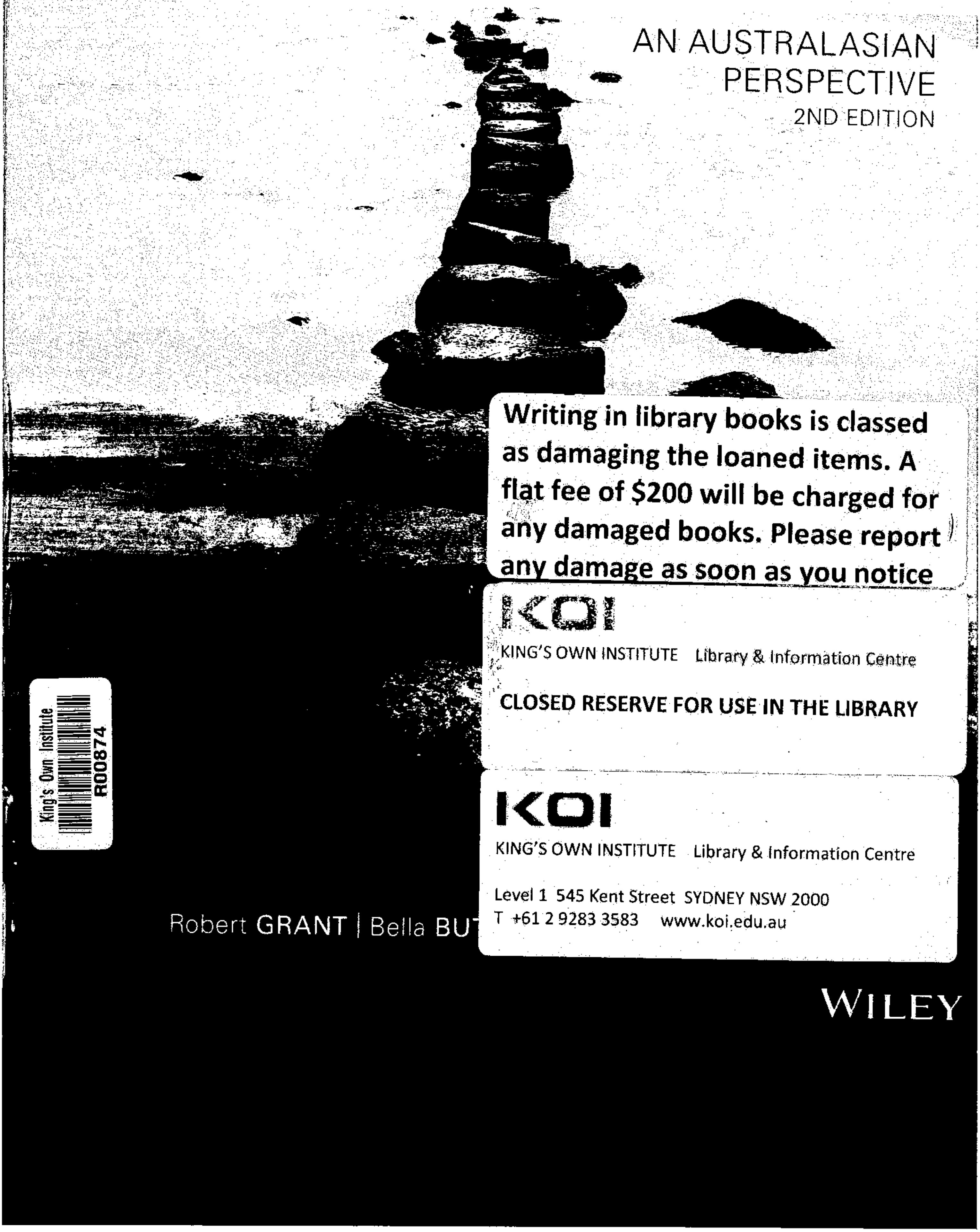
CONTEMPORARY STRATEGIC MANAGEMENT

AN AUSTRALASIAN PERSPECTIVE

2ND EDITION



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BRIEF CONTENTS

INTRODUCTION

The Qantas scene setter demonstrates how creative strategic management can be and how it can take a leading role in setting the direction of an organisation's development and securing its future. It is arguably the only business management activity that can stake this claim. The global financial crisis (GFC) illustrated that business survival under difficult economic conditions is dependent on the quality of an organisation's strategic management. Organisations that depended heavily on the prosperous business conditions that led up to the GFC faltered and collapsed as a result of the challenges that the GFC introduced. Businesses that took advantage of the opportunities available during those prosperous conditions to strengthen their competitiveness and build resources were able to weather the GFC much better. In fact, some companies were actually able to grow during the GFC by acquiring the market share of competitors that had collapsed, while others (such as the four major Australian banks) acquired struggling competitors for attractive prices.

Despite the clear benefits of strategic management, many organisations review their strategies thoroughly only during times of crisis or when a new chief executive officer (CEO) is employed.[7] One of the more popular business newspaper interview topics for incoming CEOs tends to be the challenges that they will face when attempting to improve the performance of a struggling organisation under difficult industry or economic conditions. Incoming CEOs frequently find that the organisation's strategies are already out of date when they take up their new roles, which tends to make their primary responsibility to introduce new strategies that are more appropriate with regard to the organisation's capabilities and its external environment.

Telstra, a large Australian telecommunications company, provides a good example of this phenomena. (Telstra's strategies are discussed in Strategy capsule 1.4.) The previous CEO, Sol Trujillo, was frequently interviewed by the business media regarding his new strategies for supporting Telstra's transformation from a government-owned utility (Telecom Australia) to a publicly listed telecommunications carrier with an annual turnover of A$25 billion in 2012[8]. The Australian government's plans for Telstra's privatisation required it to improve its performance to the point where it could fully support its costs and return a profit. Without this level of performance, the Telstra shares that the government released would have attracted a lower price. Trujillo was employed as CEO to make these changes. In the lead-up to the final share release and over the period 2005–09, he introduced major changes in the company's telecommunications infrastructure, consolidated staffing, improved efficiency and significantly altered the relationship of the company with the government. All these changes were designed to improve the performance of the organisation. The result was a strong share float price on the Australian Securities Exchange (ASX) and the biggest volume of trade ever experienced on the Australian stock market. Trujillo was then replaced by CEO David Thodey. The media interviews then focused on how Thodey would deal with some of the issues arising from the strategies that Trujillo had introduced (such as strained relationships with the Australian government) and the strategic changes that he would make.

Strategic management is clearly a central issue for all organisations. It is not a simple process, however. Modern strategic management principles are the result of half a century of large-scale global research, debate and inquiry. They contain many dimensions, and perspectives within each of those dimensions. This text will navigate the central themes of contemporary strategic management and present them as a pattern of thought, creativity and planning. This chapter will provide an overview of

strategic management: the process of thinking strategically, setting objectives for the organisation, planning and implementing the necessary changes, and measuring the outcomes strategic management in today's business environment, its principal benefits and introduce some of the central themes upon which it is based. It is important to note that the principles presented in this chapter are equally applicable to commercial, non-government and not-for-profit organisations such as public-sector organisations and charities. Thus, wherever there is a reference to businesses and business-level strategy, the concepts will be interchangeable with other organisational contexts and organisational strategies.

WHAT IS STRATEGIC MANAGEMENT?

Strategic management is the process of directing and strengthening an organisation in its competition with other organisations. Strategic management theories explain why organisations succeed or fail.[9] The actions an organisation takes in competing have been found to be a much more significant factor in determining the organisation's performance than the business environment in which it operates. Strategies vary enormously between companies, even within a single industry. Within any industry there will be a broad range of organisations: small, large, public, private, manufacturing, service, domestic and global. These companies will experience a large variation in performance and opportunities and will display different approaches to competing and markets. Understanding these differences and how they impact on success is fundamental to the study of strategy.

Contemporary strategic management considers that performance is affected by the characteristics of the organisation and its environment, in that order. Strategic management is the process of matching the organisation's characteristics (e.g. strengths and weaknesses) to the external environment (which provides opportunities and threats).[10] This process of matching the organisation to its environment is a continuous process of analysis, synthesis, action-taking and evaluation.

