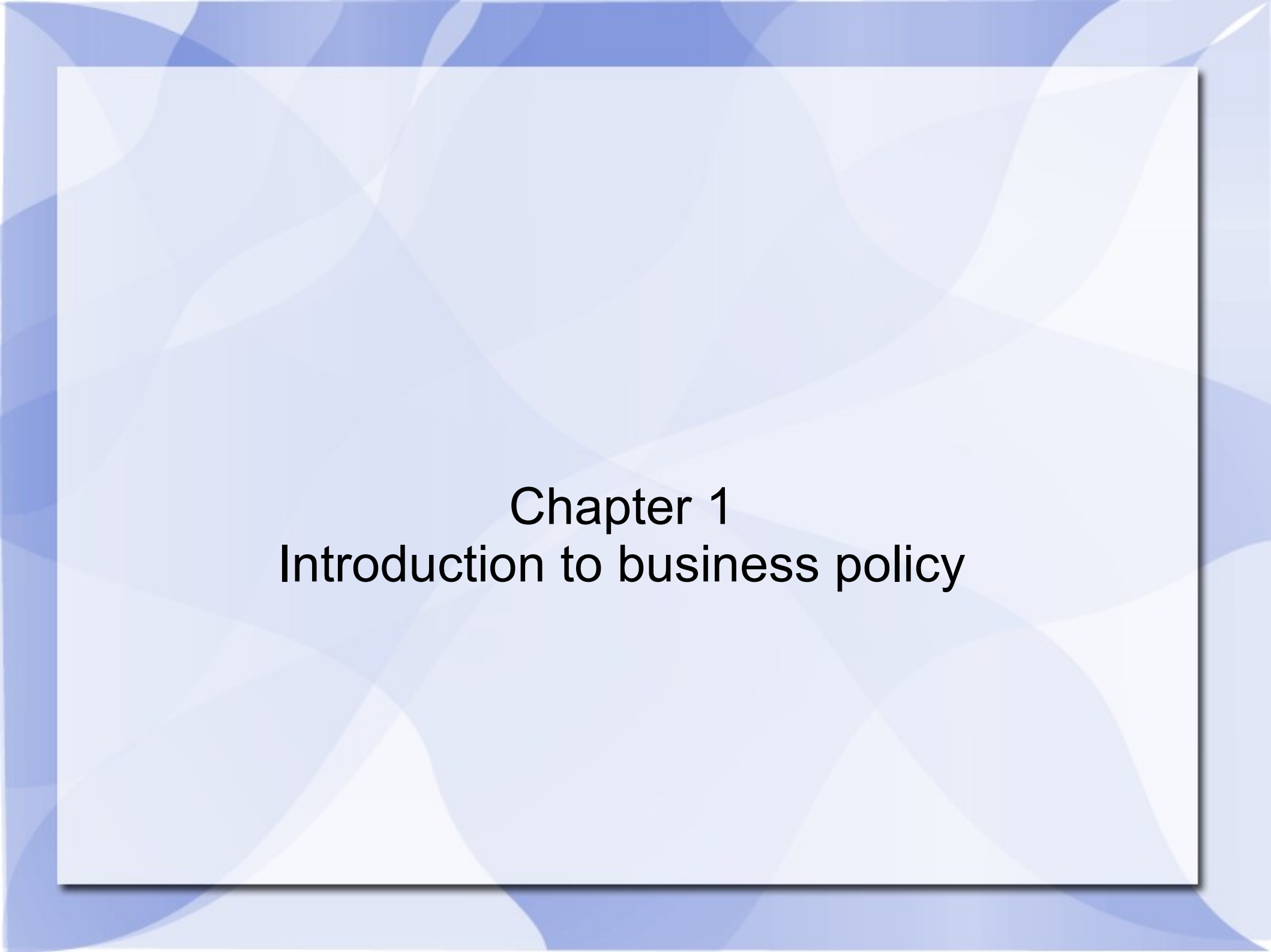


BiMS

Strategic Management

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Chapter 1

Introduction to business policy

To understand...

- the business policy approach
- the main differences between corporate and business level strategy
- why there is a lack of empirical evidence on the effectiveness of strategy
- different approaches to strategy policy making
- strategy as a process

What *is* business policy?

