Business strategy

A **business strategy** is a plan of action taking a company from its current position to an envisaged state or a set of objectives. By mapping out its moves, a business can develop a planned strategic approach taking into account all the information it has at its disposal.

Definition

Business strategy - CIMA

A course of action, including the specification of resources required, to achieve a specific objective.

Example

Tesco's seven-point strategy in 2011

1. To grow the UK core
2. To be a highly-valued creator of brands
3. To be an outstanding international retailer in stores and online
4. To grow services in all its retail markets
5. To put its responsibilities to the communities it serves at the heart of what it does
6. To build its team so that it creates more value
7. To be as strong at everything it does as it is in food

A strategic plan tends to be an overall guide to the way forward, rather than a detailed step-by-step approach, due to uncertainties in the business environment.

Developing a business strategy will mean making decisions concerning:	
Products	What products should be made? How will they satisfy customers' needs?
Markets	Which market should be targeted?
Location	Where will the product be sold? Where will it be produced?
Structure	Will decisions be made centrally or locally? Which business structure will be most suitable, e.g. matrix or functional?
Personnel	Does the business need skilled or unskilled workers? What functions could be outsourced?
Buildings and machinery	Build, buy or lease? Ensuring the business has the right tools, balancing cost and function.
How to compete	What should the business's point of difference be, e.g. competing on quality or price?

Key features of strategic management:

- **Long term approach** - Decisions are made over the long term, often for periods exceeding a year
- **Focused on organisational objectives** – The aim of the plan of action is to achieve the most important objectives for a wide group of key stakeholders
- **Align with internal strength and weaknesses** – The aim should be to capitalise on the business strengths and overcome any weaknesses
- **Adapted to the changing business environment** – So that changes in the political, economic, social and technological factors are taken into account, as well as industry changes, e.g. competitive threats

Why is strategic management important?

- It provides a clear direction and helps employees to understand their role in achieving the organisation's objectives
- It provides a clear plan for dealing with market changes, e.g. surviving the arrival of new competitors
- By understanding and adapting to market competition, a business can become more competitive, now and in the future
- Core competencies can be developed to address customer needs, e.g. if the customer values good customer service, this should be built into the organisation
- It coordinates all areas of the business through a structured, planned approach, e.g. ensures all departments are moving in the same direction

Director's role in strategy

A business's director or directors will decide upon its strategy. In doing this, directors need to ensure that they are fulfilling their **fiduciary duty** to shareholders. Larger organisations often have a small department whose role is to analyse the business and devise strategy.

Definition

Fiduciary duty

A legal duty of trust ensuring decisions are made in the best interests of a third party.

Levels of strategy

There is a framework that businesses can use to help build their strategies. It consists of three levels within a business on which strategy can be set: corporate, business and functional.

Corporate strategy

The corporate strategy provides the direction for the business as a whole. It includes consideration of:

- The overriding purpose and scope of the business
- The business sectors and markets the organisation should operate in
- What the core competencies are, and whether they should be increased
- Resources (what is needed) and financing (how it will be funded)
- How to compete, i.e. how the organisation can gain an advantage over its rivals
- How to structure the business, i.e. the way the organisation is built and the effect it has on the way things get done

Business strategy

Definition

Strategic business unit (SBU)

A division of a company which operates as an independent enterprise, and is responsible for particular products or services.

Each SBU is likely to have different goals, competitors, suppliers, manufacturing approaches, IT, financial requirements and so on, so requires its own strategy. This covers:

- Which competencies?
- Which products?
- Which markets?
- Tactics to beat competition in this market
- Business resources (people, buildings, machinery, processes)
- How to compete in this business area

Functional strategy

Each functional area, e.g. HR and finance, within each business unit have their own functional strategy. These should be designed to be consistent with the business strategy of the SBU.

Approaches to strategy formulation:

There are a number of different approaches to the development of strategies within organisations:

- Planned strategies
- Emergent strategies
- Incrementalism
- Opportunism

Planned strategies

A planned strategy provides a clear, justifiable strategy based on the company's current position, environment and competencies. Planned strategies are often used by larger companies, and are particularly suitable where the industry is subject to relatively little change.

