

## Developing Strategy

Written by Administrator

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Increasingly managers are expressing a view that they want to develop their strategic skills to help them better understand their organizations.

This article provides an introduction to corporate strategy including:

- The language of strategy and its possible use
- An exploration of key strategic models
- Strategy and change.

### **What is strategy?**

Most businesses do not have the luxury of being in a start-up position. Richard Branson is quoted as saying: 'Our most successful companies are companies that we started from scratch'. The majority of organisations operate in well established industry sectors that are either mature or semi-mature. Whether you are working in a business from a start-up position or within a traditional enterprise, the majority of organisations have stated strategic intents. So what is strategy?

There are a number of terms that organisations use to drive the business agenda.

- Vision : A picture of a desired future state that is sufficiently appealing and compelling to drive change forward
- Mission: The purpose of the organization
- Values: The underlying principles and ethics that drive the organization
- Goals: The objectives or targets that the organization is trying to achieve

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- **Strategy:** The approach that the organization is adopting to achieve the goals that support the strategy
- **Behaviours:** The way in which people in the organization act in terms of what they do and say that brings the strategy and desired culture to life.

The 'corporate diamond' seen in the figure below explains the inter-relationships.

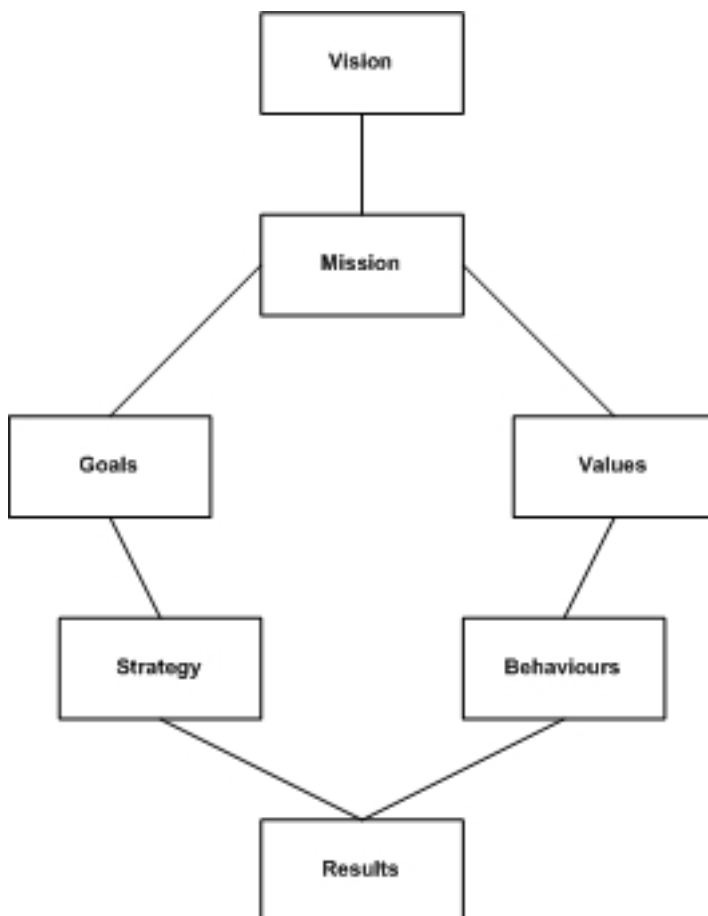


Figure 1: Corporate diamond

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Strategy represents the path way that has been chosen over a period of time to help the organisation achieve its, business vision, mission and organisational goals.

Strategy can be viewed as the route map to the future. A simple way of describing this is to imagine the organisation on a journey that has a constantly changing start point and end. To survive the organisation needs to know:

### **Three key questions that drive change in organisations**

1. Where are we now?
2. Where do we want to be?
3. How will we get there?

#### **Where are we now?**

The first stage in the design and initiation of a future strategy involves undertaking an objective assessment of where the organization is now in terms of strengths and weaknesses. It involves reviewing current and past performance in the eyes of customers, employees and other key stakeholders. Also auditing and comparing the organization to competitors and other organizations which are recognised as 'best in class'.

