MNG3701 EXAM PACK 2016

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EXAM TIPS

Strategic Management-MNG3701/3702

1. Knowledge vs. Understanding

Knowledge is when only theory is provided, which will account for 50% mark allocation. Students are required to demonstrate an understanding the concept by showing how it is/could be applied in practical context

2. Critical Thinking

There is a difference between “Discuss and Critically discuss”. To be critical entails “the judgement of the value of the concept, justification of its use in context”.

3. Writing and Self assessments

“Writing is an act of thinking”. The exam is an essay-type, therefore students are required to practice their writing and not merely rely of “memorising” the theory in the textbook. Ten marks will be allocated for ten or more full sentences relevant to the question, no bullets points. Use assignment feedback for reference

Exam Tips:

a) Read the case study twice or thrice if time is on your side, read and understand, highlight on the key points in the case study.
b) In answering questions in the case study make sure you use examples in the case study to support your answer and argument.
c) Read, understand the question and highlight the key words to be addressed in the question.
d) Be precise and answer the question as asked. Avoid waffling.
e) Mark allocation is also critical as it will determine how much information you should provide. If you have time you are more than welcome to exhaust your answers
f) The use of practical examples is very important, your knowledge on current affairs will be put to test
g)

MNG3701: EXAM REVISION PACK 2016

LEARNING UNIT 1- INTRODUCTION TO STRATEGIC MANAGEMENT

Define the concept of strategy and briefly explain its relationship to strategic management.

Strategy:

- ✓ Its generally seen as the result or outcome of fundamentally important pre-emptive, innovative management decisions about an organisation's strategic direction and strategic action plans to attain a sustainable competitive advantage and achieve its long-term objectives in rapidly changing and competitive external business
- ✓ is the direction provided by the actions and decisions of strategists in pursuit of organisational goals.
- ✓ a deliberate choice of activities
- ✓ coherent narrative about the future direction of the organisation
- ✓ provides members of the organisation with a framework to guide their decision making
- ✓ the verbalisation of the organisation's aspirations and can inspire, unite and motivate members of the organisation

Critically differentiate between the concepts of strategy, strategic planning and strategic management.

Strategy

- ✓ Strategy is the art of aligning the company's strategies in order to out-compete one's competitors in a rival business market with a view to achieving the desired competitive advantage by ensuring that all the relevant departments within the firm are receiving similar information and training.
- ✓ Strategies are incorporated into the business as the tools to improve the business's current plans and adapt to new and vibrant procedures which are guaranteed to take the business to the next level, where it is rising above its fellow-similar-product-based-companies and also to ensure that sustainability is incorporated in the new strategic formulation procedures as it, (sustainability) ensures secured future of a business in a competitive rival business environment.
- ✓ Similarly, Leopold and Harris, (2009), define strategy as, 'the pattern emerging over time in an organization as actions, (of both planned and unplanned nature), are carried out to enable the organization as a whole to carry it into the future'.
- ✓ Also, Quinn, (1990), and Mintzberg, (1994), corroborates that; 'strategy is seen not as a pattern and procedure a company follows through, but as a pattern which unfolds over time in which formal planning can be found to occur to a greater extend'.

Strategic Planning

- ✓ Strategic planning is the coordination of all the business units being put together in a more resourceful manner that encompasses the deliverables and goals and aims of the organisation. It is about achieving the desired long term goals of the business through strategic intent.
- ✓ Strategic planning involves strategic formulation and strategic intelligence for running the organization and also a view on both internal and external environments within which the business is or going to operate.
- ✓ Neil Ritson, (2013:63), maintains that, 'the purpose of the strategic alternatives generated by SWOT analysis should be to build on organisation strengths in order to exploit opportunities and counter threat in order to correct organizational weaknesses'.
- ✓ Also, Kotler, (1997:89), shares some light by stating that, 'Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities.
- ✓ The aim of strategic planning is to shape and reshape the company's businesses and products so that they yield target profits and growth'.
- ✓ Kotler, below, displays the concept of how the strategic intent helps the organizations to grow, penetrate the market and as well as how to stay in the game.

Strategic Management

- ✓ Strategic management is the thinking process of strategy formulation and it involves spotting the trends and understanding the competitive landscape into which an organization performance its activities.
- ✓ It coordinates all the organization's resources and core-competencies into a 'chain of command' and 'bureaucracy'.
- ✓ In the same manner, Ehlers and Lazenby, (2012:3), corroborates, 'strategic management can be defined as the process whereby all the organizational functions and resources are integrated and coordinated to implement formulated strategies which are aligned with the environment, in order to achieve the long-term goals of the organization and therefore gain a competitive advantage through adding value for the stakeholders'.

