

Lecture 1

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Organisational Strategy

BMA6104



1. Module Overview

**2. Introduction:
What is Strategy?**

3. The Macro Environment

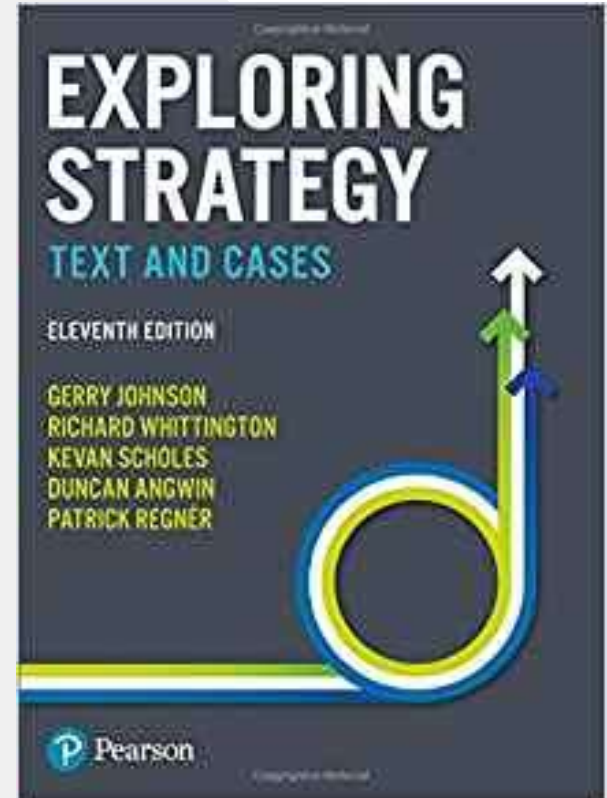
Module reading

Core text:

Johnson, G., Whittington, R., Scholes, K., Angwin, D. & Regnér P. (2017), *Exploring Strategy: Texts and Cases*, 11th edition, Pearson.

(Earlier editions mostly cover the required areas and are also fine.)

Further reading and materials will be provided in Minerva





2. What is Strategy?

Learning outcomes

- Understand **core concerns** in the analysis of business strategy
- Distinguish between **corporate, business** and **operational strategies**.
- Identify key issues for an organisation's strategy according to **positions, options and actions**.

Definitions of strategy (1)

- ‘..the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals’

Alfred D. Chandler

- ‘Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value’

Michael Porter

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13;
M.E. Porter, What is strategy?, *Harvard Business Review*, 1996, November–December, p. 60

Definitions of strategy (2)

- ‘..a pattern in a stream of decisions’

Henry Mintzberg

- ‘..the long-term direction of an organisation’

Exploring Strategy

Sources: H. Mintzberg, *Tracking Strategy: Towards a General Theory*, Oxford University Press, 2007, p. 3

Strategic Decisions

Strategic decisions are about:

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Building on resources and competences (**capability**)
- **Values and expectations** of stakeholders

Therefore they are likely to:

- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

Levels of strategy

• **Corporate-level strategy** is concerned with the overall scope of an organisation and how value is added to the constituent business units.

- **Business-level strategy** is concerned with the way a business seeks to compete successfully in its particular market.

- **Operational strategy** is concerned with how different parts of the organisation deliver the strategy in terms of managing resources, processes and people.

Strategy's three branches

CONTEXT/POSITION – *internal and external*

CONTENT/CHOICES – *strategic options*

PROCESS/ACTIONS – *formation and implementation*

Strategic context/position

The strategic position is concerned with the impact on strategy of the external *environment*, the organisation's *strategic capability* (resources and competences), the organisation's *goals* and the organisation's *culture*.

Strategic context / position (contd)

Fundamental questions for Strategic position

- What are the environmental *opportunities and threats*?
- What are the organisation's *strengths and weaknesses*?
- What is the basic *purpose* of the organisation?
- How does *culture* fit with the strategy?

Strategic content/choices

Strategic choices involve the options for strategy in terms of both the ***directions*** in which strategy might move and the ***methods*** by which strategy might be pursued.

Strategic content / choices (contd)

Fundamental questions for Strategic choice

- How should individual business units **compete**?
- Which businesses to include in the **portfolio**?
- Where should the organisation **compete internationally**?
- Is the organisation **innovating** appropriately?
- Should the organisation **buy** other companies, form **alliances** or **go it alone**?

Strategy in process/action

Strategy in action is about how strategies are ***formed*** and how they are ***implemented***.

