kodak needed to assess whether it could develop digital imaging capabilities of its own, strong enough to compete with such battle-hardened, digital-savvy companies as Canon, Apple, Sony and Hewlett Packard. Not only would Kodak need to catch up technologically, but it would also need to adapt to its competitors’ gruelling pace of competence-building and new product development.

Alternatively, Kodak could choose not step into the digital imaging ‘free fighting’ arena. But Kodak wanted to remain the world’s leading imaging company, whatever competences and activity systems that would require. So, ex-Motorola CEO George Fischer was hired in 1993. He set out to transform Kodak into a digital company, divesting Kodak’s chemical and pharmaceutical businesses and pouring most of the R&D budget into digital imaging technologies. Where key competences were lacking, alliances were established, for instance with Adobe (software). The first digital camera for consumers was introduced in 1995, followed by a flood of new digital products and services. Kodak’s restructuring will result in a new digital market business models by mid-2007: ‘Digital Wow Factor’. For more information, visit www.kodak.com.

Source: Adapted from De Wit and Meyer, 2004:251–252 and Willis, 2006

Questions

1. Identify and explain the strategic perspective in which Kodak found itself.
2. Explain how Kodak used the strategic link to reposition itself in the market place.
3. The question can be posed: ‘How did this market leader become a market laggard?’ Recommend what the new CEO should consider to reinvent Kodak. Visit the website for up-to-date information.

4. Explain how Kodak management could make use of the strategic management process model to address their strategic re-positioning in order to gain competitive advantage.

1.6 Strategic management process

From our perspective, the strategic management process includes an understanding of the organization’s strategic intent and purpose, strategic analysis, strategy development, strategy implementation and future perspectives. The strategic management process is a combination of the commitments, decisions and actions required for an organization to achieve strategic competitiveness and earn above-average returns. The next section of this chapter introduces these aspects of the strategic management process and identifies elements that make up each aspect. Figure 1.6, which shows these elements, will be inserted at the beginning of each major division of the book, with the relevant chapters highlighted.

Even though the process of strategic management, shown in Figure 1.6, is presented in linear form, depicting a prescriptive strategic nature, the emergent (descriptive) nature of strategy is considered as an essential ingredient to successful strategic management. Consequently, the strategic management process followed in this textbook considers both the prescriptive (rational and logical) and emergence (intuition, creativity, experience and emotion) approaches to strategy, i.e. a combination of Mintzberg’s Five Ps of strategy. In most instances, the strategy an organization follows will be a mixture between ‘deliberateness’ and ‘emergence’.

1.6.1 Strategic intent and purpose

Our strategic management process centres on strategic intent, purpose and goals (Chapter 2). Strategic intent is essentially concerned with the direction in which an organization wants to go, the type of organization it aspires to be, and how it proposes to get there. It is determined by the extent to which an organization pursues its mission and ambitious objectives and focuses all its resources, capabilities and competitive actions towards the organizational position, achieving competitive advantage and winning in the market place.

Strategic intent and purpose normally signify the beginning of the direction setting in the strategic management process, by posing the question ‘What do we really want to become?’ At times, it is necessary to refer back to the intent and purpose after extensive strategic analysis has been conducted. In this instance, the question ‘Is what we want to become appropriate?’ becomes relevant.
STRATEGY AND STRATEGIC INTENT

MONITORING

How are we doing?

STRATEGIC ANALYSIS

What is our current situation?

How are we getting there?

WHERE are we going?

Strategic Leadership (Chap 11)

Organizational Architecture (Chap 12)

Macro Environment (Chap 3)

Industry Environment (Chap 4)

Internal Environment (Chap 5)

Global Strategy (Chap 9)

Business Level Strategy (Chap 8)

Corporate Level Strategy (Chap 7)

Corporate Citizenship (Chap 10)

Value Innovation (Chap 6)

Leadership Teamwork Culture

Future perspectives (Chap 13)

Strategic Intent

Purpose and Goals (Chap 2)

WHAT do we want to become?

STRATEGY IMPLEMENTATION

HOW are we getting there?