Explain what is meant by strategic management and discuss the dynamic nature of the traditional strategic management process. Or Define strategy, strategic planning and strategic management/ Illustrate and explain the strategic management process

- ✓ Strategic management: is a rational approach that organisations use to achieve strategic competitiveness and competitive advantage.
- ✓ Traditional it draws on the perspective that the management tasks consists of planning, organising, leading and controlling.
- ✓ Building on this view, the strategic tasks of top management consist of formulation strategy (planning), implementing strategy (organising and leading) and control
- ✓ Strategic management can be looked at from a traditional perspective and in a new perspective (strategy-as-practice)
- ✓ The traditional perspective is structured and a process as explained below:

1. **Strategy Planning/Formulation** - The planning and thinking phase where top management:

- Decides on the organisation's strategic direction and its long-term objectives (usually found in the vision and mission statement)
- Analyses the organisation's external (to identify opportunities and threats) and internal environments (to identify best resources and capabilities and the organisation's strength and weaknesses)
- Selects appropriate competitive strategies strategic choice such as focus, differentiation or best cost

2. **Strategy Implementation/Execution**- it's the doing part where both human and non-human factors in the organisation are applied to ensure that the strategy is executed in line with the devised plans.

These are the key elements to be considered:

- Leadership and culture- a strategic leader must ensure that the culture of the organisation is aligned with strategic choice
- Implementation competencies- The organisation must ensure that individuals have the right mix of knowledge, skills and attitudes to support the strategy
- Learning organisation- The organisation must be a learning organisation through its staff and be willing to share knowledge
- Systems, policies and procedures- There must be systems such as reward systems in place to support strategic direction
- Organisational architecture and structure- the organisation needs appropriate structure to successfully execute the strategy

3. **Strategic Control**

- Control measures ensuring that strategies are on track
- It reviews and provides feedback to the formulation and implementation phases

Explain the rationale for new perspectives on strategy/Explain the strategy-as-practice approach and how it differs from the process approach to strategic management/Explain strategy-as-practice as an effective approach to managing new strategic realities.

The new perspective (strategy-as-practice)

- ✓ Drivers of strategy-as-practice approach have been as follows:
  - i. The rise in so-called emergent strategies'', as opposed to the more traditional, deliberate strategies of organisations, also stemming from rapidly changing business
    environments,
  - ii. The increasing involvement in strategizing of people from all levels in the organisation.
- ✓ Strategies are complex and really address an uncertain future in the sense that environments are dynamic and changing.
- ✓ Human behaviour also has to be considered.
- ✓ Apart from new insights and changing environmental conditions, what was actually taught in strategy did not reflect the realities of business, and this mainly gave rise to the following realisations about strategy:
  - Strategy is what people do, not what organisations have-managers, the talk and documents produced and in their actions

- Strategy is not solely the domain of top and executive management—any individual
  or group in the organisation that controls key actions can be regarded as a strategist
- Strategic management is not a neat and rational process- strategy is emergent rather than deliberate ,messy rather neat and experimental and filled with failure than efficient and effective from the start
- Strategy is a conversation and involves dialogue and communication- it is about ideas and choices that are fuelled by both cognitive and political processes.
- It also emphasises the importance of conceptual, verbal skills and written documents

Discuss the shortcomings of the traditional process approach to strategic management and identify the new perspectives on strategic management that have emerged in response to these shortcomings

✓ The traditional process perspective has some criticisms opposed to the new practice strategy, they are as follows :

- It is viewed as a rational and linear process, comprises consecutive phases and does
  not effectively embrace new competitive realities.
- Because it is a linear process, the effects of the complex, messy and dynamic nature of the external environment are not fully considered.
- Strategy formulation and strategy implementation are seen as separate phases.
- It supports the notion that it is only the top management team or senior managers who develop strategy, thus ignoring potentially valuable contributions by all levels of staff.

It essentially ignores the development of strategy through dialogue, conversation and inputs from all organisational levels, and on occasion, external expertise

- Ignores the rise in so-called _emergent strategies", as opposed to the more traditional, deliberate strategies of organisations, also stemming from rapidly changing business environments

✓ New perspectives on strategic management

- Strategy is what people do, not what organisations have.
- Strategy is not solely the domain of top and executive management.
- Strategic management is not a neat and rational process.
- Strategy is a conversation and involves dialogue and communication.