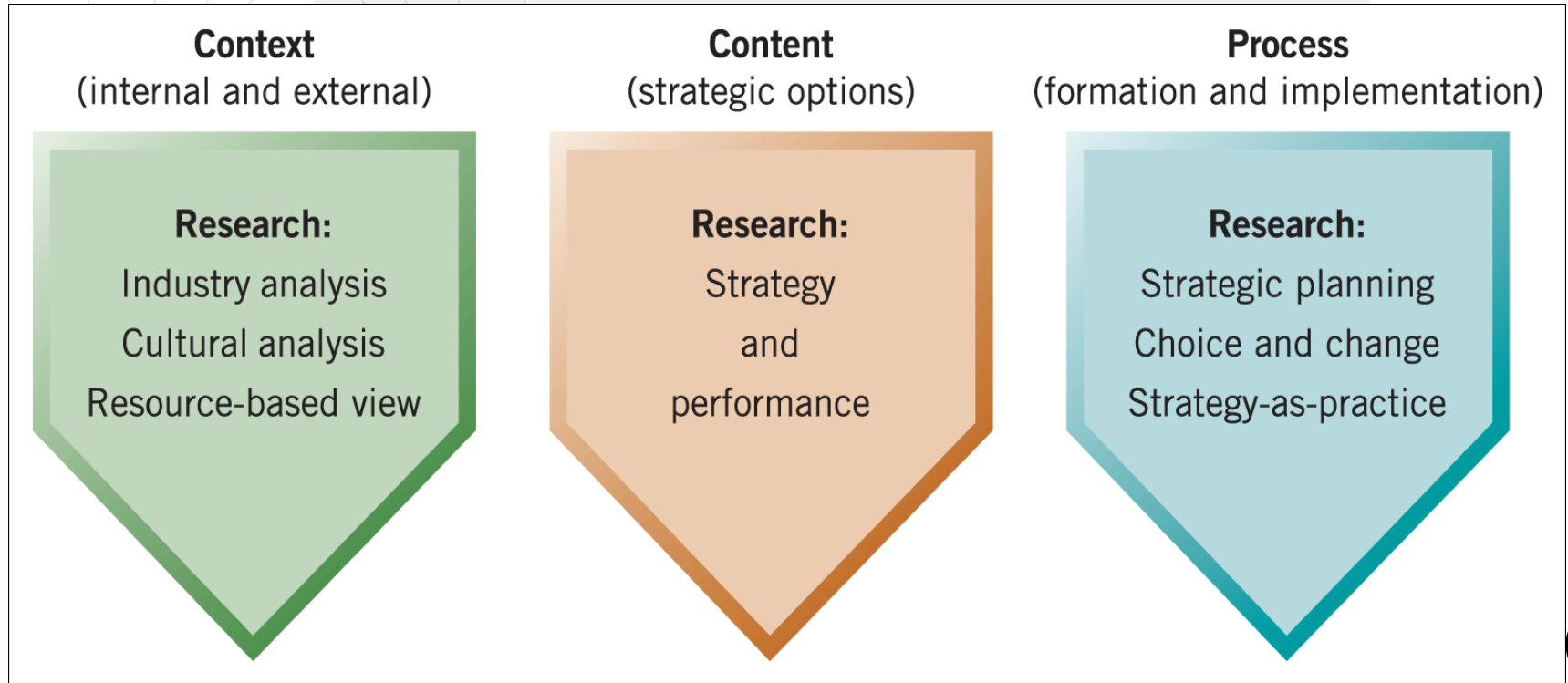
The emphasis is on the ***practicalities*** of managing.

Strategy in process/action (contd)

Fundamental questions for Strategy in action

- Which strategies are ***suitable, acceptable*** and ***feasible***?
- What kind of ***strategy-making processes*** are needed?
- What are the required ***organisation structures*** and ***systems***?
- How should the organisation ***manage the change*** needed?
- Who should do what in the strategy process? Which ***people*** and what ***activities***.

Strategy's three branches (contd)



Introduction Summary

- Strategy is the ***long-term direction*** of an organisation.
- ***Corporate-level strategy*** is concerned with an organisation's overall scope; ***business-level strategy*** is concerned with how to compete; and ***operational strategy*** is concerned with how corporate- and business-level strategies are actually delivered.
- Strategy can be explored through three major elements: understanding the ***strategic context/position***, making ***strategic choices/options*** for the future and managing ***strategy in process/action***.



3. The Macro Environment

Learning outcomes

- Analyse the broad macro-environment of organisations in terms of political, economic, social, technological, ecological and legal factors (**PESTEL**).
- Identify **key drivers** of change
- Explore **forecasts** for future options
- Construct alternative **scenarios** in order to address possible environmental changes.