An underlying assumption of strategic management is that those responsible for decision making can positively influence the success of their organisations through their decisions. Instead of simply responding to environmental factors, such as opportunities, senior decision makers make adjustments to direct the organisation along the path that they believe will lead to long-term success. Oster refers to this strategy planning and implementation as 'directed evolution'.[11] Mostly, these adjustments are relatively minor; however, they can sometimes be quite dramatic, such as a diversified company's decision to exit a particular market where it is not successful.

For most types of organisation, extensive surveys have determined that strategy does indeed drive business success.[12] The relationship between strategy and success has been harder to demonstrate for public sector and small organisations because they frequently do not possess formalised and reportable strategies that can be measured, even if they are using strategy to create success. So, for these organisations, the jury is still out.

Strategy requires managers to make a continual stream of decisions to match their objectives, the external environment and the conditions within the organisation. This means that decision making is a fundamental component of strategy. Of course, not all organisational choices or decisions are 'strategic'.[13] Predominantly, strategic decisions are focused on the long-term success of the organisation — short-term successes are more frequently the response of tactical and operational level decisions. However, sometimes these decisions can evolve into formal strategies, as we will discuss later on. In addition, strategies are almost exclusively aimed at achieving an advantage over competitors, no matter whether the objective is profitability, market share or funding. Finally, strategies determine the scope of the organisation's activities and the achievement of fit between the organisation and its environment.[14]

Implicit in this description of strategic decisions is the commitment of key organisational resources to achieving specified outcomes. These resources will not be only financial; they will usually include key staff members, physical and information resources. The more irrevocable the commitment of these resources, the more 'strategic' becomes the decision to commit.[15] The military allegory of 'burning your bridges' demonstrates this irrevocable commitment, as does the economics concept of 'sunk costs'.

The pattern of decisions or actions taken by managers constitutes the organisation's strategy. Some strategy theorists believe that this pattern of decision making should be a rational and deliberate process of long-term planning. This is represented in Chandler's classic definition of strategy as 'the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'.[16] Other strategists, such as Burgelman suggest that 'strategy is a theory about the reasons for past and current success of the organisation'.[17] In other words, some strategies result from emergent, rather than planned, actions. Undertaking and identifying these discussions as planned strategy presumes that the organisation is in control of its destiny. This perspective on strategy will be discussed in more detail shortly.

Why does an organisation need strategy?

strategy: the plans and actions a company selects to achieve its strategic goals

Apart from ensuring survival, a **strategy** acts as the key driver of how and where the organisation invests its resources. The strategy of an organisation will be evident in its pattern of resource development. Strategies can also be responsible for ensuring that the organisation has sufficient flexibility to respond to environmental changes. This is a very important strategic outcome for many organisations. The business environment in most industries is becoming increasingly complex — customer needs are changing rapidly, customers are becoming more demanding, and the ability of competitors (local, regional, national and multinational) to take advantage of the weaknesses of other organisations is much stronger than before. Strategy as the management of the interface between an organisation and its external environment must respond to these forces.

To achieve flexibility, the strategic management process must focus on keeping the organisation adept at anticipating, planning for and dealing with unexpected change. A sound strategic management process fosters awareness of the need for innovation in all aspects of the organisation.

Strategic management approaches

The discipline of strategic management incorporates different perspectives on how the strategic management process occurs in practice. One of the most critical of these is the degree to which strategy can actually be planned and how much emerges from the organisation's actions. The debate between these two positions, which took place in the late 1980s, led to the concept of modern strategic management. The reasoning behind these different views provides many insights into the modern concept of strategic management.

Mintzberg was one of the strong promoters of the modern form of strategic management who believed that strategy could be viewed as 'five Ps': plan, ploy, pattern, position and perspective, as shown in table 1.1.[18]

TABLE 1.1 Mintzberg's 'five Ps for strategy'

Strategy as ***plan***	Consciously intended course of action
Strategy as ***ploy***	Specific manoeuvre to outwit opponents
Strategy as ***pattern***	Pattern in a stream of actions
Strategy as ***position***	Position in relation to the organisation's environment
Strategy as ***perspective***	The organisation's shared mindset

In most cases, strategy development constitutes a *plan*, a consciously intended cours action that is premeditated and deliberate with strategies realised as intended. Mintzbe concept of strategy as *ploy* represents a specific plan. Ploy suggests engaging in specific tics to outmanoeuvre or outsmart opponents. These two perspectives are reflected in planned or *design* view of strategy.

Strategy can also be viewed as a *pattern* 'in a stream of actions' taken by members of organisation. The pattern explains observable consistencies in behaviour or actions t emerge over time, reflecting a combination of strategy as *experience* and *ideas*. Whet intended or not, these consistencies in behaviour constitute the strategy. If strategy as p refers to deliberate and intentional strategy that may or may not be realised, then strat as pattern suggests unplanned strategy — patterns or consistencies that are realised c pite, or in the absence of, intentions.[19]

Mintzberg's concept of strategy as *position* concerns an organisation's strategic position in relation to its environment. By asking questions such as 'how is a market niche ated?' or 'how can the organisation protect its position?', an organisation scans its exter environment and monitors trends that may affect the organisational/environmental This suggests that strategy might also come about in *opportunistic* ways to take advant of changes in the environment, or as the organisation develops or acquires new skills competencies. Organisations that are skilled at anticipating or even precipitating envir mental shifts and position themselves strategically to exploit these shifts ahead of co petitors are likely to draw on both *experience* and innovative *ideas*.

While strategy as position seeks to place the organisation in its external environm the concept of strategy as *perspective* looks inside the 'mind' of the organisation and t to understand its shared world view. Strategy as perspective 'is to the organisation w personality is to the individual'.[20] Perspective represents the shared mindset of the org isation, its values and its belief system, which frame organisational action and behavi As the heart and soul of the organisation, perspective, unlike a plan or position, is v difficult, if not impossible, to change. The definition of strategy as perspective is stror linked to the concept of organisational culture.

Weick took the concept of strategy as *position* further and argued that there ar number of substitutes for strategic planning that can still result in successful org isational performance.[21] These include staff members' skills, the type of work that organisation performs, the choice of the way operations are managed and the princi features of its environment — all of which force the organisation to take certain actic Weick did not argue that strategy is absent, but suggested that it is contained in day-to-day behaviours of distributed actors throughout the organisation and need be a formal process of direction setting by senior management. These behaviours also known as **tactics** and are differentiated from formal strategic management by be purely responsive, rather than premeditated. Strategy capsule 1.1 explains how a sir tactic, rather than a planned strategy, enabled a small Australian business to exp extremely rapidly.

tactics: the actions an organisation takes in response to its environment, which are extensions of its normal day-to-day operations

STRATEGY CAPSULE 1.1

Strategy as focus

The Boost Juice Company was established by entrepreneur Janine Allis, who wanted to bring healthy fruit juices to Australia.[22] Allis built the organisation up from its modest beginnings in Melbourne where she started mixing up some 'wicked juice and smoothie blends' in her own garage.[23] By 2005, Boost Juice had expanded to 180 retail juice outlets across Australia and its brand awareness had risen to 94 per cent.[24] By 2012, Boost Juice operated 240 retail outlets in 16 countries[25] and its turnover was approximately A$135 million.[26] In 2004, Janine Allis was awarded Telstra's Businesswoman of the Year award for her entrepreneurialism.[27]

Boost Juice has expanded its operations through franchising. It operates a system comprising master franchisees (franchisors who own a number of juice bars) and individual franchisees who operate single juice bars. This response to the competitive conditions in the market (juice bars are easy to establish and the drinks bar industry is well developed in most countries) enabled the organisation to finance a massive rate of growth and capture an emerging niche (fresh juice bars). As the franchisees provide the expansion capital, this was a low-risk approach for Boost Juice. The main benefit of this tactic, however, was to gain access to expansion capital on a scale that competitors could not match. This provided Boost Juice with the opportunity to become a market leader in a short space of time.[28]

Boost Juice's tactic was very successful, enabling it to grow very rapidly. It was not sufficient, however, to ensure it would keep its competitive position as competitors entered the new market it had helped create. A more sophisticated strategy was required. So, Boost Juice adopted a much more formal business structure and was sold to a large international investment company — an action that ensured that it would have access to sufficient capital in the future.[29]