The rational planning model sums up the stages of strategic planning:

Johnson, Scholes and Whittington's three stages of the rational planning model:	
Strategic analysis	Groups together: • Mission and objectives – Defining the direction • External analysis – To ensure opportunities or threats in the business environment have been identified • Internal analysis – Strengths and weaknesses of the firm • Corporate appraisal – A summary of internal and external analysis
Strategic choices	Groups together strategic options and strategic evaluation. A strategic option/competitive strategy is selected which addresses the issues raised during strategic analysis.

Strategic implementation	Groups together strategic implementation and review and control. Involves creating detailed plans, setting targets to measure the success of the strategy and monitoring and control.

Example

Foneitin

A small technology company wants to become the market leader. How might they go about planning their strategy?

Strategic analysis

Foneitin's mission is to be the market leader. It would conduct an analysis of the external environment, e.g. changes in technology and the economy will contribute to the overall risk of the strategy. Foneitin would then conduct an internal analysis of its own strengths, e.g. research and development, and weaknesses, e.g. limited capital. A corporate appraisal can indicate how Foneitin is prepared to face the challenges posed by its environment, e.g. a strong research environment helps it to keep up in an industry dominated by technological developments.

Strategic choice

Foneitin needs to look at the options available to try to gain an advantage over its competitors, e.g. developing new technology or moving into an overseas market. Once it has chosen a strategy, research will need to be conducted into its feasibility and profitability.

Strategic implementation

Foneitin now has to action its strategy, e.g. entering a market in a developing country, funded by taking out a loan. It must mobilise all of its departments to ensure their strategy is a success. Foneitin must undertake regular appraisals to ensure its strategy is working and is still realistic. It may have to adjust its vision and plan.

Criticisms of planned strategies

Time commitment	Strategies can be time-consuming to create and may be out-of-date by the time they are finalised.
Cost	A variety of costs are incurred, e.g. staff time or using strategy consultants.

Lack of flexibility	A fixed plan may constrain a business so that it does not take new opportunities or adapt to changes in the business environment, e.g. a new competitive threat.
Bounded rationality	Limits in the directors' time and knowledge mean that decisions made during strategic development may not be the best decision, just the one that occurred to them in time..

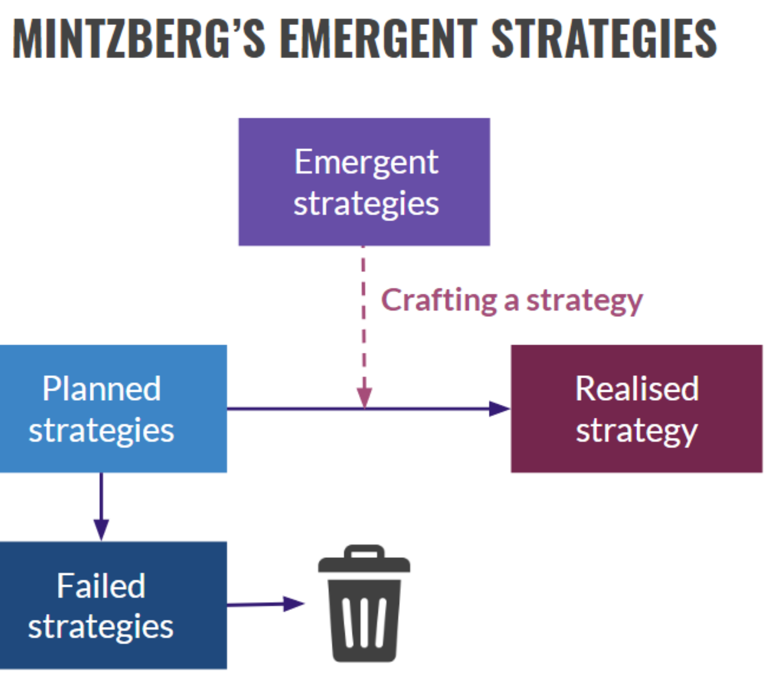
Mintzberg's emergent strategies

An **emergent strategy** offers a flexible alternative to a planned strategy, although the two can be used in conjunction, in a process known as crafting a strategy.