Layers of the business environment



The PESTEL framework (1)

The PESTEL framework categorises environmental factors into six key types:

Political

Economic

Social

Technological

Ecological

Legal

PESTEL helps to provide a list of potentially important issues influencing strategy. It is important to assess the impact of each factor.

PESTEL: POLITICAL

- *Political factors:*
- The role of the state at local, regional, national and international levels
- State as an owner, customer or supplier of businesses
- Government policies
- Taxation changes
- Foreign trade regulations
- Political risk in foreign markets
- Changes in trade blocks (e.g. BREXIT, NAFTA)
- Shifts in local/regional planning and service priorities

Political influence

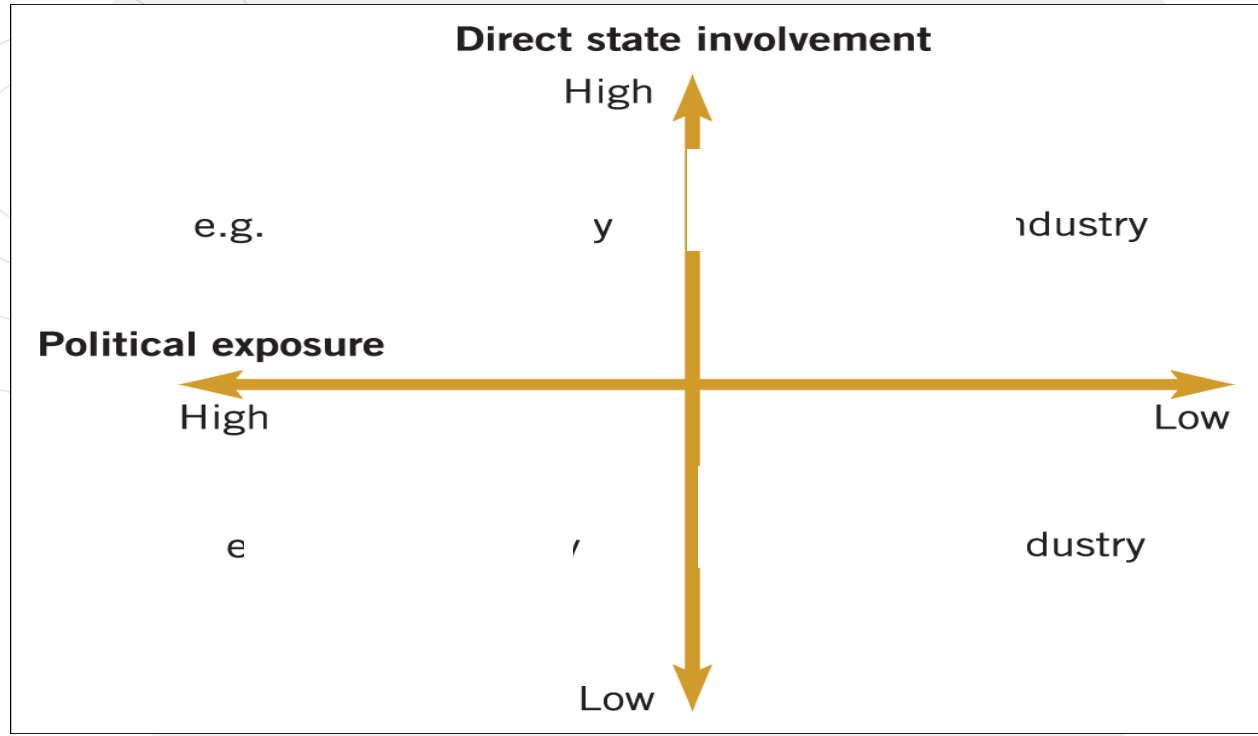


Figure 2.2 The political environment

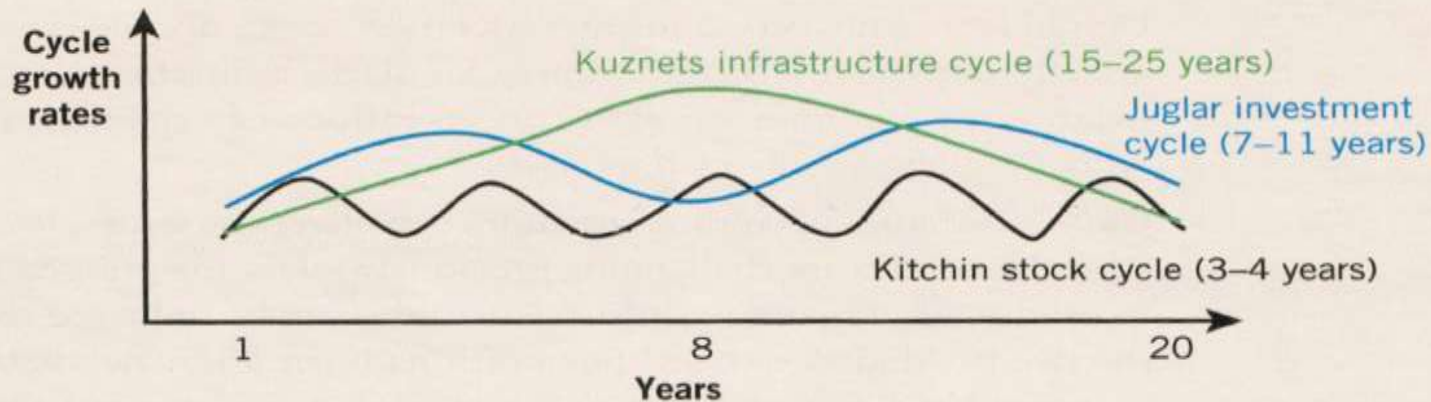
PESTEL: ECONOMIC

Economic factors:

- The role of macro-economic factors
- Business cycles
- Interest rates
- Personal disposable income
- Exchange rates
- Unemployment rates
- Differential growth rates around the world

Economic Cycles

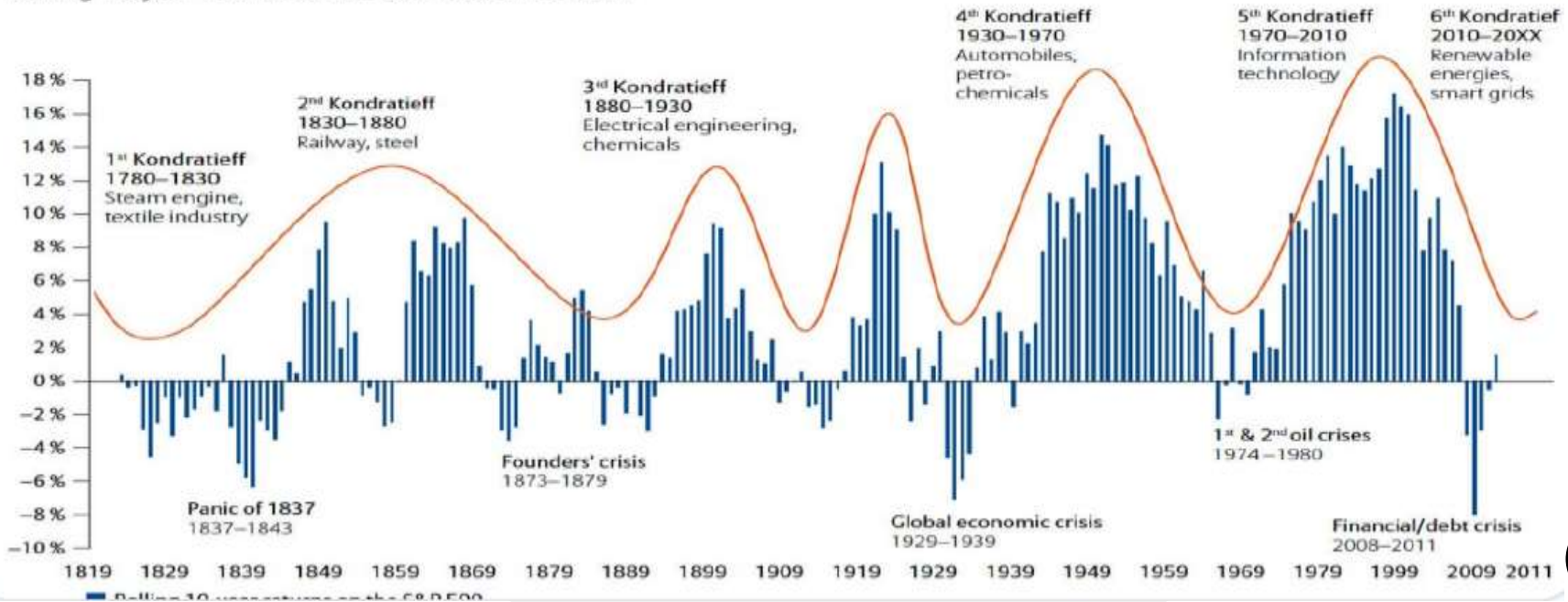
- Kondratiev 45-60 yrs (industrial/technology waves)
- Kuznets 15-25 yrs (infrastructure; eg. housing)
- Juglar 7-11 yrs (capital investment period)
- Kitchin 3-4 yrs ('stock' build up)
- Annual 1 yr (seasonal variations)