The success Boost Juice enjoyed in its early days was undoubtedly due to its focus on a single tactic. Inkpen and Choudhury support this view and argue that the absence of formal strategy can introduce a level of flexibility which is advantageous under some conditions.[30] This flexibility may be critical in organisations that are operating in turbulent environments when long-term planning is impossible and no organisation can make irrevocable commitments to a specific strategy. They point out that strategies 'may act like blinders and block out an organisation's peripheral vision'.[31] The absence of formal strategy may foster flexibility and innovation in some cases, leading to successful new ideas and products. This was the case for the development of the magnetic audio tape. BASF is a large German chemical manufacturer. One of its engineers developed a technique for incorporating iron oxide into a plastic strip and created the magnetic audio tape. BASF, however, had no intention of entering the audio recording equipment industry and instead licensed the technology to Sony. No further innovation in this area occurred at BASF. Eventually, realising that this was a mistake, BASF belatedly entered the audio-tape manufacturing industry. Software organisations (e.g. Microsoft Corporation) tend to

depend more heavily on being flexible and taking up opportunities as they emerge, rath
than relying on a formal strategy that dictates the way in which the organisation is expecte
to develop. This reflects the very rapid rate of change in the factors that lead to success i
software development, which makes it impossible to predict the likely future environmer
of such an organisation. The absence of the constraints that a formal strategy may impo
on the organisation could be important for organisations whose current environment
too turbulent for sensible long-term decision making.

Emergent strategy

emergent strategies: strategies resulting from decisions made by managers in the organisation in response to external events or conditions within the organisation

Mintzberg's description of strategy as possessing an unplanned dimension introduces th idea of emergent strategy. **Emergent strategies** are unplanned strategies that result fro decisions made by management at various levels in the organisation, which end up havin a significant impact upon the performance of the organisation and, ultimately, becom part of its strategy. Emergent strategy is reflected in behaviours of companies such as BAS and Microsoft Corporation as discussed previously. Emergent strategies also tend to evolv from the organisational flexibility that Inkpen and Choudhury identified as important fc more turbulent business environments.

Emergent strategies will be considered in the section on strategy implementation at th end of this chapter. However, not only do they arise from decisions made that have a stra tegic impact upon the organisation, they can also result from environmental changes th force the organisation to react. For example, Woolworths (Safeway), the leading supe market chain in Australia, entered into a partnership with Caltex Australia to retail petro This partnership gave Woolworths access to the benefits of the petrol retail industry. Thi partnership created a major change to the environment of Woolworths' principal com petitor, Coles. Coles was forced to diversify into the petrol retail industry as well.[32] Cole decided that acquisition of a petrol retail licence from Shell (a global petrochemical com pany) was the most appropriate approach to take and so an emergent strategy for Coles c developing a petrol retail division resulted.

Studies have shown that organisations do not usually adopt purely emergent or purel planned strategies, but normally end up with a combination of both. The more rapi the rate of change in the organisation's external environment, the more significant th emergent component of the strategy becomes.[33] Interestingly, there is no evidence fc whether an emergent or a planned strategy will result in a greater level of performanc On the other hand, strategies that fit the external environment better have been shown t increase business performance.[34]

APPLYING STRATEGY — THE FORMULATION PROCESS

Strategic management is a broad field of study that is influenced by diverse and often con flicting theories of strategy; so, how can it be applied in a manageable way? Whittingto provides an answer by identifying four strategy formulating processes: classical, evolu tionary, processual and systemic. These processes are measured using two dimensions[35]:

1. The extent to which the perspective assumes a single profit-maximising motive versus a broader (pluralist) one.
2. The extent to which the theories assume that strategic management is a deliberate, rational planning process versus an emergent process.

The processes and the dimensions are illustrated in figure 1.1[36].

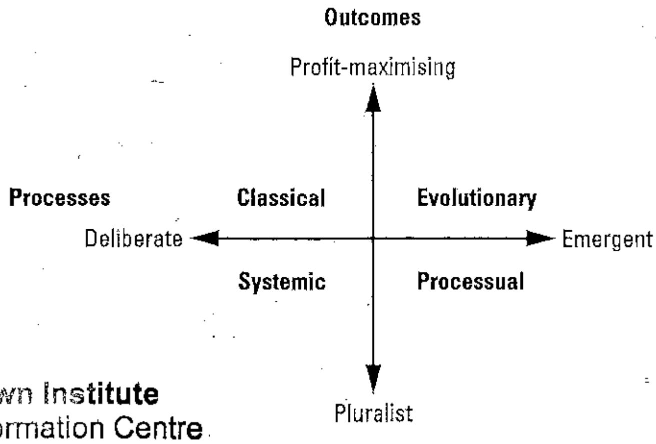


FIGURE 1.1 Generic perspectives on strategy

Classical formulation adopts profit as the principal objective and pursues this in a rational and calculating manner. It has strong connections with both military history and classical economics theory where the strategy is driven by a single decision maker with a single objective. In military history, it is the general who dictates actions; in economics, the economist pursues clear, financial goals through rational and analytic means.[37]

Evolutionary formulation reflects more of the environment, rather than internal planning, in the decisions. Here, the influence of decision makers is deemed weaker and it is assumed that the environment determines the types of organisations that are successful: organisations either adapt to environmental pressures or cease to exist. This approach can provide a powerful 'reality check' for strategic decisions.

Processual formulation reflects the realities of organisational life, which are influenced by politics, divergent interests of multiple stakeholders and organisational culture. This formulation approach produces strategy incrementally and necessarily represents a compromise between a theoretically optimal strategy and one that can be successfully implemented. As markets rarely work according to the rules of perfect competition, a theoretical decision-making approach will not prove to be optimal in practice.

Systemic formulation reflects the internal and external context in which strategy takes place. It allows for the behaviour of people, institutions and organisations, and is influenced by the social and economic systems in which they operate. For example, capital markets, government policy, industry standards, and legal and accounting systems may all limit, constrain or even drive strategic actions.

Of course, none of these strategy formulation approaches are right or wrong — they are simply alternatives. It is not possible to specify a particular formulation process or specific conditions because the formulation of strategy is not a predictable process — it is creative. The strategy reflects how the parties involved believe the organisation should develop, based on the information available. In most cases, the formulation process is complex. However, according to Davies, the process typically comprises three key determinants: policies, the strategy itself and resources necessary to meet the organisation's objectives.[38]

One problem that successful organisations experience is that past successes will tend to drive future strategic thinking. As a result, it often becomes extremely difficult to stop the longstanding routines and behaviours that were established to support past successes, but which may no longer be appropriate.[39] In their study of change at BHP, Lewis, Clark and Moss observed a rigid commitment to past approaches, even when confronted with their failure to produce results in the present.[40] They concluded that organisations 'become frozen by the emphatic success of the past'. Innovation is stifled as managers become hesitant to take risks and performance suffers.

In order to compete effectively, an organisation has to adopt a strategy process that w: result in an innovative strategy. Some approaches to this are more successful than othe: With a plan to produce innovative and creative strategies in mind, Whittington's categori (shown in figure 1.1) can be rephrased as a description of these four common strategy fo mulation approaches:

- *Sequential* — formulation is regarded as a set of activities, each informed by others.
- *Incremental and interactive* — a combination of analysis, choice and implementation
- *Hierarchical* — formulation is mainly information-driven by the results of activities performed at different organisational levels.
- *Revolutionary* — formulation is organic, innovation-driven, part planning and part tri and error.

Sequential approach

The sequential or classic strategy formulation approach is often considered to be the 'sta dard' approach and is sometimes thought to be a strict sequence of steps. The sequenti approach comprises:

- gathering information about your situation and the environment
- determining the directions to take, given the information available
- selecting a specific direction
- taking steps to implement your decision
- managing, monitoring and controlling your actions to achieve the desired outcome.

It is important to note that the organisation's direction must be set within the over context of its vision and values, adequate information must be available at each step f making decisions, and feedback occurs between the process steps.

Because of the need for specific information at each stage, this strategy formulation pr cess cannot be a rigid sequence of steps. For example, the analysis required to help set t strategic direction will need to be finetuned as the appropriate direction becomes appare and more information on specific direction is required. In addition, the implementati of the strategy may identify issues that require a modification of the selected direction a a possible demand for more analysis.