Definition

Emergent strategies

A strategy which emerges out of the course of the business, rather than having been formally planned.



An emergent strategy is most appropriate in:

Changeable markets	In fast-moving markets, restricting yourself to one planned strategy may result in new opportunities being missed, e.g. a competitor comes up for sale.
Smaller organisations	Smaller organisations tend to rely less on formal plans and processes, and more on the knowledge and experience of key staff who can be flexible to change.

Incrementalism

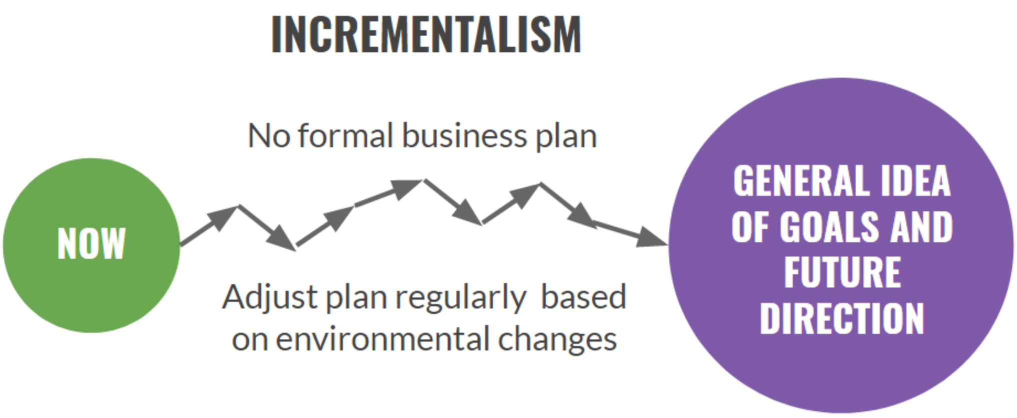
Incrementalism is a suitable strategy in environments where long-term planning is unrealistic, such as a fast-changing environment or when there is a wide variety of stakeholder needs to satisfy.

Definition

Incrementalism

A short-term strategy focused on achieving a general goal or consensus of major stakeholders.

An incrementalism strategy is developed using a series of small scale changes as dictated by the changing environment.



Example

Successful applications of the incrementalism strategy

During the financial crisis in the late 2000s, short-term strategies enabled adaptability during an unpredictable market.

In the public sector, the large number of stakeholders involved makes long-term planning unrealistic, necessitating short term strategies.

Freewheeling opportunism

Freewheeling opportunism provides another flexible strategy approach for a business to employ.

Definition

Freewheeling opportunism

Where a business has no formal strategy and will respond to new opportunities as and when they arise.

Benefits of this strategy may include:

- The flexibility to capitalise on new opportunities when they arise, quickly and easily. Companies with a more formal approach may be slower to react
- Small companies with an entrepreneurial manager can easily redirect their focus on new ventures

Example

Richard Branson and Virgin

From music and television to travel, Virgin switches between different sectors when new opportunities arise. The lack of formal processes within Virgin's structure makes change quick and easy.

The basis for strategic success

Strategic success refers to the successful development of a strategy after it has been initially created. Theoretically, there are two strategic approaches to strategic success: a resource-based approach and a positioning approach.

The resource-based approach:

- Gaining a competitive advantage from developing a company's unique resources and capabilities
- To sustain a long-term competitive advantage, resources must be difficult to replicate
- The approach offers consistency and stability based on key resources and competencies; however, the basis of success may be eroded if the environment changes significantly

Resources a firm can develop:

People	Hiring and retaining the best people.
Machinery	Possessing the necessary machinery, which can produce a product more quickly, with less waste or more cheaply than a competitor.
IT	The accuracy, speed and precision of IT systems can help to win customers and better manage supply chains.
Brands	Strong, well-respected brands retain strong levels of customer support.
Money	Cash reserves sustain a business during lean periods and allow them to capitalise when new opportunities arise.
Information	The use of information, e.g. big data to identify unusual trends, can help to gain a competitive advantage.