Long run cycles: Rolling 10-year returns on S&P 500

Figure 1: Crises – The Power of Creative Destruction

Rolling 10-year returns on the S&P 500 since 1814



PESTEL: SOCIAL

- ***Social factors:***
- The role of changing cultures and demographics
- Ageing population in Western societies
- Shifting income distribution
- Lifestyle changes
- Consumerism
- Shifts in culture and fashion

PESTEL: TECHNOLOGICAL

- ❖ *Technological factors:*
- ❖ The role of new discoveries and technology developments
- ❖ Developments on the internet, eg. business platforms
- ❖ Nano-technology
- ❖ New composite materials
- ❖ Internet of Things



PESTEL: ECOLOGICAL

- ❑ *Ecological factors:*
 - ❑ The role of 'Green' environmental issues
 - ❑ Environmental protection regulations
 - ❑ Energy supply
 - ❑ Climate change
 - ❑ Waste disposal
 - ❑ Re-cycling

UN Sustainable Development Goals



PESTEL: LEGAL

- *Legal factors:*
- The role of legislative and regulatory constraints or changes
- Intellectual property rights (IPR)
- Competition law
- Health and safety law
- Employment law
- Liberalisation of trade law

Key drivers of change

Key drivers for change:

- The environmental factors likely to have a high impact on the success or failure of strategy.
- Typically key drivers vary by industry or market.
- For example, retailers are concerned with social changes and customer behaviour which have driven a move to 'out of town' shopping. Personal disposable income also drives demand for retailers.

Using the PESTEL framework

- Apply ***selectively*** – identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are ***important currently*** but also consider which will become ***more important in the next few years***.
- Use ***data*** to support the points and analyse trends using up-to-date information.
- Identify ***opportunities and threats*** – the main point of the exercise!

Scenarios

Scenarios are plausible views of how the environment of an organisation might develop in the future based on key drivers of change about which there is a high level of uncertainty.

- Build on PESTEL analysis and drivers of change.
- Offer more than a single view. An organisation will typically develop a few alternative scenarios (2–4) to explore and evaluate future strategic options.
- Scenario analysis is used in industries with long planning horizons, for example the oil industry or airlines industry.

Scenarios for the global fashion industry, 2025

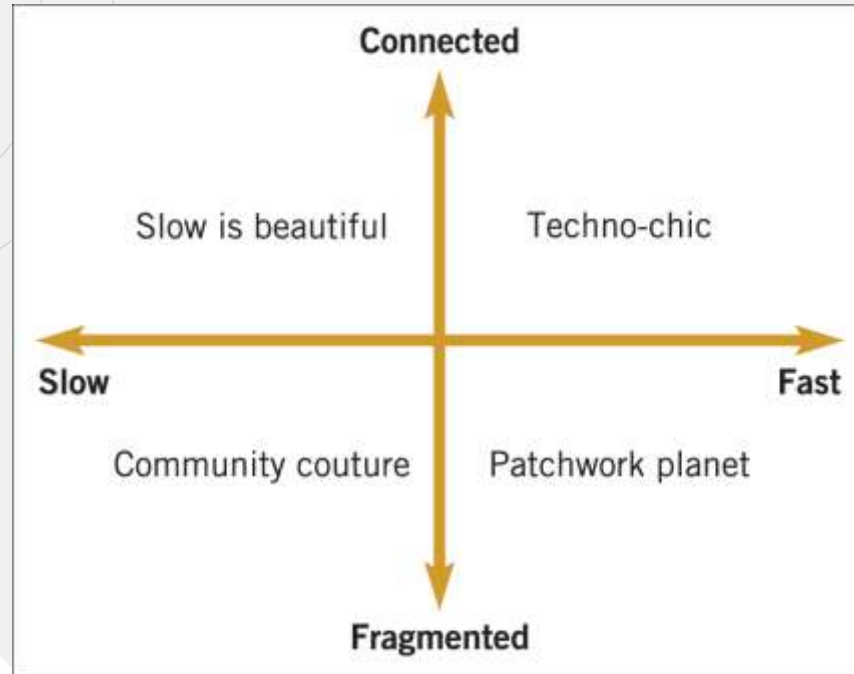


Illustration 2.2

Macro summary

- Environmental influences can be thought of as *layers* around an organisation, with the outer layer making up the *macro-environment*, the middle layer making up the *industry or sector* and the inner layer *strategic groups* and *market segments*.
- The macro-environment can be analysed in terms of the *PESTEL factors*, from which *key drivers of change* can be identified.
- Alternative *scenarios* about the future can be constructed according to how the key drivers develop.



Thanks!