The sequential approach is a simple and frequently adopted model that does inc porate the key components of strategic management and, in particular, strategic thinkin

Incremental and interactive approach

The sequential view of strategy formulation has one major weakness: the necessary inf mation and possible directions are not readily available after each step. In many cases, t process needs to be iterative and some steps will have to occur concurrently.

An incremental approach to the process of formulating strategy will result in the ev utionary and gradual development of strategy, as compared to a deliberate, once-off a sequential approach that is often used by senior management.[41]

This logical incrementalism may result in a more 'ordered' evolution of strategy. It wi however, be inappropriate when the organisation's environment is changing too rapidly, which has been the case for most industries in the last ten years due to the demand f innovation and the impact of technological change.

Hierarchical approach

A hierarchical approach to formulating strategy focuses on the information flow betwe the levels within the organisation. Strategy formulation becomes stratified when ea level in the organisation collects and processes only information that is considered be relevant to that level. Under this approach, strategy is usually a response to a strategic demand from a higher level which has delivered its expectations to the next lower level.

The hierarchical approach is often used in large, highly diversified organisations in which corporate level strategy is focused on identifying industries where the organisation should be competing. Within each of these industries, business unit managers create business-level strategies that they believe will enable them to compete effectively. Division-level managers then implement those strategies at the functional level (e.g. marketing, purchasing and design).

This is an approach in which strategies are formulated at the corporate level, business level and functional level; however, limited communication between the organisation's hierarchical levels can cause a lack of integration of strategic objectives. This tends to result in the different level strategies competing with one another, especially for resources.

Revolutionary approach

The revolutionary approach to formulating strategy, developed in the 1990s, is defined by Hamel and Markides[43] as being part planning and part trial and error until a successful approach is identified. Planning is a necessary element of this process and helps to eliminate undesirable options and provide information and structure. With this firm foundation, the organisation can then conduct controlled experiments to identify unique and successful strategies.

Markides suggests that a good starting point for a revolutionary approach to strategy formulation is consideration of the following questions.[44]

- Who are our customers, or who should be our customers?
- What do we offer our customers in terms of value added?
- How do we go about doing the above two things?

To successfully answer these questions, it is important to encourage as large a portion of staff members as possible to understand the fundamental purpose of the organisation and how the organisation needs to react to its external environment. Involving a significant proportion of the organisation in strategic thinking is an important precondition for the emergence of innovative and successful strategy.[45]

MODERN STRATEGIC MANAGEMENT

The strategy formulation approaches that have been considered to this point are created deliberately either through evolution or by direct intent. However, is this how strategies are developed in practice? The growth and international success of many successful companies (e.g. Qantas and Cathay Pacific) are primarily due to the focus on providing a service, in the best manner possible, that the founders of these organisations thought was valuable.

Mintzberg also supports this singular approach view by suggesting that strategy is *intended*, *realised* or *emergent*. As we have previously mentioned, he was a strong supporter of the dominant role of emergent strategy and believed that not only is rational design an inaccurate account of how strategies are actually formulated, it is actually a poor approach to creating strategy:[46]

> The notion that strategy is something that should happen way up there, far removed from the details of running an organisation on a daily basis, is one of the great fallacies of conventional strategic management.

In practice, however, strategy is normally developed through a combination of design and emergence. This is called the **modern approach to strategy formulation**. At the design level, strategy is developed in a board meeting by the top management team as part

modern approach to strategy formulation: combining emergent and planned approaches in the development of strategy of a strategic planning process. At the emergent level, strategy is continually created by the decisions made by every member of the organisation — especially by middle management. The decentralised, bottom-up process of emergent strategy formulation may even be more dominant than formal, top-down strategy formulation. For example, Intel Corporation's decision to abandon manufacturing memory chips and concentrate on manufacturing microprocessors was initiated through a host of decentralised decisions, which were taken by divisional and plant managers that were subsequently acknowledged by top management and formed a key part of its strategy.[47]

Combining emergent and planned strategy maximises the responsiveness and adaptability of the strategic management processes. Corporate headquarters set guidelines in the form of mission statements, business principles and performance targets, while the individual business units take the lead in formulating strategic plans at the business-unit level. Within the strategic plans that they design, divisional and business unit managers usually have considerable freedom to adjust, adapt and experiment.

strategic principle: a pithy, memorable distillation of strategy that guides staff members as it empowers them

The modern approach to strategy formulation can also be supported by **strategic principles**, which are distillations of the organisation's strategy and are intended to guide staff when making decisions. For example, Jack Welch's management of General Electric was based on simple directives: 'be number one or number two in your sector', 'simplicity . . . self-confidence', 'achieve six-sigma quality', combined with strong performance incentives and considerable autonomy for divisional managers. The result was outstanding financial performance, rapid response to change and a high level of internal cohesiveness in one of the world's biggest and most complex companies. While high levels of divisional autonomy can result in significant variations in performance and outcomes between divisions (e.g. one division may focus on revenue while another division focuses on profitability), the performance incentives and simplicity of the principal objectives (be number one) ensured that the divisions' performances and outcomes remained similar.

The optimal balance between design and emergent strategy depends on the stability of the external environment. For example, postal services normally experience relatively stable environments. They can use top-down, formalised approaches to planning strategy. Organisations whose environments are fast changing and unpredictable, such as resource sector companies, must limit their strategic planning to a few strategic principles and guidelines; the rest of their strategies emerge in response to new developments. For example, BHP Billiton operates with the strategic principles of managing and building its assets, focusing on performance and results and building trust with all stakeholders through communication and reliability.[48]

The modern strategy formulation process provides guidance for the decisions of an individual or organisation, in the face of changing conditions. But why can't individuals or organisations make optimal decisions in the absence of this guidance? Consider the 1997 'man versus computer' chess epic in which Garry Kasparov — the former World Chess Champion — was defeated by IBM's computer 'Deep Blue'. Deep Blue did not need strategy. Its phenomenal memory and computing power allowed it to identify optimal moves.[49] Kasparov's analysis was subject to the limitations of his mental abilities, which did not enable him to identify as many effective moves on this occasion.[50] Human chess players normally incorporate a planned element in their strategy as a guide for the decision-making process; it reduces the range of potential options available and so simplifies the task of selecting the most optimal decision.

The planned component of modern strategy improves decision making in several ways. Firstly, it simplifies decision making by constraining the range of decision alternatives considered and by acting as a *heuristic* — a rule of thumb — that reduces the complexity of the process of identifying the best decision. Secondly, it permits the knowledge of different individuals to be pooled and integrated so that decision making is better informed. Thirdly, it facilitates the use of developed analytic tools which support the decision-making process.

Strategic intent

Strategic intent focuses on how the organisation will compete and what it will become in the future. Strategic intent is a set of aspirations intended to motivate and inspire the organisation. Hamel and Prahalad argue that:[51]

strategic intent: the broad outline of a strategy leading to a set of challenging objectives

> strategic intent creates an extreme misfit between resources and ambitions. Top management then challenges the organisation to close the gap by building new competitive advantages.

