

The need for strategy in driving growth



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The word strategy has been defined by different authors in different ways. As described by Mintzberg () Strategy is one of the “ five P’s – Plan, Ploy, Pattern, Position or Perspective. As discussed by Whittington (1993, p2), “ there are four approaches to strategy,

1. Classical or the Idealistic View
2. Evolutionary or the Ruthlessly Market Driven View
3. Processual or the Pragmatic View
4. Systemic or Relativistic Approach”

Different theories/institutions perceive strategy in different perspectives.

According to the Classical theory, Strategy is Plan and/or Position, Processual School perceives it as a Pattern, Evolutionist as perspective. But in real world situation, Strategy needs a mix of these in some way or other, like the Umbrella Strategy, where the broader objectives are deliberately planned and the others are allowed to evolve/emerge”.

In this work, I will be concentrating more on the Classical and the Processual Theory, which are the most debated of all these views and in brief about how the other two views .

4. STRATEGY – DEVELOPMENT & IMPLEMENTATION

Strategic development and implementation has always been an imperfect process. Companies fail to differentiate between strategy formulation and implementation, which makes it complex for one to analyse if it was the strategy formulated or the evolved/emergent strategies which lead to the <https://assignbuster.com/the-need-for-strategy-in-driving-growth/>

success or failure. Most companies spend a lot of time and resource to develop or formulate a strategy and fail to implement the strategy. A good example I have experienced was, Carrefour's entry into India. It's been about five years since the company has been prolonging to enter the Indian market, but still are lagging behind. The company had a planned strategy to open stores (Cash and Carry Format, for which the FDI is 100%) in India by late 2008 and had the resource to do so, but failed to implement the strategy or capitalise on opportunities. Strategy then became direction or simply a Mission. As explained by Neil (Strategy and Planning, Omnibus, 2008, p33) " The reason of failure of the plan could be either Political or legal impacts or poor management of action, which created the Strategic drift". Top Management/ Strategist develop the strategies and the operation manager, who make the day-to-day decisions, tend to get carried away from the Strategy because of the complexities in the market and the need for immediate solutions for certain issues. If these are not monitored by the top management, there could be a vast difference between the intended strategy and the realized strategy.

Figure : Strategic Drift (source: Strategy and Planning Omnibus, Neil Russel-Jones Strategy & Planning, omnibus, 2008, p33)

As Mintzberg explained in his book (Strategy Safari, 1998, p5), " there are ten different schools on Strategy". Below in my essay, I will be elaborating and critiquing on a Classical Theory in context to Positioning School. And critically evaluate why strategy development process and implementation is an imperfect process.

4. 1 CLASSICAL THEORY AS AN IMPERFECT PROCESS

According to the classical theorist, “ The main objective of the firm is earning Rent and rational planning as to tool to achieve it (R. Whittington, What is Strategy and does it matter handout)”. These are deliberate strategies created to achieve Rents. The Classisist view man as being rational economic man and the top executives being capable of analysing the internal and external environment, and make rational long term decision to achieve rents. According this school, strategy formulation should be separate from strategy implementation. As discussed by Chandler, strategy “ is 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 those goals”. Also Structure is, “ the design of organisation through which an enterprise is administered” and it included the communication through which the policies and strategies were to be communicated. Chandler (1997, P. 48) concluded by saying that “ structure follows strategy because it is the long term decisions regarding an organisation’s activities and scope that determine how the organisation will be structured”. The role of top management is therefore to make strategy, determine the structure and monitor the implementation.

The other type of classicist are the Resource-Based Thinkers like Margaret Peteraf, Hamel, Prahalad (1997) and Grant (1995). The Resource-Based thinkers view in opposite way of Porter’s view. The Resource-Based thinkers start with resources, capabilities/competences and then into different markets to generate competitive advantage (in-out), whereas Porter starts

from market structure and then configures the firm's activities for competitive advantage (out-in). The Resource-Based thinkers argue that it is these capabilities or core competencies that are unique, inimitable and immobile, that generate competitive advantage. Therefore an organisation should deliberately develop strategy based on their distinct resource bundles and capabilities/competencies which should also be developed to respond to dynamic environment changes.

Below I have discussed in detail the strategy development and implementation of process, the Porterian way.