#### **Where do we want to be?**

This phase involves an analysis of future opportunity and the discussion of options going forward. What do customers need and expect in the future? What are likely employee and other stakeholder demands? Once a strong vision has been created of where the organization wants to be in the future, the goals, strategy, values and behaviours of the business can be aligned to this.

#### **How will we get there?**

This phase involves the development of a strategy to achieve the objectives. It also necessitates a risk assessment and the development of a plan to move the organization forward towards the achievement of organizational goals. Considerations need to be given during this phase to the organizational underpinning such as structure and cultural change that may be needed to support the strategy.

#### **Strategic tools**

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There are a number of strategic tools that help organisations to audit the external and internal environment in which they operate and draw conclusions that will help shape your future strategy.



### The macro and micro environment

Organizations are impacted by two sets of external factors: the macro and micro environment. Sometimes called the near and the far environment, these forces for change can be summarized as follows:

#### PESTEL

The far or macro environment relates to:

- Political
- Economic
- Socio-cultural
- Technological
- Environmental

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- Legal

These influences may impact your business, now or in the future.

Political influences relate to government or constitutional policies that may affect your business. For example, potential government legislation may allow businesses to register that they do not want to receive unsolicited calls. This may restrict cold calling on a business to business basis. The recent expansion of EU boundaries may have an impact on certain businesses.

Economic influences relate to the economy as a whole. Rates of interest have an impact for example on levels of borrowing. The strength of the stock market has an impact on types of investment made.

Socio-cultural influences encompass such factors as class, age and gender, demographics as well as issues such as culture - both local and international and diversity. For example the drinking habits of people in France are different to those in the UK.

Technological influences include the use of the internet, advances in mobile phones, Bluetooth and wireless networks, data management, customer relationship management systems etc which may have an impact on your business.

Many businesses are impacted today by environmental issues. Corporate social responsibility is now higher on the public's agenda. Organizations such as Shell and Nike have been affected by adverse publicity relating to environmental issues.

Legal constraints also affect business performance. The Working Time Directive, Paternity Leave and Minimum Wage are examples of this. In certain industries there are legal constraints imposed by regulatory or watchdog bodies.

The gaming industry is an example of one sector which has been impacted by changes in the

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far external environment. Traditionally betting shops such as William Hill have always been a 'horses and dogs' business. As recently as 1999 this made up 80% of its business. The proliferation of sports and topics that people can now place bets on has led to huge changes in the world of gambling. The twin forces of technology and deregulation have also altered things. Gamblers can now place bets on the internet, via interactive TV, on wap-enabled mobile phones, via high street shops or call centers. Bookmakers are now open on Sundays and in the evenings to cater for different work and leisure patterns. There are proposals on the table to further modernize the gambling laws in this country which relate back to 1960s and license and regulate the industry.

### **The near environment**

Forces nearer to home that influence change are:

- Customers
- Competitors
- Suppliers
- Other stakeholders

### **Customers**

Loyal customers are the lifeblood of businesses. Xerox Organization found that loyal customers who were highly satisfied with their service were six times more likely to remain loyal to them than customers who were merely satisfied. Research by Frederick Reichheld of Bain & Company shows that a 5% increase in customer loyalty equates to between 25% and 80% increase in profitability.

Customer requirements are constantly changing as are their expectations of the quality of the service that they require. At the time of writing the music industry has been completely revolutionized by customers' ability to download music from the internet. Retailer Tower Records in U.S. has recently filed for bankruptcy as a result of these changing consumer habits.

In order to develop strategy business leaders spend time listening to their customers. They get close to their customers to better understand their needs and concerns, to anticipate their desires.