They also believe that planned strategy should focus less on process matching and resource allocation and more on *stretch* and *resource leverage*.[52] The evidence from businesses such as the Toyota Motor Corporation and the Virgin Group is that when resources are scarce, a company can perform well by developing ambition and innovation to drive staff to focus on applying the limited resources available to the organisation's principal goals. The scarcity of resources encourages the organisation and staff members to prioritise resource allocation and reduces the opportunity to apply resources to non-critical outcomes. In addition, this focus introduces very little complexity and so simplifies decision making and operations, while encouraging innovations directly related to the principal objectives (e.g. better ways to interface with customers). Collins and Porras coined the term 'big, hairy, ambitious goals' to explain how companies such as The Walt Disney Company and 3M have utilised strategic intent to generate high levels of performance through exceptional levels of employee commitment and focus.[53] Strategic intent is the reason that many successful organisations have inspirational vision and mission statements (e.g. British Airways' 'the world's favourite airline' and the Virgin Group's 'value for money, quality, innovation, fun and a sense of competitive challenge').[54]

Strategic thinking

Strategic thinking extends the idea of strategic intent (which was developed in 1989) to cover the whole strategy formulation process and not just the broad thrust and objectives. It is one of the most important features of modern strategic management and is different to its precursor, strategic planning, which strategic management replaced in the 1980s. **Strategic planning** assumed that the external environment was sufficiently static and predictable, and that the organisation could focus most of its attention on how it would develop itself through growth, moving into new markets and dealing with competitors. As the external environment became more unpredictable due to globalisation, war and economic crises, this approach to strategy creation became unable to produce sustained competitiveness. Strategic thinking represents a shift from planning how to develop the organisation to considering the mission, vision, principles, guidelines and targets. Richard Branson's Virgin Group provides a good example of the art of **strategic thinking**. Despite the absence of a formal long-term plan for the development of new business units and markets for the company, these business units are continually introduced as opportunities present themselves. This reflects Branson's focus on strategic thinking, which enables the group to quickly make decisions about new opportunities, as they arise, using the decision-making heuristics resulting from the group's strategic thinking.[55]

strategic planning: an approach to setting strategy popular in the 1970s and 1980s in which long-term plans for the size, structure and activities of the organisation were developed

strategic thinking: understanding the environmental conditions, particularly those that are most critical to the organisation, and developing an organisation that will perform as strongly as possible in those conditions

The adoption of strategic thinking does not weaken the role of strategy. S thinking encourages the organisation to develop the responsiveness to unant events. For example, if a business operates in a turbulent environment with formulated strategy, strategic thinking will conclude that the strategy must embra bility and responsiveness. As Michael Porter notes, strategy is not about doing thing — this is the concern of operational effectiveness — strategy is about making choi

Strategy and differentiation

differentiation: creating an observable difference between products, services and the way in which a business operates, relative to competitors

stakeholders: organisations and individuals to whom the organisation has a commitment and who have expectations of what the organisation does

It will be apparent by now that a central objective of strategic managemen create **differentiation** between the organisation and its competitors or the other operating in its space (such as different municipal bodies in the government conte an objective, differentiation is the apparent difference between the services and p offerings of the organisation that leads **stakeholders** — particularly customers o primary users (e.g. hospital patients) — to prefer one organisation over anothe important to remember that this is a perceived difference and may or may not refl actual differences that exist between the organisations. This subtle difference is imp because, while it may appear to an organisation's decision makers that they have ac differentiation from an internal perspective, this achievement may fail to translate to nificant differentiation from the external perspective. This is partially due to factors as the internet, which reduce the opportunities for differentiation between organis. through products and services by eliminating the personal service element of the action.[57] This leaves only the product and service features as sources of differenti which can be difficult in many industries, such as commodity industries, where ucts and services are very standardised. In response to this, modern strategic manage considers which markets the organisation should operate in and how the organis approaches the market — its presence in different locations, the type of presence (office and brand) and the relationships between the organisation and its other inc stakeholders (such as suppliers).

competitive advantage: a characteristic, feature or opportunity that an organisation possesses that will make it more attractive than its competitors

When making decisions about differentiation, the first concern of strategic manage is how to establish and sustain a competitive position in an industry. In other words, is a competitive advantage achieved? A **competitive advantage** is defined as any sour difference between one organisation and its competitors that will assist the organis to achieve its objectives.

Essentially, there are two approaches to creating a competitive advantage. One appr is to set the price of the product or service lower than that of competitors. The altern is to incorporate an 'added value' in the product or service that differentiates the pro or service in the eye of the customer. For this to be successful, the customer must per the added feature as being worthy of paying a premium that is greater than the co adding the feature. Sources of differentiation may be embedded through, for example, use of quality components or the ability to customise the product or service. Alternati differentiation can be achieved by augmenting the product through the provision of a sales training, prompt maintenance or fast delivery.

Sustainable competitive advantage

An organisation may possess a particular competitive advantage for a long period (e. it holds a critical technical patent) or a short period (e.g. if it is the first to purchase a piece of equipment, but competitors are also able to acquire the equipment). The leve advantage will decrease when competitors may be able to match it with the same or alternative source of advantage. Organisations are normally concerned with extending duration of competitive advantage so that there is more opportunity to recoup the cost of achieving it in the first place.[58]

If the competitive advantage results from being able to sell at a lower price, competitors will seek to compete by reducing their costs through innovation or lower cost sources of supply. If the competitive advantage results from differentiation, competitors may compete by imitating and improving on the product or service.

Sources of competitive advantage that arise from organisational processes, rather than products, and from sets of assets, rather than single assets, are more difficult to compete against and therefore result in a more sustained competitive advantage.[59] The complexity of internal processes and multiple asset sets make them difficult to imitate. Organisational processes depend on internal relationships, while assets and agreements must be developed over time. The relationships between specific processes, assets and competitive advantage are also often difficult to identify, making them hard to imitate.

The development of internal processes and assets that create a competitive advantage will be the result of the organisation's **core competencies.**[60] When processes and core competencies are characterised by complexity, path dependency and casual ambiguity, they are difficult to imitate or transfer.[61] Possessing competitive advantages with these characteristics, however, is not an automatic guarantee of sustainable competitive advantage. Changes to the external environment can quickly destroy the basis of a competitive advantage and make the core competencies that created it redundant. For example, accounting software has made the competency of managing double-entry accounting records unnecessary. Core competencies and the organisational assets associated with them can even become a disadvantage if they interfere with the organisation's adaptation to new environmental conditions.

core competencies: activities that an organisation performs better than its other internal activities and that are the most critical to competitiveness and profitability

Industry strategies

Having made the case for differentiation, it is not necessary that an organisation should always position itself in an industry on the basis of price or differentiation. There can be also value for organisations in **industry strategies.**

industry strategies: approaches to competition adopted by many organisations in a particular industry

A study of US organisations in the branded foods and computer industries found that adopting industry strategies can lead to success, particularly for industries with uncertain environments, such as the information technology (IT) industry. In unstable environments, managers face difficult conditions due to rapidly changing technology and demand and ambiguous and changing information. Under these conditions, it can be very helpful to adopt industry practices and stay engaged with central important industry networks.[62] For example, the range of accessories and the inter-compatibility of IBM computers provided all IBM-compatible computer and software manufacturers with a competitive advantage, as a group. Adopting industry strategies also reduces uncertainty for suppliers, new staff and investors. It makes it easier to benchmark against the industry and for investors to make a relative performance assessment. The endorsement of key external stakeholders can be important when external capital is required.

The benefits of adopting industry strategy are particularly apparent in the public sector. Australian universities, for example, frequently adopt similar strategies, structures and course profiles when competing for status, research funding, new staff and students with the best credentials.[63] New universities will adopt these strategies because they are the fastest route to legitimacy within the higher education industry.[64] Adopting a standard approach demonstrates to students and funding organisations that the institution is a dependable one and therefore deserving of support and resources. In many industries, particularly where the institutional environment is influential, the need for legitimacy is often as strong as the need to differentiate the organisation.[65]

ORGANISATIONAL PURPOSE

Strategic thinking requires the answers to two critical questions:

1. Where should the organisation compete?
2. How should the organisation compete?

organisational purpose: who the organisation exists to serve and how they should be served

To be able to answer these questions, the organisation must first clearly identif **organisational purpose**. While it may sound like a truism, understanding exactly v the organisation is supposed to be doing is vital if the appropriate strategies and g are to be set. Understanding and defining the organisation's purpose is not a simple t however, because the exact purpose of the organisation is a reflection of the needs pressures of all of the organisation's stakeholders and opponents.