- Business policy is a synthesis of ideas from many business disciplines and its emphasis is on ***understanding the operation of business in the real world.***

Exercises in this course aim

- to give you practice in applying ideas
- to demonstrate why they are important in real life applications
- to develop ideas through application in a way which is not possible through explanation

What is business policy?

- To understand business policy, consider its (admittedly more macro) counterpart, economic policy
 - Complex
 - Many, interrelated factors

Parallels in complexity of interrelated factors

- ECONOMIC policy
 - (GDP, monetary policy, inflation, unemployment, etc.)
- BUSINESS policy
 - (profitability, growth in sales, market share, relative costs, competitive position, pricing, environmental scanning, human resource management, accounting, ratios, investment appraisal, shareholder value and dividend policy)

...so there are parallels in normative guidelines

- *Economic policy ... micro and macro*
- *The objective of business policy is to bring together business concepts and ideas in order to understand how companies (and other organisations) operate in a competitive environment, develop an understanding of the inter-relationships involved, and hence provide the basis for arriving at conclusions regarding why companies have succeeded or failed in the past and how they might operate successfully in the future.*

Business policy or strategy

- *Just as there is no one definition of what business policy is about, there are no simple answers to business policy issues.*
- *There is no empirical evidence that the approaches which will be developed under this heading, nor indeed under any of the definitions, are statistically related to success.*

Statistical testing not always effective or meaningful

- Every business policy is a complex story
 - Business policy changes across situations
 - Different situations are VERY different
 - Significantly complex interaction between variables
 - Companies and markets change, along with lags in actions and outcomes
 - Cause and effect cannot be disentangled
 -

(not) using statistical testing

It's very difficult to statistically prove, or at least use a statistical 'proof' meaningfully

- Did company X succeed because it did something right, or because it was lucky?
 - So what should company Y do?

Case studies are popular

- And they offer “casual empiricism,” not proofs
- Managers say, it's better than nothing
- Indeed, we all like experienced managers
 - (But is the experience helping at all?)

Experts suggest

- consistency of delivery is the key issue
- striving for higher quality is a major success factor in its own right
- diversification is an essential aspect of company growth
- company success depends on the identification and exploitation of core competencies
- internationalisation is the engine of growth
- a strong home base is a prerequisite for international success.

- PUZZLE: why study this course?
- If you understand businesses better, you're in a better position to address business policy
 - Because experience probably does count.

- This is the important outcome of studying business policy: it will enable you to look at any business issue using a common intellectual framework; it may not generate the answers which will lead to success in the future, but you will at least have a pretty good idea of why things are as they are.

Specific to our authors

- Corporate strategy
 - Strategy options/exercise of CEO
- Business strategy
 - Strategy at business function
 - Strategic business unit

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strategy

1. Knowing where you are going and how you are going to get there
2. Setting clear objectives and mobilising resources to achieve them
3. Thinking in the long rather than the short term
4. Working out how to do better in the market place than your competitors
5. Deriving and selecting a course of action

- In real life the day never comes when strategy decisions are made and all problems are solved. This is because the environment within which the company competes is constantly changing: products move through the life cycle; new companies enter the market; consumer preferences change; government regulations change; major political events alter markets both domestically and internationally.

history

Table 1.1: Historical development of business policy

<i>Decade</i>	<i>Issues</i>	<i>Main themes</i>	<i>Strategic approach</i>	<i>Techniques</i>
1950s	Size and control	Decentralisation	Divisionalisation	Financial budgeting
1960s	Growth	Maintain planned growth	Diversification	General management skills
1970s	Diversity	Portfolio planning Conglomerates	Acquisitions Balanced portfolio	Synergy Market share Portfolio matrix
1980s	Diversification problems Value destruction Hostile takeovers	Value based planning Stick to the knitting	Restructuring Rationalisation	Shareholder value analysis Competitor analysis
Early 1990s	Identify basis for competitive advantage	Core competence Parenting advantage Dominant logic	Linked portfolios Downsizing	Company resource analysis Value chain
Late 1990s	Globalisation	Global reach	Mega mergers	Economies of scale
Early 2000s	Knowledge	Identify and maintain tacit knowledge	Knowledge management	New approach to value chain