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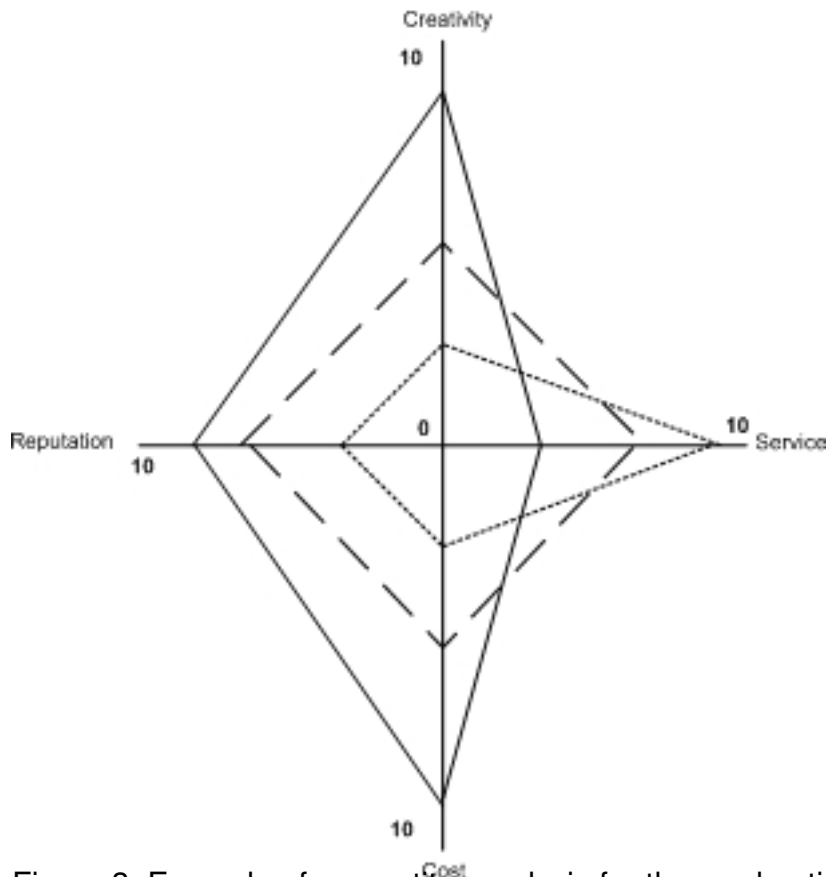


Figure 3: Example of competitor analysis for three advertising agencies

### Competitive analysis

They also are aware of their competitive position in the marketplace. Dyson vacuum cleaner has carved out a place for itself in the marketplace. Its innovative technology and design has led to a market share in UK of approximately 50%. Competitive analysis of the marketplace demonstrated that the major competitors had a poor reputation and were not perceived to be innovative or adding value.

### Supplier analysis

The bargaining power of suppliers and the actions they take can influence your organization. In the pharmaceutical market for example whilst a firm has the patent for a drug and there is no comparable drug in the marketplace, they hold considerable power.

### Internal analysis

As well as looking externally, businesses make an overall assessment of their own organization. They ask:

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- What are we doing well?
- What could we do differently?

The analysis covers the following areas:

### Resources

An internal audit should assess the resources of the organization in terms of Finances, Reputation and Stakeholder satisfaction. Investors today are becoming increasingly conscious of the power of the brand. Organizations such as Coca Cola and Orange have added significant values to their bottom line by creating powerful, global brands. A survey from the Association of Assurance and Risk Managers of the top 250 companies in the UK said damage to reputation was the biggest risk that business faced. Other bodies estimate that goodwill - of which reputation plays a key part - accounts for 70 per cent of the total value of an organization.

A financial review is imperative in assessing the organization's performance. Kaplan and Norton developed the Balanced Scorecard which provides the organization with a 'dashboard' of measures to steer the business linking to Financial measures, customer measures, process measures and learning / continuous improvement.

FINANCE	CUSTOMER
PROCESS	SERVICE AND INNOVATION

Figure 5: Example of balanced scorecard

Likewise it is helpful to review the physical resources of the organization. This will include the most powerful asset of the organization: Its people. In a service environment, employees have a pivotal role to play in making or breaking reputation.

### SWOT analysis

A SWOT analysis is a helpful tool to summarise the results of an internal and external audit. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and Weaknesses are internal to the organization and can be used to capture a summary of the internal audit that you have undertaken. Opportunities and threats relate to the external



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environment (macro and micro). Here is a SWOT analysis for a GP's surgery.