Understanding the organisation's fundamental purpose is particularly important w making decisions in complex or poorly understood environments, where the informa available will not support a strictly rational decision-making process. Consider, for exam the travel agency Flight Centre, which is publicly listed on the Australian Securities Excha (ASX). The purpose of this organisation is to provide travel-related services to clients. ongoing effects of the GFC on most economies, in combination with local country regulations, epidemics such as swine flu, and terrorist activities make strategic decisi difficult for an organisation in this industry. Important organisational purpose questi would be whether it should (a) provide advice and help customers to plan dependable h idays, (b) book accommodation and tickets, or (c) focus on helping protect customer their travel plans go wrong. While the purpose of the organisation could incorporate three of these options, it would be difficult to provide all three with equal levels of co mitment. For example, helping to plan dependable holidays may mean that Flight Cen books less accommodation when travel conditions are not favourable. Protecting custom if travel problems develop will discourage the organisation from suggesting alternat holiday destinations where the risk is greater, and therefore constrain the organisation provide an unimaginative service. The organisational purpose must be more focused if i to provide an appropriate basis for decision making. This organisation can generate m revenue and profit from booking travel. Therefore, providing a travel booking service can the primary objective, with advice and protection as secondary objectives (when they do n conflict with the primary objective). Organisational values and appropriate ethical beh iour will also provide some limitations in regards to the travel bookings that it should ma

Difficulties regarding the determination of appropriate organisational purpose c be even more pronounced in the not-for-profit sector. For example, Cancer Coun Australia's purpose is to 'minimise the threat of cancer to Australians'.[66] This is a fai simple concept; however, there are a number of options and means by which this c be achieved. For example, reducing the impact of cancer could mean (a) contributing research aimed at eliminating cancer, (b) contributing to research aimed at reducing t consequences of cancer, (c) assisting people with cancer to reduce the impact on the selves and their families' lives and (d) raising community awareness of the issues asso ated with cancer, its prevention and how individuals and organisations can contribute this purpose.

If Cancer Council Australia were to take on all of the interpretations of this orga isational purpose, it would need to fund and support two types of research, create soci support networks and facilities for cancer sufferers, and conduct community awarene campaigns. All of these are very different activities and a not-for-profit organisation, whi relies on charitable funding, must be very careful to select the activities which it believ can have the most positive impact. Cancer Council Australia's resources are far too limite to adequately support all of the interpretations of the organisational purpose listed abov

To improve the definition of its organisational purpose, Cancer Council Australia must determine which interpretation would have the greatest impact on reducing the effect of cancer on people's lives. With a greater level of focus — for example, on creating social networks and facilities for cancer sufferers — Cancer Council Australia can make long-term decisions with a greater level of certainty.

When determining the organisation's purpose, a number of important questions should be asked:

- Who are the stakeholders?
- What are their interests?
- What influences their expectations?
- Should the organisation take their interests into account?
- Should the organisation serve wider societal interests?
- How are conflicting interests prioritised?
- How do national, industry and professional cultures impact on decisions?
- What is the ethical stance of stakeholders and the organisation?
- How does the organisational mission reflect all of these factors?

The information should be viewed from five perspectives when using this information to develop an organisational purpose: (1) corporate governance, (2) stakeholder expectations, (3) mission, (4) values and ethical standards and (5) culture. Each of these perspectives adds important dimensions to the definition of the organisational purpose.

Organisational vision and mission

The mission and vision of the organisation are important contributors to defining its organisational purpose and can be either visionary or more pragmatic; simply stating intentions and aspirations. The **vision** is usually a long-term and somewhat philosophical goal, while the mission is a shorter term expression of what that means with consideration of the organisation's current environment. The purpose of vision is to set the final goal for the organisation. The **mission** should clarify the main intentions and aspirations of the organisation at that time and should indicate why the organisation exists, its main activities and its future anticipated position within the industry. It should also reflect the key values and ethical standards of the organisation. For example, the vision of Cancer Council Australia is to 'minimise the threat of cancer to Australians, through successful prevention, best treatment and support'. The mission of Cancer Council Australia is to 'lead a cohesive approach to reduce the impact of cancer' by 'undertaking and funding cancer research, preventing and controlling cancer, and providing information and support for people affected by cancer'.[67]

vision: the desired (long-term) future state of the organisation

mission: a shorter term version of the vision, incorporating the values and expectations of the major stakeholders and contemporary environmental factors

Values

Organisations frequently include consideration of their corporate social responsibility (CSR) in their **value statements**. For example, BHP Billiton lists its value statement in a document that it refers to as its charter (see Strategy capsule 1.2). BHP Billiton's charter indicates that its strategies must involve stakeholders and create ethically acceptable operations. These are both reflected in the behavioural expectations of staff and organisational culture. Such an approach is necessary for an organisation as large as BHP Billiton because of its diverse range of investors and stakeholders. An organisational purpose lacking the input of stakeholders would be unlikely to produce objectives attractive to BHP Billiton's stakeholders and the broader community. This, in turn, would affect stakeholder confidence in the organisation, affecting its ability to maintain its high share value and attract the large capital it requires for its projects, such as funding for $4.2 billion Caval Ridge Mine project in Queensland's Bowen Basin.

value statement: a brief description of the stakeholders and behaviours the organisation considers most important

CAPSULE 1.2

BHP Billiton's charter

The BHP Billiton Charter describes our purpose and values and how we measure success. Our Charter is the single most important means by which we communi who we are, what we do, and what we stand for as an organisation, and is the b for our decision making.

We are BHP Billiton, a leading global resources company.

Our purpose is to create long-term shareholder value through the discov acquisition, development and marketing of natural resources.

Our strategy is to own and operate large, long-life, low-cost, expandable, upstr assets diversified by commodity, geography and market.

Our values

- *Sustainability*
  Putting health and safety first, being environmentally responsible and supporti our communities.
- *Integrity*
  Doing what is right and doing what we say we will do.
- *Respect*
  Embracing openness, trust, teamwork, diversity and relationships that are mutually beneficial.
- *Performance*
  Achieving superior business results by stretching our capabilities.
- *Simplicity*
  Focusing our efforts on the things that matter most.
- *Accountability*
  Defining and accepting responsibility and delivering on our commitments.

We are successful when:

- Our people start each day with a sense of purpose and end the day with a sense of accomplishment.
- Our communities, customers and suppliers value their relationships with us.
- Our asset portfolio is world-class and sustainably developed.
- Our operational discipline and financial strength enables our future growth.
- Our shareholders receive a superior return on their investment.[68]

Ethical position

ethical position: the standard of behaviour the organisation sets for itself and its staff members

An organisation's **ethical position** should be considered as part of its organisat purpose, along with its mission, vision and values. Defining the ethical position sh include the transparency that the organisation will display to its customers, its atti towards human rights and the natural environment and the working conditions it req throughout the organisation.

It is quite likely that the organisation's value statement will overlap with its ethical ition. The values of an organisation can be peculiar to that organisation, while the et position of the organisation must also reflect the expectations of the stakeholders' socie Differences between ethical expectations across cultures can make determining a si appropriate ethical position difficult for organisations with international operations. example, whaling is considered to be an acceptable undertaking in some countries, is unacceptable in other countries. If an organisation undertakes whaling and sells w products only within the boundaries of countries where it is considered ethical, it consider itself to be behaving ethically. The organisation's customers in the country w whaling is considered to be inappropriate, however, would view the behaviour of this organisation as unethical and unacceptable. For decades, a similar situation has dogged large sports footwear manufacturers (e.g. Nike and Adidas) because of the employment of child labour by third-tier suppliers (i.e. organisations that supply other organisations which, in turn, supply yet other organisations that then supply the sports shoe manufacturers). In developed countries, customers of these sports footwear companies would view child labour as ethically unacceptable. However, in some countries where the shoes are manufactured, child labour is considered an acceptable means of financial support for poorer families. Because of this complexity, the organisation needs to constantly review its ethical position in relation to the social expectations and environment in which it is operating. Ethics as part of organisational purpose will be considered in further detail in chapter 2.

Key organisational stakeholders

The importance of stakeholders in identifying external input into organisational purpose has already been considered. There are many challenges to identifying appropriate stakeholders for this purpose and identifying their respective priorities. For example, Robbins and Barnwell[69] argue that stakeholders are agents that can threaten the organisation's survival. Johnson and Scholes support this and state that stakeholders 'are those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends'.[70] However, De Wit and Meyer argue that this view is too narrow and that stakeholders should be divided into primary and secondary groups.[71] Direct stakeholders are the 'direct participants in the economic value creation process' and indirect stakeholders are other 'parties affected by the organisation's activities'. Daft is more inclusive and suggests that stakeholders are 'any group within or outside an organisation that has a stake in the organisation's performance'.[72]

Some of the key stakeholders who influence an organisation's purpose through defining input into its mission, vision, values and ethical position include:

- owners
- staff members
- staff members' representative groups (e.g. unions)
- customers
- regulatory authorities
- government
- communities in which the organisation operates
- sectors of society that benefit indirectly from the organisation's operations.