Explain the different levels of strategy and decision making in organisations/ Describe the different levels of strategy in organisations

Level of strategy	**Corporate entity**	**Single business entity**
Corporate Level strategy	CEO, board of directors and Corporate staff. Goal-shareholder value	No corporate strategy exists
Business level strategy	Divisional managers and staff of separate business units. Goal-Competitive advantage	Executive manager and senior staff of single business
Functional strategy	Functional level managers and staff in each functional area in a business unit. Goal-Executing business unit strategy	Functional managers and staff for each functional area in the single business
Operational strategy	Frontline managers in operations departments	Frontline managers in operations departments

Expand on the importance of strategic decisions in strategic management / Explain the nature of strategic decisions.

- ✓ Strategic decisions are those decisions that affect the long-term performance of an organisation and which relate directly to its vision, mission and objectives.
- ✓ They generally ill-structured and characterised by risk, uncertainty and conflict. Strategic decisions are not always rational and objective, and frequently need to be taken urgently in the absence of adequate information.
- ✓ However, managers are expected to make effective decisions in the face of these challenges. Regarding their characteristics, strategic decisions
    - are typically taken at higher organisational levels
    - contribute to and are directed by the organisation's vision
    - impact directly on an organisation's long-term direction, performance and sustainable success
    - optimally exploit the links between the organisation's internal and external environments
    - require large amounts of the organisation's resources
    - are usually irreversible once made
    - are entirely future oriented and likely to affect the whole organisation

- are shaped by the values and expectations of stakeholders
- usually have multifunctional or multi-business consequences

Strategic decisions are influenced by two factors:

1. Cognitive and rational aspects
    - Strategists adopt a logical approach and try to be as objective as possible.
    - While strongly emphasised in the prevailing views of strategy , managers are restricted by their own information processing capabilities (bounded rationality)

Political processes

- Strategists will not agree on the on the best course of action and may use influence or persuasive language to sway others towards their preferences, influenced by their background and personality in their quest for status and power

Explain the importance, benefits and risks of strategy.

- ✓ Strategy is a coherent (logical) narrative about the future direction of an organisation.
- ✓ Strategy combines the views and thinking of many members of the organisation and communicates the outcome back to the organisation so that everyone follows the same strategy.
- ✓ It provides members of the organisation with a framework to guide their decision-making.
- ✓ It provides an actionable blueprint for achieving its aspirations. More specifically, the importance of strategy and, hence, strategic management is confirmed in the following broad terms:
    - It provides for cohesive strategic thinking and an innovative and future-oriented decision framework for the organisation.
    - It pools the contributions by organisational members, thereby facilitating the communication of strategy to all.
    - It is the verbalisation of the organisation's aspirations and serves as a source of motivation for everyone in the organisation.
- ✓ Strategic risk is —an array of external events and trends that can devastate a company's growth trajectory (path/route) and shareholder value

Describe the tests for a winning strategy.

Grant and Jordan, (2012: 10-12), identify the following common winning tests for strategy:

- Goals that are consistent and long term
- An in-depth understanding of the competitive environment
- An objective appraisal of resources
- Effective implementation
- ✓ However, the following three tests could be used to assess the success of an organisation‘s strategy (Thompson et al 2012:60-62; Walker 2009:30):

- The goodness of fit test measures how well the strategy fits the organisation‘s situation in matching the organisation to the industry and competitive conditions.
- The competitive advantage test measures whether the strategy can help the organisation achieve a sustainable competitive advantage.
- The performance test measures performance of the strategy in terms of profitability, financial strength, competitive strength and market standing.

LEARNING UNIT 2: STRATEGIC MANAGEMENT: THE PROCESS AND PRACTICE PERSPECTIVES OF STRATEGY

Define vision and mission statements as well as long-term objectives and strategic intent, and explain their role in strategic direction setting and deciding on the future of an organisation./ Discuss the requirements for and importance of long-term objectives or strategic objectives.

A vision statement:

- ✓ should reflect the desired future state of an organisation
- ✓ Should answer the question: What do we want to become?
- ✓ should provide direction for organisational members to work towards, and becomes
- ✓ a powerful motivational factor where the vision is lived by leadership'' and accepted by all in an organisational culture of shared values
- ✓ are crisp, clear and unambiguous in terms of the message they convey to internal and external stakeholders as well as the community at large.(easy to communicate , and understand)
- ✓ Form the basis for developing relevant mission statements.