WHAT do we want to become?
1.6.2 Strategic analysis

Next, a strategic analysis of the environment is undertaken. Strategic analysis consists of analyzing and evaluating the strategic link between the organization’s external environment opportunities and threats (outside-in perspective) and its internal strengths and weaknesses (inside-out perspective). The question ‘What is our current situation?’ needs to be addressed. From the outside-in perspective, the organization identifies opportunities in the external environment (social, economic, environmental, political, social, and legal aspects – Chapter 3), creatively defines its competitive industry (Chapter 4) and then adapts its resources and dynamic capabilities to take advantage of these.

The internal environment refers to the organization’s strategic capability as determined by its resources and capabilities (inside-out perspective) in creating customer value and building a competitive advantage. The inside-out perspective believes that strategies should be designed and developed around the organization’s resource and dynamic capabilities, also referred to as core or distinctive capabilities in Chapter 5, to take advantage of the opportunities in the external environment.

1.6.3 Strategy development

Strategy development involves understanding the underlying options for the corporate level (Chapter 7), business level (Chapter 8) and global strategy (Chapter 9) development, in terms of directions and methods of development. The key question is ‘Where are we going?’ Value innovation (Chapter 6), ethical behaviour, corporate citizenship and sustainable development (Chapter 10) provide the basis on which strategy is developed. Value innovation essentially offers existing buyers in existing markets significantly greater net value than they are currently receiving, and/or offers fundamentally new and significant net value for buyers, that results in the creation of new markets. Chapter 10 explores how the concepts of sustainable development and corporate citizenship have created new drivers for organizations to consider, specifically within the context of developing countries. The manner in which strategic leaders manage the economic, social and environmental relationships and how they engage with their stakeholders will have a direct impact on the organization’s long-term success.

1.6.4 Strategy implementation

The strategies chosen and developed now have to be implemented. Successful strategy implementation is dependent on strategic leadership as the key driver of implementation and a sound organizational architecture. The question ‘How will we get there?’ needs to be answered.
Chapter 11 addresses leadership as the key driver of effective strategy implementation by considering the abilities of effective strategic leadership who is responsible for setting organizational direction, creating organizational alignment and a supportive culture, as well as managing the change process. Organizational architecture, discussed in Chapter 12, focuses on how the organizational alignment of processes, structures, systems and knowledge with strategy creates a competitive advantage by adding value. The balanced score card is explained as part of the strategy implementation monitoring system and addresses the question 'How are we doing?'

Finally, Chapter 13 presents the importance of future perspectives and challenges for strategic management, including the implications for developing countries.

1.7 Tests for winning strategy

Three important questions can be asked to assess how good an organization’s strategy is (Lynch 2003:24 & Thompson, Strickland & Gamble 2005:11–13):

**Goodness of fit test.** How well does the strategy fit the organization’s situation? To be a winner, there has to be a conceptual fit or strategic link between the internal external environments. This link can either be achieved by an inside-out (strategic stretch) or outside-in (strategic fit) perspective, as discussed in section 1.5.

**Competitive advantage test.** Is strategy helping the organization achieve a sustainable competitive advantage? Winning strategies enable an organization to build sustainable competitive advantages. The larger the competitive edge over rivals, the more sustainable the competitive advantage.

**Performance test.** Is strategy resulting in above-average organizational performance by adding value? A winning strategy boosts organizational performance and adds value in the market place. Among the indicators are financial strength and above-average profit gains; and an increase in competitive strength and market standing.

In the context of developing countries with emerging markets, the triple bottom line (economic, social and environmental) impact of strategy is critical. Consequently, two additional tests are relevant in developing countries, namely:

**Social impact test.** Is strategy contributing towards the expectations of stakeholders? In developing countries, an organization’s strategy also contributes towards overall poverty alleviation and the well-being of citizens. In South Africa, working closely with the political environment regarding aspects such as black economic empowerment, social responsibility and HIV/AIDS to improve social stability, would contribute towards a winning strategy. The dilemma of strategic management is to balance the social impact of a winning strategy with the demands of global competitiveness.
Environmental ecosystem test. Is strategy contributing towards the protection of and sustainability of natural resources and the ecosystem? Globalization has stimulated growth in developing countries, along with the familiar pattern of suburban sprawl, pollution, loss of habitat and competition for natural resources (Senge & Carstedt 2001:24). A winning strategy meets the needs of current generations while protecting the sustainability of natural resources and the ecosystem. The ability of future generations to meet their own needs may not be compromised, according to the World Commission on Environment and Development (WCED) (Van Wyk 2005:82).

