

2nd Edition

STRATEGY

Theory and Practice

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Strategy: Theory and Practice



COMPETITIVE FORCES AND POSITIONING

RESOURCES AND CAPABILITIES

STRATEGY AND INNOVATION

COOPERATION AND ALLIANCES

STRATEGIC CHANGE

GOING GLOBAL



Competitive Forces and Positioning



STRATEGY = KNOWLEDGE + CAPABILITY

- Machiavelli did not contest the rules that had bound those who went before him; he simply ignored them ... he was the first to consider power and how it should be used and retained in a utilitarian rather than a utopian way.
- The good strategist is good ethnographer (someone who studies other peoples and cultures); someone who is alert to the shifting and seemingly inconsequential details and dramas of everyday politics amongst the elites in society.
- Strategy should enhance the performance of an organization in terms of issues such as growth, return on investment and competitive advantage

PORTER'S 5 FORCES:

- The bargaining power of customers or buyer power.
- The bargaining power of suppliers.
- The threat of new entrants.
- The threat of substitute products.
- The intensity of competitive rivalry.

STRATEGIC DECISIONS A COMPANY SHOULD MAKE:

- Scope of the product market.
- Growth vector (the direction in which the scope is changing).
- Competitive advantage (unique product or market opportunities).
- Internal synergy generated by capabilities and competencies.
- Make or buy decisions.

PESTEL

- Political, Economic, Social, Technological, Environmental and Legal influences: factors which are usually beyond the firm's control but must be considered both as sources of competitive advantage (opportunities) and as a potential source of erosion of competitive advantage (threats).

Resources and Capabilities



THE ESSENCE OF STRATEGY IS CHOOSING WHAT NOT TO DO.

- It is resources, not products, which define firms; realizing this enables a better understanding of growth and evolution, diversification and innovation.
- The role of the consultant is thus to identify the problem, isolate the part of the system where the problem lies, and then perform the necessary surgery to fix it.
- The name of the game for a company in the 21st Century will be to conform while it performs.
- Because problems are complex, we cannot think through every permutation and then act on the results of our reasoning. Rather, we have to experiment, put ideas forward, act on them, and then adjust in the light of experience.

PRODUCT DIFFERENTIATION IS A RESULT OF CONSCIOUS STRATEGIC CHOICE

- Strategy involves understanding the organizations' relationship with the external environment such as the industry, competitors and markets.
- "A dominant logic may impose cognitive blinkers, which prevent the organization from seeing relevant but peripheral information." - Prahalad
- Design Thinking: innovation that is powered by a thorough understanding of what people want and need in their lives and what they like or dislike about the way particular products are made, packaged, marketed, sold, and supported.
- For a resource to be a secure basis for competitive advantage, it must be (VRIN): valuable, rare, inimitable, non-substitutable.
- "A firm's strengths eventually relate to three basic types of competitive advantage: cost leadership, differentiation, or focus. each of these is a clear and definite strategy; pursuing one of them provides strategic focus; mixing them produces strategic muddle." - Michael Porter

Strategy and Innovation



IT ALL STARTS WITH HOW WELL YOU UNDERSTAND THE CUSTOMER AND THEIR NEEDS

- Retailers such as M&S, to the extent that they focus on their core customers, kill off the customer base – not the existing one but the next generation that does not want to be seen wearing what their mother wears.
- Trial and error, learning, making experiments, adopting pilot programs and creating prototypes seem to be better ways forward than following grand plans.
- The product is the profit our products help the customer to make. The seller is no longer selling a product but rather is selling a return on investment. The product is no longer the physical equipment that we sell.
- The firm must first understand the needs of the business customer, acting more like a management consultant, and offer products that will help the customer to improve their profitability based on this understanding of their business.

ORGANIZATIONAL METAPHYSICS

- An organization should have a higher purpose. Charismatic and transformational leaders will propose a combination of visions, missions and values to guide the organization in its spiritual quest.
- The question of “who we are and what is our purpose” should be clarified before strategic plans are crafted. In this sense, identity precedes strategy. We can’t decide what we should do before we decide who we are.
- As children, we learn about the values and social expectations of our culture through the stories that we hear – from our parents or teachers or in books and films. Stories are one of the most fundamental ways in which all human beings develop their understanding of the world around them.
- Strategy does not mirror the world objectively; strategy seeks to create a world as an objective mirror of its theory. Strategy is world-making.

Cooperation and Alliances



PURSUE GROWTH AND SPREAD RISK BY DIVERSIFICATION AND ACQUISITION

- Attractiveness: what makes an industry attractive to diversify. In such a situation customers' and suppliers' power will be moderated and there will be few substitute products.
- Cost of entry: It should not be so high that it will potentially reduce the profitability of entering the industry.
- Mutual competitive advantage: both parties must see an advantage in the deal; otherwise it is not likely to be successful.

WHY WOULD FIRMS WANT TO BUY THEIR COMPETITORS?

- 1) Reduces competitive intensity 2) Lowers production costs through scale 3) Boosts differentiation by eliminating similar products or services in the market 4) Provides access to new markets and distribution channels
- When mergers fail to work it is not just that individuals are transacting with guile, but that different social worlds are colliding.
- Assimilation rarely occurs unless prolonged collaborations or alliances between organizations over a lengthy period prior.
- Acquiring dynamic capabilities from smaller firms by taking them over and seeking culturally to integrate these with a dominant bureaucratic culture is unlikely to succeed.

FOUR STRATEGIES FOR ACCULTURATION:

- Integration - when the two cultures are integrated each retains their individual identity; Buono and Bowditch (1989) have defined four strategies for integrating cultures in M&A: taking over, blending, pluralism and resistance.
- Assimilation - which occurs when one culture absorbs the other.
- Separation - when the two cultures are entirely separate.
- Deculturation or marginalization - when a culture disintegrates.