Determining each of these groups' needs and expectations is not difficult; however, the disparity between their needs will make their integration into values, mission and ethical positions very difficult — as has already been considered in relation to adopting the correct ethical position. For example, the needs of owners and customers may be opposed in the area of product and service prices.

In situations where the needs of one stakeholder are best met at the expense of the needs of another, any compromise will leave both parties dissatisfied. One of the most familiar examples of this is the conflict between unions and the management of organisations seeking to reduce costs by downsizing due to a decline in sales. Managers will view reducing staffing levels as the most attractive way of reducing operating costs, since the alternative of changing infrastructure is both slow and costly. In addition, retaining infrastructure maintains the book value of the organisation as well as providing production capacity for the return of more prosperous times. Unions, on the other hand, see the reduction of staff members as (a) detrimental to the staff members themselves and

(b) detrimental to the union by reducing its membership. The unions will regard retr ments as a negative outcome, while managers view unmet retrenchment targets as a tive outcome and a threat to the organisation. A compromise position between th will simply leave both stakeholder groups dissatisfied.

Despite these difficulties, stakeholder needs compromises must still be found organisation is to identify its organisational purpose. Thankfully, however, once the o isation has used this information to determine its organisational purpose, future a ments to the organisational purpose are much easier. The current organisational pu provides a reference point from which changes in the external environment (such a needs of stakeholders) provide the justification for changing the organisation's purpc

Table 1.2[73] provides a list of common stakeholders and their typical expectations c organisation.

TABLE 1.2 Typical expectations of key stakeholder groups

Stakeholder	Typical expectations of organisations
Owners	• return on investment • growth in earnings
Staff members	• pay • fringe benefits • satisfaction with working conditions
Customers	• satisfaction with price, quality and service
Suppliers	• satisfaction with payments • future sales potential
Creditors	• ability to pay debts
Unions	• competitive wages and benefits • satisfactory working conditions • willingness to bargain fairly
Local community officials	• involvement of organisation's members in local aff • lack of damage to the community's environment
Government agencies	• compliance with laws • avoidance of penalties and reprimands

Source: Robbins, Stephen P., *Organization Theory: Structures, Designs, and Applications*, 3rd Edit © 1990, p. 66. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Some of these key stakeholders will now be considered.

Owners

Organisations normally have a range of different owners, with very different expectati Institutional owners, for example, are characterised by a focus on short-term return (dends, profits and share growth) and have limited interest in investment for long-t gain. Family owners, on the other hand, frequently have a strong sentimental attachn to the organisation and its staff. The Myer family in Australia, founders of a large and cessful retail chain, demonstrated how strong the attachment of family owners can be their businesses. Over its 110 years of operations, the family has retained a significant s of the Myer retail chain. Myers merged with Coles supermarkets, another retail chain 1985. This merger was a failure and the Myer retail chain was sold by the merged en Despite having just sold the Myer chain, the Myer family still retained a share in this c due to their attachment and commitment to the business.

Staff members

Staff are very visible stakeholders and, in some regions (e.g. central Europe), staff participate in the strategic management process. Their needs are complex and varied and may be linked to the needs of other organisations, such as unions. As internal stakeholders, however, their needs and expectations may not strongly reflect the external environment. This is one of the more common conflict-of-interest issues arising around stakeholders, as incorporating the needs of staff members in the organisation's purpose can make it difficult to effectively respond to the external environment. Empirical evidence shows that corporate governance which involves significant membership of staff is slower to respond to environmental factors and these organisations mainly compete through long-term strategies.[74] It is not clear whether the loss of tactical responsiveness is compensated for by improved long-term planning; however, the involvement of staff with long-term experience in the industry is likely to improve the reliability of long-term strategies.

Local communities

The needs of local communities must also be represented in the organisation's purpose if that organisation is a major employer or otherwise important to a particular community. For example, in 1958, Australia's only nuclear research facility (the Lucas Heights nuclear reactor) was established in a non-residential area, about 30 kilometres south of Sydney.[75] Over time, residential developments were established around the facility. The concerns of the local community have changed now that they live in high density around the facility and have a major impact on its organisational purpose (to operate as a nuclear research and radiopharmaceutical production facility).[76] A similar scenario applies to airports needing to accommodate increased air traffic and extend the size of their runways to accommodate larger aircraft. Air traffic, in general, and passengers, in particular, must feature in an airport's organisational purpose. However, many airports find that their ability to meet the capacity expectations of the airlines is limited by the pressures of the local community who have established themselves around the airport. Strategy capsule 1.3 demonstrates how a public sector organisation must adjust its purpose to the needs of its community.

STRATEGY CAPSULE 1.3

Christchurch City Holdings Ltd — responding to the earthquakes

Christchurch City Holdings Ltd (CCHL) is a A$600 million per annum commercial business that is wholly owned by Christchurch City Council. It owns and operates facilities, infrastructure and contractors in the city including Orion (the local power grid), Christchurch International Airport, Lyttelton Port Company, Enable Networks (a fibre optics provider), Selwyn Plantations and Red Bus Ltd.

Because CCHL is publicly owned, its owners' interests extend beyond pure economic return, and this makes defining its purpose and stakeholder relationships more complex. Its mission statement encapsulates its multiple stakeholder expectations by referring to investing 'in a commercially viable manner' and qualifying this with 'to assist in the development of Christchurch'. The objectives that follow reinforce CCHL's role in supporting regional development by noting the possibility of accepting lower returns from new investments that have the potential to enhance the economic well-being of the region. This was demonstrated in its reactions to the Christchurch and Canterbury earthquakes that devastated the region.

Firstly, the power provider Orion constructed a temporary high-voltage power line within five days to restore power to part of the city. Secondly, the airport reopened almost immediately after each earthquake to enable medical supplies to be flown in. Other services, such as the port and infrastructure groups, participated strongly in the redevelopment activities during the recovery period alongside their normal business operations. These support activities reduced the profitability of CCHL's companies — in addition to the losses associated with the damage caused by the earthquakes. The decision to provide these services at a cost disadvantage reflected the broader organisational purpose of these commercial enterprises, which included providing emergency services to the community in addition to the commercial services they normally provided.[77]

A FRAMEWORK FOR STRATEGIC MANAGEMENT

The planned component of strategic management involves seven main considerations:

1. the external environment
2. the internal characteristics
3. the setting of objectives
4. the crafting of strategies
5. implementation of the necessary change
6. performance measurement
7. plan adjustment.

The remaining chapters in this book will be dedicated to the content of these perspectives and how they are coordinated. To provide a context for these, each will be briefly considered in this section of the chapter.

PESTEL analysis: (political, economic, social, technological, environmental and legal analysis) an evaluation framework that helps to identify the features of the macro environment that may affect the organisation

five forces analysis: an analysis of the major forces in the micro environment which can be categorised as the influences resulting from customers, suppliers, new market entrants, rivals and substitutes

scenario planning: an analysis of the likely impact on the organisation of potential future external environmental events

Analysis of the environment

It can be argued that Igor Ansoff's 1957 product–mission matrix, which suggests various strategic approaches for different environmental conditions, was the starting point for strategic management environmental analysis theory. Although it has been replaced by more modern approaches, it is still frequently used as a simple strategic management mechanism in practice.[78] Modern strategic management considers that the external environment comprises two principal aspects. The first is the broader (or macro) environment where large-scale changes occur which can demand changes of the organisation; the second is the smaller micro (or industry) environment where competition, suppliers, customers and new market entrants compete. Two principal frameworks exist for this analysis — the **PESTEL** (macro environment) and the **five forces analysis** (micro environment). **Scenario planning** was developed in the 1980s as a way of examining the likely impact of the external environment on the organisation. Although frequently considered to be an external environmental analysis tool, it is mainly useful when considering the internal characteristics of the organisation.

The most recent external environmental analysis perspective to gain attention is the institution-based view. This view is based on a reasonable amount of empirical evidence and suggests that institutions operating in the external environment (which determine ethics, regulations, rules and laws) are very significant in determining the success of organisations.[79] As the major elements of the institution-based view are incorporated in the PESTEL analysis framework just mentioned, we have assumed that the institution-based view is incorporated in a macro environmental analysis in this text. The recent support for the institution-based view serves, however, to emphasise the importance of a macro environmental analysis as part of strategic management.