Finally, a winning strategy can be explained as having a strategic link between the organization’s internal and external environments; building a sustainable competitive advantage; improving organizational performance; meeting the expectations of stakeholders; and aligning itself with environmental requirements in a global context.

1.8 Reflecting on the nature and process of strategic management

As the 21st century competitive landscape is driven by globalization and technological innovation, the challenge in managing strategically is how to achieve strategic competitiveness and win in the market place. The perspective of this textbook is that strategic competitiveness can be achieved by formulating and implementing value-creating strategies. When an organization implements value-creating strategies that other competitors are unable to duplicate or which are too costly to imitate, it has achieved a competitive advantage. Strategy is the manner in which (how) the organization competes to deliver unique value. Only by grounding strategy in a sustained competitive advantage will it contribute towards above-average returns by offering value to customers. This implies that the organization has resources and dynamic capabilities in different areas of operation that add value to how it responds to external opportunities and challenges in a dynamic and uncertain environment. Attaining the strategic link between the internal (inside-out) and external (outside-in) organizational environments is fundamental to achieving strategic competitiveness and above-average returns.

The nature and process of strategic management has been discussed in this chapter. In presenting the nature of strategy, aspects discussed have included the essence of strategy, historical context and strategy development, the nature and role of strategy, conceptualization of strategic management, a framework for analysing strategic management, and the tests of a winning strategy. This chapter has also explained why the study of strategic management is important in establishing a competitive advantage and winning in the South African market. The strategic management process, as depicted in Figure 1.6, provides the framework for this textbook.
Closing case studies

Your box of friends – Lion Matches

A candle-lit dinner in Sandton, a Sunday braai in Potchefstroom, a school hiking trip through the Drakensberg and a rural village in the heart of the Transkei, are all linked by a single iconic brand – that ubiquitous and instantly recognizable yellow box of Lion Matches.

First manufactured in 1899, Lion Matches has maintained its position as a household name in South Africa through two World Wars, the Great Depression, and a multitude of foreign and local contenders, not least the onset of electrification. Continuous modernization and the introduction of new technology and equipment over the years have ensured that Lion Matches remains a reliable, cost-effective and quality brand. The first responsibility has always been to supply consumers with affordable, value-for-money products. The price of Lion Matches remained unchanged, at just 1 cent, for 27 years (from 1947 to 1974). The company has always remained true to its core of loyal supporters by running campaigns and promotions which speak to all South Africa’s people, and celebrate a pride in a shared heritage. Today, the Lion Match Company is a focused global competitor, poised to take advantage of the many opportunities in markets worldwide.

BAKERS – a brand icon

With its rich heritage and time-winning formula of only the best quality and real ingredients, Bakers has for over 150 years instilled the magic of the Bakers man and offered consumers proudly South African, original, wholesome, real baked biscuits. Favourite Bakers biscuits, like Tennis, Eet-Sum-Mor, Red Label Lemon Creams, Blue Label Marie and Choice Assorted have become South African icons, and Bakers has come to be recognized as a market leader.

Owned by FMCG Company National Brands Limited (NBL), two large biscuit factories in Isando, Gauteng and Westmead, Durban, have triple certification – important in establishing and maintaining quality standards. Bakers is regarded as one of NBL’s flagship products and enjoys a reputation as a high-quality brand.
**It’s the South African in SAB that makes this company what it is**

South African Breweries – or SAB, as it is most commonly known – is one of South Africa’s true international success stories. Now part of SABMiller, one of the world’s three largest brewers, this South African corporate giant emerged from the 1895 dirt and dust of Johannesburg’s mining history to become a fierce competitor in the global brewing market. But it’s in South Africa where the company makes its biggest impact. And it is South Africans who have developed the skills, courage and sheer determination to propel the company onto the world’s business stage.