POSITIONING SCHOOL – THE PORTERIAN WAY

According to Porter (1980, p. xvi) “attaining a competitive strategy is a combination of ends/goals and means/policies”. “The strategy development involves positioning the firm in an attractive industry and configuring the firm's activities to generate and sustain competitive advantage”. As described by Mintzberg (1998, p. 85), “according to the Positioning School,

Strategies are generic, common & identifiable position in the market.

Example, Apple iPod's differentiation strategy, Tesco's Cost leadership strategy, Rolls Royce & Rolex – Focused differentiation

Assumption that market place is economic and competitive.

Strategy is formed of generic selection of position based on analytical calculation.

Manager control the strategic choice and analysts play vital role in feeding information.

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Strategies are formulated and then implemented; stating, structure follows strategy.

No classical theorist have actually described how strategy have been actually formulated but the assumed that, carefully analysing the market structure and positioning the company for gaining competitive advantage that lead to sustainable rent earning position as Strategy.

The classical approach in the Competitive Strategy development process involves the following steps,

Figure : Development Process (source: Neil Russel-Jones Strategy & Planning, omnibus, 2008, p47)

According to Porter, analysing the market structure is the first step in development of the strategy. In analysing the Market/Industry, Porter used his five force model (), Bargaining power of suppliers, Threat of new entrants, Rivalry among competitors, Bargaining power of buyers, and threat of substitutes in identifying the structural features of the industry and identifying the gaps. This involves extensive collection of hard data about the competitors and the industry structure, analysis of the same. The analysis could produce rather a large number of possible strategies to choose from and it the Top Management, who finally decides the strategy based on his experience.

After the market/industry analysis, positioning of the firm which involves a choice of business scope including products, location, segments, level of vertical integration and diversification as the next step. According to Porter

(1980, p35), “ there are three position in a market which a company can choose from, to have a competitive advantage

Differentiation

Cost Leadership

Focused

Differentiation

Company can choose to develop a unique product or service, relying on the loyalty of its customers. Differentiation provides a better cover against its rivals because of the customer and thus a low sensitivity to price change. “ A firm could offer high quality, better performance or unique features, any of which could justify the high price (Mintzberg, 1998, p103). Apple’s range of ipod, which has better features and high quality makes it a unique product and tough for the competitors to imitate due to extensive R & D involved.

Cost Leadership

This strategy aims to make firms the low cost producer in the industry. This requires the company to make large investments in integration (Vertical or backward), economies of scale and monitoring of operation cost”. As Porter explains, “ the competition is very high in a low cost position and the firms need to defend itself from powerful buyers and suppliers”. Carrefour, Tesco, Asda, Walmart are few firms with this strategy and are competitors themselves.

Focused

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“ This strategy gives the firms to focus on a particular customer group or product line or the geographic market”. Firms can either focus on being differentiated like Southwest Airlines or cost based focus like Rolex, Rolls Royce, and Tata – Nano.”

Once choosing where the firm wants it to be and the analysis of the industry structure, the firm then decides on the Vision or the Goals and strategy. It is important for the companies to clearly state clearly these statements.

Examples of Vision are Wedgwood’s vision that ordinary people should be able to buy good crockery at low prices and Microsoft’s PC on every desk.

Examples of Strategies are Return on Assets of 3%, Cost/income ratios of 45% etc., These provide the direction in which the firm is moving towards.

The last and the final step is the implementation of the strategy. It is necessary for a firm to define what auctioned needs to be done at what stage, by whom and the allocation of the resources necessary for the same.

4.3 CRITICAL EVALUATION

Pettigrew (2002, p183) describes the strategy process as “ barely an ambition and rarely an accomplishment”. Strategies often fail in organisations because of the management’s inability to convert Strategy into actions that employees can understand and employ in their everyday work. “ In the period of restructuring and uncertainty, it is inappropriate to rely on single point decision making (Mintzberg, 1998, p66)”. In Mintzberg’s view, “ there has been no strategy through an analytical technique. Classicist take for granted that the rational economic man has all the knowledge in formulating, implementing and monitoring the strategy based on the trends,

relying exclusively on the hard data and over formalizing the strategy making process”.