Analysis of the organisation

Organisational success is dependent largely upon the effectiveness and efficiency of the interface existing between the external and internal environments of an organisation. Because the nature of the external environment is usually set (i.e. usually beyond the control of the individual organisation), the internal analysis provides a particularly significant input for adjusting skills, resources and activities to create the desired interface between the organisation and its selected markets. In particular, it is necessary to identify:

- the organisation's core competencies and those it lacks, given the current external environment
- the resources it has available for competition
- the suitability of the structure of the organisation for the type of competition it wishes to engage in (e.g. a highly bureaucratic structure may not be appropriate for an environment requiring rapid change)
- the match of the organisation's culture with its competencies and the external environment.

Although Mintzberg and the strategy theorists considered earlier in this chapter levelled criticism at analytical approaches to strategy formulation, a systematic internal analysis is a vital input into the strategy process. Without this analysis, strategic decisions are completely susceptible to power battles, individual whims, fads and wishful thinking. The role of this analysis is to provide frameworks for organising the discussion, processing information and opinions and assisting communication and consensus that will lead to strategy. This process will be considered in more detail in chapter 5. The most important modern internal analysis perspective, the resource-based view, will now be briefly considered.

A resource-based view of strategy

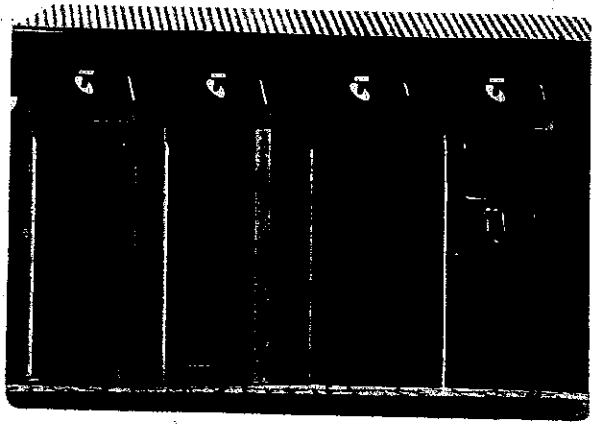
The **resource-based view (RBV)** postulates that an organisation's success is strongly influenced by the resources it has at its disposal. Some good evidence has been produced to support this view. For example, in the mid 1990s, a four-year longitudinal study of 2800 US businesses determined that, while industry conditions explained 4 per cent of profitability variation, individual company resources could explain 44 per cent of profitability variation across companies.[80] A more recent study in Spain, involving 1642 organisations, found that industry conditions explained 3 per cent and company resources explained 36 per cent of performance variation.[81] As a result, the RBV is one of the most popular contemporary strategy perspectives.

resource-based view (RBV): a perspective on developing organisational strategy that focuses on the organisation's key resources as a source of competitive advantage

The RBV has provided a very useful taxonomy (categorisation) for the analysis of the contribution of specific areas of the business, such as human resource management,[82] entrepreneurship, international business and economics,[83] to value creation. As Strategy capsule 1.4 demonstrates, the Australian telecommunications giant Telstra focuses on resource development as a central technique for increasing its competitiveness in the communications industry.

STRA
CAPSULE
1.4

Telstra



In 2005 a new CEO joined Telstra with the mission of preparing the organisation for the sale of most of the government's remaining 51.8 per cent share – Australia's largest ever single share offering. Telstra is Australia's fourth largest employer and had an annual turnover in the 2012 financial year of A$25 billion and a profit of A$3.4 billion. Completing the transformation of a major government-owned utility into a strongly performing commercial enterprise made this possibly the toughest corporate job in Australia at the time. Although Telstra possessed a large number of valuable resources, including a telecommunications network that spanned a whole continent, and serviced the majority of Australians, it was notoriously inefficient in utilising these resources. Since deregulation of the telecommunications industry commenced in 1990, Telstra continued to lose revenue to new market entrants that were supported by large telecommunications companies from other countries. In addition, as a government majority owned utility, it also operated in a strongly political environment. This constrained its optimal use of resources. For example, Telstra is obliged to provide telecommunications services to all rural residents in Australia, frequently requiring Telstra to establish and maintain infrastructure over large distances to support small numbers of customers in remote locations. As a result of developing and maintaining this extensive infrastructure, which in some cases supported only a small number of customers, Telstra's infrastructure expenses were much greater than many of its competitors who established only short-distance infrastructures to support customers living in high population density areas. Competitors supporting only high population density areas were able to make more cost-effective use of their infrastructure.

One of the actions Telstra undertook to increase its competitiveness was to acquire high-performing technology organisations that would provide it with specific expertise in critical areas. In this way, Telstra could increase the breadth of services offered. This was also part of Telstra's strategy to diversify into the internet segment of the advertising industry through its acquisition of advertising, classified and business directories. The development of other desirable resources, such as its own search engine (Telstra is a major internet provider), eluded Telstra. In fact, despite spending A$100 million over 10 years on creating its own search engine, Telstra never launched the service. Telstra now owns a number of related offshore operations, the largest of which is CSL New World in Hong Kong, which has 3 million customers. Despite some problems, this approach has satisfied shareholders with good profit performance resulting in strong dividends and reasonable share prices.

Future resource developments for Telstra and its current CEO, David Thodey, are firmly placed in the technology area. For example, it has just launched an Applications and Ventures Group, which will partner with other companies and government agencies to provide digital services for business and consumers, including the health and education sectors.[84]

A knowledge-based view

The knowledge-based perspective is an alternative view to the resource-based view for analysing the internal operations of an organisation. It is based on the theory that it is faster and cheaper to transfer information within an organisation than to create it. It suggests that a competitive advantage should be achievable from the management of knowledge within the organisation. However, there are a number of issues to consider here. Firstly, the knowledge has to possess an intrinsic value of its own. Secondly, the difficulties associated with the transfer of information (cost of governance) are dependent upon the backgrounds of the people holding and those receiving the knowledge.[85] In other words, staff from the HR department may find it difficult to understand and utilise knowledge generated by the research and development department, because they may use different 'language' and concepts to present the knowledge. In this text, knowledge is considered as a dimension of organisational resources and so incorporated in the resource-based view. This perspective is supported by much of the research that has been conducted on organisational resources in the last 50 years.[86]

Strategic objectives

Without appropriate objectives, an organisation lacks the concrete goals that can be utilised to justify the cost of appropriate strategies and to reject inappropriate strategies. These objectives need to reflect the needs of the key stakeholders, the organisation's purpose, the industry conditions and the improvements that senior management wish to achieve. Several philosophies exist for the most important characteristics of **strategic objectives**; however, it is generally considered that strategic objectives should be singular, measurable (and therefore assessed by performance measurement) and represent a challenge (so as to focus activities in the organisation).[87]

Strategic objectives: the measurable achievement expectations set for the organisation and its strategies

Sustainability

Sustainability has become a critical strategic objective for organisations in almost all industries, from cosmetics through to federal government. Sustainability has several definitions. A strategic definition for sustainability from the 1990s refers to the ability of the organisation to continue to be successful[88], as was discussed in the earlier section 'Sustainable competitive advantage'. A more contemporary perspective extends that to the external environment and the ability of the organisation to continue its operations without creating damage to the environment that it relies upon. This is usually the result of operating clean processes and compensating for pollution production such as greenhouse gases through market-based systems such as carbon certificates or through direct remedial action.[89] Sustainability is also frequently closely linked with **corporate social responsibility (CSR)**. Corporate social responsibility can sometimes include sustainability and also includes the impact the organisation has on the society in which it operates[90] and the support it provides (for example, through benevolent activities) for those societies.

sustainability: minimising or even neutralising the impact of the organisation on its external environment

corporate social responsibility (CSR): the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large

Crafting of strategies

With a set of strategic objectives in place, organisations need to consider the interplay between the internal resources and the external conditions and develop approaches to meeting the objectives under these and anticipated future conditions. This is referred to as crafting because of a number of factors. Firstly, uncertainty in the external environment and the plurality of most objectives means that the approach required will not be simple one —one relationships. Rather, a suite of actions will be required to jointly produce a suite of