<b>STRENGTHS</b> Committed and long serving staff Dedicated Doctors Open management style Regular meetings New appointment system	<b>WEAKNESSES</b> Inability to recruit another full time partner Premises in need of refurbishment Some people are reluctant to change Lack of development
<b>OPPORTUNITIES</b> Work closer with Social Services Clinical governance means everyone has to have a development plan Funding from Trust to improve premises Greater collaboration across surgeries	<b>THREATS</b> Increasing list size vs number of doctors Reluctance of newly trained doctors to enter general practice

Figure 6: Example of SWOT analysis

A further useful analysis is to assess the organization's portfolio of products and services. The Boston Consulting Group's product / service analysis matrix can be useful in positioning products and services in relation to their life cycle. This helps identify which products and services are most profitable and where there is potential market growth.

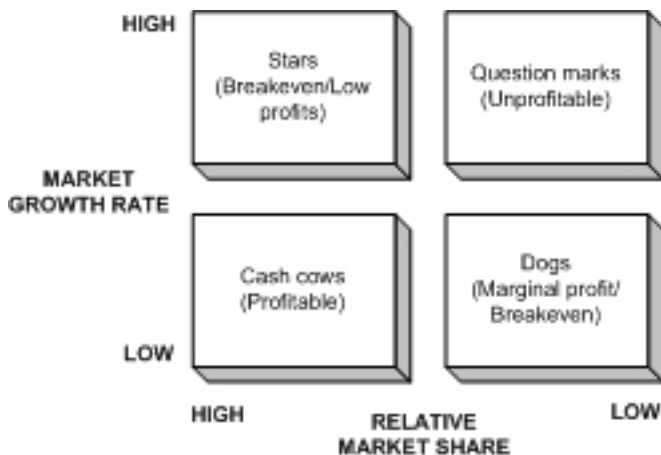


Figure 7: Product / service analysis

The matrix suggests that 'cash cows' should be milked for their cash flow and no further

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investment be made here. Little effort or resources should be devoted to 'dogs'. 'Question marks' can become 'stars' if investment is made in them. 'Stars' are products and services which can become more profitable and investment should be made to strengthen their relative market share.

### **Developing a vision of the future**

Once an organisation has carefully assessed where they are now, they can make informed choices about where they want to be in the future. An attractive vision of the future helps create dissatisfaction with the current state.

Having a vision for your company is stretching the organization beyond its grasp. Bill Gate?s vision for Microsoft is of a computer in every home. Powerful visions are compelling and memorable over time. A vision of the future enables the senior leadership team to create long term goals to move the organization towards the attainment of the vision. These will be specific to each organization, but following the principles of the balanced scorecard mentioned above, will generally focus on:

- Increasing customer satisfaction and retention
- Improving employee satisfaction and retention
- Process improvement / operational efficiency
- Financial success

### **Developing strategies to achieve the goals**

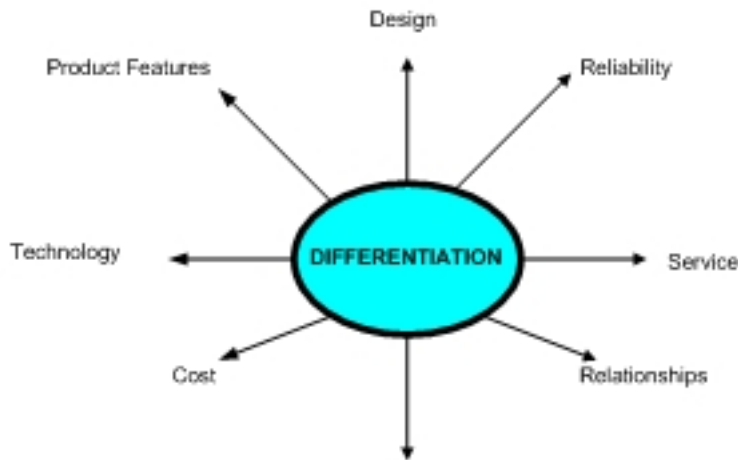
Having established the vision and goals of the organization and the values and behaviours that underpin this, business leaders then develop a strategy for achieving the goals. There are various options that lead to differentiation in the market place and hence competitive advantage.