Highlights of development

- 50s
 - Companies got really big
 - Corporate vs. business strategy
- 60s
 - Growth suppressed by market
 - diversification...leads to synergy
 - Bottling plant and fountain drinks
 - Management emerged as an important field
 - Specialists cannot manage diversity

- 70s

- Climate is erratic (oil prices, etc.)
- Diversity was dropped in favor of balanced portfolios

- 80s

- Inefficiency due to diversification
- Takeovers popular
- Growth of LARGE conglomerates
 - In us, takeovers in 1988 was worth \$850 bn

- Focus again on specialization to improve how they did things
- Early 90s
 - Away from diversification
 - Focus on firm...value creation
 - Dominant management logic
 - Core competencies
 - Conglomerate brings in scale economies
 - Value chain

Late nineties

- Falling trade barriers, increasing adoption of capital markets

- Internationalization

- Early 2000s

- It has always been difficult to build sustainable competitive advantage because eventually anything can be imitated.
 - In an environment of fast technological change companies started to realise that part of their advantage lay in the knowledge and unique skills of their experienced employees.

- But knowledge can be tacit
- This presented organisations with a real problem: competitive advantage and innovation depend on a resource that cannot readily be identified or controlled.

Planning approach

- Plan (at senior level), then implement for a specified duration
 - Are forecasts accurate at the time of planning?
 - What is the basis for collecting information from operations for analysis? Who collects it?
 - Forgoing short-term benefits may be important but not popular
 - Are the strategies feasible?
 - Is the CEO really capable? Does s/he have the authority?

Emergent strategy

- Starting premise: people are not usually rational and logical
 - Managers cannot juggle too many tasks
 - Managers are not great at interpreting data
 - Managers may sacrifice profits for what they see is more satisfactory
 - Organizations have coalitions of interest groups
 - Managers pay attention to culture

- Strategy is not planned long beforehand
 - It emerges over time from chaos
- Bounded rationality
 - World is too complex
- So managers do not maximize profits

example

- When launching a new product, firm must consider
 - How customers will perceive quality
 - How far it will be possible to meet production cost targets
 - How competitors will react
 - When a substitute will appear on the market
 - The impact on sales of a one year delay in launch

Balanced view

- Board and CEO should not work proactively
- Do plan
 - Take human behavior into account
- Mission is important
- Need for efficient resource allocation;
- Satisficing is in itself a rational basis for choice

Resource-based

- Strategy is concerned with seeking competitive advantage
 - Competitive advantages lie with firm's resources
 - Resources, competencies, core competencies, distinctive competencies, strategic capabilities.
 - Rarity; complexity; casual ambiguity; culture

- A major problem with the resource based approach is that it shrouds success in mystery.
- It would appear that competences are so rare and difficult to imitate that sustainable competitive advantage is unique to every company that possesses it.
- The question that then arises is how sustainable competitive advantage arises in the first place.

- The implication is that, by definition, there is nothing to be gained from analysing successful (or unsuccessful) companies.
- That is not the view taken in this course; there are, of course, many things that cannot be fully explained. But there is a great deal that can be explained by the application of appropriate strategic concepts and tools.

Strategy as a process

- Strategy can be thought of as a problem to solve
 - It's an *incredibly* complex process though
 - It's a “wicked” problem (by Rittel's standards)
- Approach to strategy:
 - \strategy will be dealt with as a process, which makes it possible to incorporate all different approaches and ideas as variations on the process itself.

- pg. 19-20...conversation
- A management process in which managers work together and share information is missing
- Strategy process
 - Setting objectives
 - Analysis
 - Strategy choice
 - Implementation and control

The role of the CEO

- Why are ceo's paid so much?
- Role
 - Strategist, entrepreneur and goal setter
 - Analyser and competitor
 - Strategy choice maker
 - Implementer and controller
 - Communicator

Principal agent problem

- A central problem of management is the need for the principal to establish a contract with an agent or agents that ensures the principal's objectives are met.
- Information asymmetry
 - it is not possible for the principal to monitor all aspects of the agent's performance

- Share prices increase when takeover bid is announced
 - Suggests that existing managers are not doing well enough