The Long term rational planning relies on extensive hard data, which is limited in scope and unreliable. The Positioning school assumes that the markets are always competitive and economic. In today’s world, markets are very dynamic for one to predict in a long term. Although the model provides a direction and structure, it forgets to focus on the internal capabilities of the firm and eludes some of the important factors like culture, power, and environmental changes (technological changes). There is always a deviation between what was intended and realized strategy. Some part of the planned strategy doesn’t work because of internal resistance (culture) or local government policy in the particular geographic location, which leads to unrealized strategies. As said earlier, companies fail to differentiate formulation from implementation, strategies from objective and actors from thinkers. Also believing on rational economic man is an idealistic perception, in real world men are bound rationally. This kind of strategic models seem to be working for large companies but in reality it is very difficult for one to conclude that the development of strategy and implementing is a perfect process.

Reliance Industries Limited (RIL), one of the largest private sector company in India, faced difficulties with one of their Retailing format. In contrast to the monopoly that reliance has in manufacturing Polyester fibre, Reliance had difficulties in launching the Reliance Fresh, a neighbourhood store format. On Porters Competitive Strategies, the company focused to position its new format on cost leadership strategy and did backward integration focussing

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on economies of scale. This format was not a complete success as the company came under lot of resistance from local trade. The top management failed to identify the political influence and power of the trade unions which forced them to shut down few of their stores. Although strategy was developed towards deliberate realized strategy, the company had to respond to the unfolding pattern of action.

Furthermore, strategies developed in a single perspective do not succeed. It requires companies to look into strategy from at least two perspectives to succeed. Structure and direction is important for the firm and so are the social obligation, culture and flexibility to changes in the market/environment.

5. LONG RANGE PLANNING – walking blindfolded

As we can see from the proceedings', rational planning has not been successful. I agree to the statement that " long range planning is a waste of time and resource". In today's scenario, the markets are too turbulent to predict years ahead, planning too far ahead could leave companies/firms in darkness. The markets are dynamic and " a range of possible futures confronting business is great. Companies that nurture flexibility, awareness, and resiliency are more likely to survive the crisis and even to prosper". Classicist and Systemic view long range planning as an arsenal for the strategy formulation. Classicist believe that markets are always competitive and product customer positioning is the key for success, whereas, the Systemic view that firms can plan forward but success depends on how they react to the particular sociological context. The systemic approach agrees on the classicist view on formal long range planning but also include that culture

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and environmental changes are important and needs to be given the due respect.

Evolutionary approach on the other hand (Whittington, 1993, p. 18-22) does not believe in “ the ability of management or rational man to predict the environment (based on single individual view) and plan ahead”. The Evolutionists argue that “ its markets and not managers that evolve strategies. They view business as a natural selection where the best performers will survive”. As discussed by Whittington, “ The most appropriate strategies within a given market emerge as competitive processes allowing relatively better performers to survive and flourish, while the weak performers are irresistibly squeezed out of the ecological niche”. The Evolutionists argue that because of unpredictable and uncontrollable markets, long-range planning is neither possible nor important. Therefore, firms should aim at efficiency for survival and experiment with short term flexible strategies.

Processualists argue that long range strategic planning is difficult. According to the processualists the management cannot be rational because of ‘ bounded rationality’ factor, which, as Whittington quotes Cyert & March (1963), mean that managers “ are unable to consider more than a handful of factors at any given point; are reluctant to go ahead on unlimited searches for relevant information; the interpretation of data is based on their past experience”. Rational decision making as described by Pettigrew (2002, p187) “ is the basis of the thinking about strategy process”. Rational decision making involves extensive analysis and finding all the options possible to choose for a particular problem. But in real world analysing all the possible

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options and selecting the best option is an unrealistic process for a single isolated individual to reach any high degree of rationality. As said by Herbert Simon, “ in real world humans are boundedly-rational and do not engage in extensive search for the optimal solution but satisfy for a realistic one”.

The Processualists also add that the ‘ people’ factor is important to be considered in strategy formulation. As explained by Lynch (2002), “ organisations consist of coalitions of people who form power blocks. Decisions and debate rely on negotiations and compromise between these power blocks and it is termed as political bargaining and organisational routines”.

because of different individual goals often conflicting with organisational goals, the rational long-run strategic planning will not be perfect and will be different from the ideal.

Processualist view strategy as emergent and taking necessary actions accordingly to survive rather than profit maximisation. Some of the typical examples are the new government policies, like VAT, new trade restriction policies, technological innovation etc., These are something that the companies/firms will not be able to anticipate.