Example

Major football clubs like Real Madrid pay huge sums of money for the best players, theoretically ensuring their continued success.

Unique resources

To achieve a long-term competitive advantage using the resource-based approach, the resources need to be unique in some way:

- **Valuable** - Resource must enable a firm to add value for the customer, e.g. a hotel based in a historic area adds value through its location
- **Rare** - The rarer the resource, the harder it is for competitors to acquire the same resource, e.g. if the hotel was the only one in the historic area, it would have a competitive advantage
- **Inimitable** - The harder a resource is to imitate, the more valuable it is to the company, e.g. if there was limited space in the historic area, it gives the hotel a strong long-term advantage, as it is difficult to imitate
- **Isolating mechanism** - For an item to be difficult to imitate, there must be an isolating mechanism that means it cannot be imitated, e.g. there might be a shortage of buildings suitable for a hotel
- **Non-substitutable** - A substitute is a product that fulfils the same need as the product being replaced, e.g. a hotel's substitute may include camping, but for a luxury hotel these substitutes would not work so the hotel becomes non-substitutable

The positioning approach

The positioning approach suggests that strategic success is gained through analysing and adapting to the organisation's environment, to ensure it retains its **point of difference**. It is more flexible than the resource-based approach but requires regular innovation and change.

Definition

Point of difference

The factor, in terms of goods or services, that differentiates a business from its competitors.

A successful positioning-based approach requires:

- **Competitor analysis and adaptation** – To monitor where the organisation is placed in the market, relative to the competition
- **Environmental analysis** – To monitor all external factors, e.g. political or environmental

- **Scenario planning** – Looking at possible future situations and planning on how to deal with them if they arise
- **Innovation** – Generating new ideas to adapt to changes in competition and the market
- **Change management** – As the positioning approach involves continuous change, the company needs procedures to facilitate and manage change

Strategy development in different contexts

Organisations such as those in the **public sector** and **not-for-profits** need strategies as well, even though they do not focus on profit-making. As they have different motives to profit-seeking organisations, setting objectives can be difficult as there may be immeasurable or conflicting goals.

Definition

Public sector

State-owned organisations, responsible to the government, e.g. NHS in the UK.

Not-for-profit

Organisations that do not seek to make a profit and instead focus on providing a service to members or subscribers, e.g. charities.

Not-for-profit organisations often focus objectives on the three Es model:

Effectiveness	Is the organisation fulfilling its end goal?
Efficiency	Is the organisation maximising productivity?
Economy	Is the organisation working in a cost-effective manner?

Example

A hospital's use of the 3Es:

Effectiveness -Achieving the end goal of making people well

Efficiency - Operating as productively as possible, e.g. reducing time taken for an operation by using new procedures

Economy - Operating as cheaply as possible, e.g. purchasing drugs in bulk

Small and medium-sized enterprises (SMEs):

- May have fewer resources and less experience, so plans likely to be simpler and on a smaller scale
- SME's goals may be directly related to the goals of its owners and not determined by appeasing multiple stakeholders

The role of the management accountant in strategy formulation

Strategic Management Accounting (SMA) builds on management accounting while widening its scope. It helps to control the overall strategy of the company by providing directors with any information that will support them.

Definition

Strategic Management Accounting (SMA)

Evaluates an organisation from a strategic perspective to provide vital information to management to support decision-making.