Strategic Change



THE FIRM IS A KNOWLEDGE-INTEGRATING INSTITUTION

- “At 20 years of age, the will reigns; at 30, the wit; and at 40, the judgment.” - Benjamin Franklin
- The mental models that frame and shape the ways in which we gaze at a phenomenon will define the nature of the phenomenon – they do more than just reveal it as it is – they constitute it as being what it is taken to be.
- Taking a perspective on things often means that we are applying a paradigm – a conventionally accepted and legitimate way of seeing – to the matter at hand.
- When strategy is aligned with action it produces a shared organizational logic.
- Strategy is rarely accomplished as the rational planned process it sometimes aspires to be. Where it is rationally planned, it fosters bureaucratization rather than innovation.
- The notion that strategy is something that should happen way up there, far removed from the details of running an organization on a daily basis, is one of the great fallacies of conventional management. And it explains a good many of the most dramatic failures in business and public policy today.
- Strategy cannot be planned top-down but relies on bottom-up (emerging) processes that introduce new ideas and unexpected views into strategy.

8 STEPS TO LEADING CHANGE

- | | |
|---------------------------------|--|
| ▪ 1) Create Urgency | 5) Remove Obstacles |
| ▪ 2) Form a Powerful Coalition | 6) Create Short-term Wins |
| ▪ 3) Create a Vision for Change | 7) Build on the Change |
| ▪ 4) Communicate the Vision | 8) Anchor the Changes in Corporate Culture |

Strategic Change



THE FIELDS OF POWER

- The main foundations of every state ... are good laws and good arms; and because you cannot have good laws without good arms, and where there are good arms, good laws inevitably follow, I shall not discuss laws but give my attention to arms.
- Dominant people in society at large tend to be members of dominant organizations. Corporate domination involves control of the economic field by a relatively small number of powerful companies, themselves controlled by a corporate power elite.
- The corporate power elite operates collectively within fields of power that bring together the uppermost strata drawn from distinctive organizational fields.
- These fields of power are where strategy, at the highest level, is conceived and discussed by the power elites; social spaces that transcend individual organizations and serve as opportunities for different types of social and positional equals to mingle.

PLANS ARE MAPS THAT CREATE THE TERRAIN THEY PRETEND TO DESCRIBE

- While generals usually have plans for a battle they rarely stick to them as the battle ebbs and flows; they modify their actions, as their plan, through emergent strategies, is shaped as much by the enemy as by the planners.
- Unfortunately, many organizations are not as flexible as many generals – they stick to the plan because it is the plan long after it should have been emergently reshaped.
- If organizations seek to be successful, whether as political parties, businesses, public sector organizations or non-profit organizations, they have to improvise and change as the worlds in which they operate change, otherwise they risk inexorable decline.
- Preparedness replaces predictability as the strategic imperative.



Strategic Change



REASONS WHY PEOPLE MIGHT BE RESISTANT TO CHANGE:

- Parochial self-interest – “I lose out in some way.”
- Misunderstanding and lack of trust – “They are trying to con me, as usual.”
- Low tolerance for change – “I hate having to learn new ways of doing things.”
- Different assessment arising from access to different knowledge – “I know from my experience that this will never work.”

DOUBLE LOOP LEARNING

- Single loop learning involves learning the competencies necessary to play a certain game successfully, whereas double loop learning requires thinking and learning about what is the most valuable game to play.
- Single loop learning concerns acting according to the rules of a certain game; in contrast, double loop learning involves learning what the actual rules of the game are and how they could be changed to modify the game or play a different game altogether.
- Single loop learning focuses on optimizing problem-solving behavior in a given context, whereas double loop learning challenges the core assumptions, beliefs and values that frame the context.
- Wisdom is simultaneously knowing and doubting. Meacham (1983) states that to know something is also to doubt it, claiming that since the more one knows the more one finds one does not know, learning and development necessarily evolve together.
- “The greatest achievement of the human spirit is to live up to one’s opportunities and make the most of one’s resources.” - Marquis de Vauvenargues
- Because the world is complex and fast changing, the best way to engage in it is to deploy an incremental, step-by-step, or trial and error approach

Going Global

GLOCALIZATION



- Glocalization is a hybridization of the global and local, of globalization and localization. It is intended to describe how regional tendencies and local cultures intersect with the proliferation of global corporations.
- Glocalization means the simultaneous presence of both universalizing in particularizing tendencies.
- Strategies for glocalization constantly have to steer between a tendency to play to a set of values and beliefs that are believed to be widely shared around the world – the traditional basis for economies of scope and scale – but also have to be alert to the existence of highly specific values and beliefs that differentiate particular identities globally and regionally.
- To have a successful strategy for entry into a foreign market means that the enterprise must be better at doing what it is doing than other businesses that already do what it does and that are domiciled in the country in question.
- Arbitrage is the practice of profiting from differences in costs and processes across borders – basically buying where prices are lowest, selling where prices are greatest, and using international operations as a means of reducing tax liabilities in countries with high tax regimes and concentrating profits in low tax regimes and losses in high tax regimes.

CULTURAL AWARENESS:

- “Our analysis of thousands of companies around the world shows that the top performers share three traits: they invest in intellectual assets, they play in fast-growing markets, and they have the most efficient operations.” - Dobbs et al., 2015
- Culture shapes ethical conceptions of what should and should not be done to whom by corporate agents. What is permissible depends on the “moral compass” being used to steer the organization, itself an ethical site of struggle between different stakeholder interests.