Therefore, the Processualists hold that within the conditions of bounded rationality and organisational micro-politics, ‘ strategic conservatism’ develops, where rapid change is resisted by staff and strategy tends to be embedded in organisational guidelines, daily routines and operating procedures (Whittington, 1993 p. 23-24). Therefore organisational strategy is

derived from repeated trial and experimentation of small steps as organisations adapt to environment changes.

5.1 EMERGENT STRATEGY Vs DELIBERATE STRATEGY

Long range, deliberately designed strategies is always and inefficient way of planning. Both the classical theorist and the systemic theory believe in long range structured planning as a strategic tool for success. Deliberate strategies, when executed with perfection can lead to the intended strategy, but in most often cases, Managers get lost during the transition and neglected. As Mintzberg and Waters described (1985, p259), “ Openness to emergent strategy enables management to act before everything is analysed and to respond to an evolving reality rather than having to focus on a stable fantasy. Emergent strategy itself implies on learning what works and taking one action at a time in a search for creation of a viable pattern or consistency.” As what Johnson & Scholes (2002, p. 69-70) call ‘ logical incrementalism’ or ‘ organisational learning’ or ‘ crafting of strategy’. The implication is that, strategy is allowed to emerge, and the markets will tolerate firms not at profit maximisation level. An example is the development of Honda in the US market. Honda saw the US as the market for the guys in leather jacket and launched their bigger models. Failure to attract interest in it, the honda sales team recognised the emergent strategy in the potential of their low end model (50 cc supercub) in US. Another example is the development of Microsoft as a company. They did not have a strategy in place. The company was able to handle flexibility and whenever

there was a need, it was able to come up with something new, either by acquisition or invention.

5. 2 BONDED RATIONALITY Vs RATIONALITY - hindrances in decision making

5. 6 GARBAGE CAN – all in the well

The Garbage can model is used for immediate solutions where the firms are short in time or believe that everyone needs to be a part of the decision making process. According to this, the problem, solution and actors are all in a box and a randomly selected solution, if agreed by everyone, becomes the solution for the problem. An example to describe this is, the recent crisis in the defence line of Manchester United football club. The club had a problem with eight of their defenders injured and only left with one frontline defender and a couple of young teenagers (reserves team) left available for play. The boss, Sir Alex, did not look for external solution for the crisis but turned to his midfielder Carrick, who he thought had the ability to control the play as a possible choice, which was accepted by captain and the team. He did not waste time by analysing the options available in the reserves/academy team but rather choose to satisfy with a frontline player in a defensive role.

5. 7 SATISFYING Vs MAXIMISING

Great pasta

Compromises

As Lowell and Diana described, “ senior executives in today’s environment should be flexible to any change and the so called “ just in time” approach to strategy formulation, risk taking and resource allocation.” Companies must

take a more flexible approach to planning: each of them should develop several coherent, multipronged strategic-action plans, not just one. Every plan should embrace all of the functions, business units, and geographies of a company and show how it can make the most of a specific economic environment.

Strategic long range planning is important for organisations to succeed but is not enough. The management needs to ensure the strategy is well understood by their employees and measured in a manner which is relevant to them to keep track of the progress. One of the way in which the employee's can be made aware of their contribution towards the strategy is by building a balanced scorecard.

6. CONCLUSION

The discussion has indicated that the view as to whether strategy development and implementation is at best imperfect or indeed whether long-range planning is a waste of time, depends on which approach is utilised. The Classical holds that strategic planning and implementation is feasible and deliberate through rational systematic, and separate activities. Systemic approach supports it with a caution to consider social systems. The evolutionary maintain that strategy development will not be perfect and rational in view of environmental changes while the Processual attribute its difficulty to, bounded rationality and people factors therefore strategies will evolve from markets (evolutionary) or emerge from experience (Processual).

My view is that no single approach is ideal for every situation. In effect, the classical approach forms the basis of strategy development with its analysis

however, it should recognise the dynamic environmental changes, people factors (both in development and implementation) and cultural systems. The extent of incorporating views of other approaches will depend on the specific industry or setting for example, electronics and computing is fast changing due to technology therefore, it requires more flexibility in strategy that say construction industry.

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<http://www.innosight.com/documents/The%20Processes%20of%20Strategy%20Development%20and%20%20Implementation.pdf>

Mintzberg and Waters, [http://cas.uah.](http://cas.uah.edu/berkowd/webpage/mgt690/mintzbergandwaters.pdf)

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