Key aspects:

- **External reach** - SMA must consider a wider set of data, analysis and measures than traditional accounting to help formulate new strategic decisions
- **Forward-looking** -SMA looks beyond the traditional examination of past performance to analyse possible strategies, evaluate likely outcomes and scenarios and provide recommendations

Examples of SMA:

- Investment analysis, e.g. NPV, payback period
- Market trend analysis of a target market
- Product profitability analysis to support decisions on future product developments
- Customer profitability analysis to support marketing decisions
- Competitor analysis
- Industry reports on changing trends (e.g. PESTEL factors and 5 forces)

The strategic lenses

Johnson, Scholes and Whittington suggest decision-makers can improve strategy by examining it from different angles. They devised four lenses that can be used to view an organisation's strategy from different perspectives:

- **Strategy as design** - Suggests strategy is a logical process based on internal and external analysis and rational thought.
- **Strategy as experience** – Suggests strategies are influenced by the experience of people; strategy comes from learning from, and adapting to, real-world experience.
- **Strategy as ideas** – Emphasises the continuous application of new innovations and business and process change. This strategy relies on the organisation being set up to allow for staff and structural flexibility, entrepreneurship and idea generation.
- **Strategy as discourse** - Looks at the language and discussion of strategy, and views it as an asset that can be used by managers. When a manager justifies their choice of strategy, they gain confidence in their choice, and legitimacy and power as strategists.

Strategic decision-makers should use all the lenses to gain different insights, to make sure all options have been considered.

The top-down approach

The **top-down approach** is a management style which is used to make the decision-making and command structures as focussed and efficient as possible.

Definition

Top-down approach

A management structure where directors and top level executives control and make plans and decisions for the entire organisation; lower-level employees are not involved in deciding the organisation's direction or goals.

Features:

- There is a strong hierarchical structure .
- The decisions made by senior management are communicated to all divisions, departments and employees, who do as directed.
- Any decisions made by lower levels of the organisation have to be consistent with those decided at the top

Advantages and disadvantages of the top-down approach:

Advantages:

Faster decision-making	Less time is spent discussing decisions..
Provides clear goals	As goals and expectations are set by a limited number of individuals at the top, they are likely to be clear and succinct.
Strategically-aligned decisions	All significant company decisions are made at the top, so they are aligned with the corporate strategy.
More informed decision-making	As senior management have the greatest oversight and knowledge of the organisation's current position, they can make more informed and less risky decisions.

Provides a strong organisational structure	Reinforces the organisation’s hierarchy through the lines of authority.
Focuses employees	Employees are not involved in strategy creation, allowing them to focus on their own individual areas.
Disadvantages:	
Limits variety within the employee’s role	Employees are limited to their specific tasks in their role or area, and cannot contribute to company strategy.
Requires a strong leader	As decisions come entirely from the top, there must be strong and competent leaders to ensure the organisation’s success.
Limited perspective	Those making decisions at the top may have limited knowledge of the day-to-day workings of the organisation.
Staff morale	Lower-level staff may feel undervalued if their opinions and insights are not taken into account.
Limited number of decision-makers	As only a few are making decisions at the top, it may slow down the organisation’s ability to react to threats and opportunities due to time constraints or limited insight into specific issues.

The bottom-up approach

The **bottom-up approach** is an opposing view of management to the top-down approach.

Definition

Bottom-up approach

A management structure where all employees are able to contribute ideas or experience in the decision-making process for the organisation as a whole.

The bottom-up approach to strategy can allow the organisation to make more appropriate goals and plans, based on the knowledge, experience and ideas from a wide range of individuals in the organisation.

And finally…

Stop!

By this stage you should know:

- Why is it important for businesses to set a strategy?
- How do levels of business strategy differ?
- What are the uses of emergent strategies?
- What are the different approaches for strategic success?
- Name key differences between SMA and traditional accounting?
- What are the difficulties for setting objectives for not–for-profit organisations?
- How do the strategic lenses differ?
- What a top-down approach to strategy is
- The advantages and disadvantages of a top-down approach
- What a bottom-up approach to strategy entails

Got it?

If not, go back and re-read the study text before moving on.

Question Time

It's now time to practise questions.

If **you've signed up** for our practice questions, or are on our fully inclusive course, here's a direct link to questions for this chapter:

Go to Practice Questions

If **you want to sign up** for our practise questions here's where you will find more details:

Sign Up for Questions