About 150 South African executives are posted at SABMiller’s operations abroad, bringing over a century of experience in brewing technique and quality and marketing and distribution know-how.

Here at home, more than a million people are employed through SAB and the beer and soft drinks value chain. SAB’s reputation for people-quality means it is regarded as a source of talent for many South African organizations. Illustrative of this is the fact that SAB introduced its first equity strategy in 1971.

Small business and entrepreneurial development include:

- SAB spent R1,48 billion with 4 104 empowerment suppliers in the 2006 financial year.
- SAB’s KickStart Programme has equipped more than 22 500 young adults with business skills and provided many of them with seed capital to set up their own businesses. Since 1995, more than R36 million has been invested in KickStart and more than 3 200 businesses have been launched.
- ‘Mahlasedi’ – its taverner-training programme.
- SAB’s Owner-Driver programme was introduced in 1987 to enable company employees to become independent business people. Well over R2,5 billion has been invested in this broad-based empowerment project since inception.
- One of SAB’s key BEE projects is the development of emerging barley farmers in the Taung area, which now boasts 161 farmers. In the agricultural sector, SAB generated R5,4 billion of economic activity in 2005 alone.
- It has 53 distribution centres, including 41 SAB-owned depots, 10 independently owned distribution depots and two HoneyBee franchises.

SAB also invests more than R120 million in community partnerships and sponsorships annually. For more information, visit www.sablimited.co.za

Questions

1. Identify the uniqueness and focus of the Lion Matches, Bakers and SABMiller strategies.
2. Explain how each of these organizations has sustained its competitive advantage over the years in South Africa. Visit the website of each organization for up-to-date information.
3. In considering the strategies of each of these organizations, do you think there is something unique to developing countries? If so, please explain.

Discussion questions

1. Explain the concept of strategy in your own words and briefly explain the five Ps of strategy.
2. Distinguish between intended, deliberate, emergent and realised strategy.
3. Discuss the roles of different management levels in strategic management. In your opinion, what would be an important consideration, given the challenges of the 21st century competitive landscape?
4. Explain what competitive advantage, above-average returns and value-creating capabilities are? Why are these concepts important for an organization’s performance?
5. Distinguish between the inside-out and outside-in perspectives in analysing strategy.
6. Explain what is meant by strategic management and discuss the dynamic nature of the strategic management process.

1.9 Practising the nature and process of strategic management

1. Choose two organizations in your local community with which you are familiar. Describe the 21st century competitive landscape to them and get their feedback about how they anticipate that this landscape will influence their operations during the next five years.

2. Go to the Corporate Research Foundation website http://www.researchfoundation.com and find the list of the best organizations to work for in South Africa for 2006. Select three of them and visit their websites. You are required to identify:
   - the strategies pursued by each organization;
   - if possible, what the competitive advantage of each organization is; and
   - how these organizations have managed the conceptual fit between its internal (inside-out perspective) and external environments (outside-in perspective).

3. Visit the website of Ceres Fruit Juices at http://www.ceres.co.za. Identify the main components of its strategy and explain how it has maintained its competitive advantage since its establishment in 1923.
4. Learn more about the turnaround strategies of the Eastern Cape’s Provincial Growth and Development Plan (PGDP) at http://www.ecprov.gov.org. Identify the six strategic focus areas of their PGDP. How would you recommend it should manage its turnaround strategy, considering all the aspects of good strategic management?

References


Further reading


Suggested websites

www.WBCSD.org
  Ecoefficiencty – World Business Council for Sustainable Development
  Emerging market websites
  www.naturalstep.org
  Environmental education and planning
  Rocky Mountain Institute www.rmi.org
  Natural capitalism and hybrid cars
  www.SoLonline.org
  Organizational learning
  www.theatlantic.com/issues/98oct/industry.htm
  The next industrial revolution
  www.sustainability.co.uk or www.globalreporting.org
  Triple-bottom-line reporting