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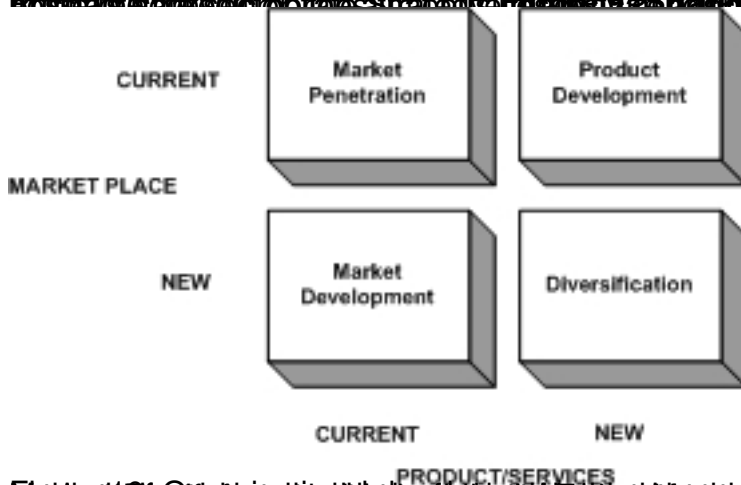
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## Sources of Differentiation



Generic	Generic cost focus	Generic differentiation focus
Specific	Targeted cost focus	Targeted differentiation focus
	Cost	Differentiation

Figure 9.5 Strategic options identified in 1967, as described by Ansoff



Scenario planning - what if

In order to generate strategic options many organisations anticipate and think through how different options will impact the business in the future. Risk assessment and scenario planning can help you develop this process. Here groups of managers meet to develop 'What if' scenarios that help them analyse and make informed decisions about strategic options. There are risks associated with each change option. Risks are potential problems that can occur in introducing and managing change. We cover a process for risk assessment in the next chapter.

## Structure

The strategy that a business adopts also informs its structure. Enterprise car rental in US mentioned above for example operate each branch as a separate business / profit center. This fits well with its strategy of lower pricing and superior customer service as it motivates

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managers to perform.

One way of overcoming problems of inadequate resources or high risk is to form strategic alliances or partnerships. Increasingly many managers are facing up to some key decisions about how they resource their customer services. This often requires questions on outsourcing, for example:

- Should I outsource my customer-related activities?
- What impact will it have on the customer?
- Can we achieve better service?
- Will outsourcing save me money?
- Can the outsourcer provide a better service?
- Can I afford necessary technology advances for call centres and e-commerce?
- Can I take the risk on behalf of my customers that it might all go sour?

Outsourcing is another strategic option that is increasing in popularity. A major research study of current and future practices in outsourcing has been carried out by Cranfield School of Management. Analysis revealed that basic services such as cleaning, catering and printing were the most frequently outsourced, with HR, IT and telecommunications also often mentioned. Next in frequency of outsourcing was a middle band response which included facilities management, e-commerce and call centres, logistics, finance/accounting and manufacturing. Least likely to be outsourced were:

- Information and knowledge management.
- Purchasing.
- Fund management/securities/asset management.

Some organizations such as Amazon outsource to specialist suppliers much of their contact with the customer, for example call-centre and logistics management and have made a resounding success of it. Other businesses such as Dell and Wal-Mart have shown that competitive advantage can be gained by outsourcing key activities such as manufacturing and logistics. British Airways has outsourced its service and complaint handling to India.

**What do we need to do to get there?**

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Once strategic options have been generated and assessed, the business measures the size of the gap that is present between desired and current states. They also need to be clear on what the organization needs to stop, start and continue doing in order to implement change. Therefore the implementation of strategy often involves organisational change. This may involve realigning organizational processes, people, structure systems and behaviour so that they support the change. The HR and learning and development professional is often on the receiving end of this change. By understanding more about the strategic process they can better engage with and align their services to manage change.

### Suggested reading

Collins, Jim, Good to Great, Random House, London 2001

Kotter, John, The Heart of Change, Harvard Business School, Boston, 2002

Reichheld, Frederick, The Loyalty Effect, Harvard Business School, Boston, 1996

Thompson, John, Strategic Management, Thomson Learning, London, 2001

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