A mission statement:

- ✓ is more current and basically defines the purpose of an organisation and the rationale for its existence
- ✓ Addresses the basic question: What is our business?
- ✓ Is broadly framed, enduring and aimed at both internal and external stakeholders.
- ✓ The unique purpose that sets a company apart from others of its type and identifies the scope of its operations in product, market and technology terms.
- ✓ Elements/components that are often included in a mission statement are product, market and technology considerations. Others include commitment to employees, commitment to stakeholders, orientation towards survival and growth, organisational values and organisational philosophy

Long-term objectives/ strategic objectives/ strategic goals

- ✓ long-term objectives flow from the organisation‘s mission statement.
- ✓ Are used to operationalise the mission statement, are specific, cover a well-defined timeframe and provide guidance on how the organisation can work towards pursuing its mission and vision.

- ✓ Appropriate long-term objectives should be specific, measurable, achievable, realistic, and have a definite timeframe - the SMART approach in setting objectives.
- ✓ To be of value, long term objectives need to be measurable in terms of time, money and units
- ✓ The goals should be realistic yet aimed at a level that will motivate people
- ✓ Well formulated goal is linked to a specific time period so people have a deadline to work towards
- ✓ Financial objectives communicate the targets for an organisation's expected financial performance, while strategic objectives relate to its market standing, typically in terms of market share and market growth rate to be achieved

Strategic intent

- ✓ When it relentlessly pursues an ambitious strategic objective, concentrating the full force of its resources and competitive actions on achieving that objective"(Thompson et al 2012:86).
- ✓ Implies an obsession with winning at all levels of the organisation.

What is meant by the traditional process perspective on strategic management?

Traditional process

- ✓ Strategic management traditionally draws on the perspective that management task consist of planning, organising, leading and controlling.
- ✓ Strategic tasks for top management consist of formulating strategy (planning), implementing strategy (organising and leading) with the help of middle managers and the rest of the organisation.
- ✓ Furthermore strategic management from this perspective can be described as a rational approach that organisations use to achieve strategic competitiveness and competitive advantage.

Strategy formulation (thinking part of strategy) consists of the following elements:

- Strategic direction: consists of the vision and mission statement
- Strategic Objectives: long term in nature and have measurable outcomes
- External environment analysis: for indntifying opportunities and threats outside the organisation that may influence the ability of the organisation to achieve its strategic objectives.
- Internal analysis: to identify and value the resources and capabilities of the organisation to identify key strengths and weaknesses that may affect the ability of the organisation to achieve its objectives.
- Strategic choice: the selection of specific robust strategies that will lead the organisation to achieve its strategic objectives as effectively as possible.

Strategy Implementation (strategic execution) consists of the following elements:

- Leadership and culture; Ensuring that the culture of the organisation is aligned with the strategic choice is a time-consuming and complex task.

- Competencies: The organisation needs to ensure that individuals have the right mix of knowledge, skill and attitudes to support strategy.
- Systems: The organisation has to put procedures (such as reward systems) to support strategic direction.
- Structure: Organisation needs an appropriate structure to successfully execute the strategy.
- Cascading: by cascading strategic objectives into short-term objectives, functional strategies and polices, the organisation can ensure that functional objectives and strategies and company policies support strategic direction.

Critically differentiate between deliberate and emergent strategies

Deliberate Strategies

- ✓ Deliberate strategies emphasize central direction and hierarchy.
- ✓ Deliberate strategies are implemented and realized as intended. In order for this to happen three conditions need to be satisfied:
  - The management team must know precisely what they wish to achieve and what they intend for the future of the organisation before any actions are taken.
  - Organisation means collective action. All members of the organisation must believe in the strategy and work towards it.
  - The strategy must be realized exactly as intended, with no external interference.

Emergent Strategy

- ✓ For a strategy to be emergent there must be order in absence of intention about the strategy thus, strategy may be suddenly be rationalized to mean something very different from what was originally intended.
- ✓ Emergent strategies are actions taken by middle managers within the organisation.
- ✓ Furthermore emergent strategy implies learning what works -taking one action at a time in search of the viable pattern or consistency.
- ✓ Strategies are more flexible and responsive to allow organisation to learn and adapt to its environment.
- ✓ Emergent strategies allow management to act before everything is fully understood and, more emergent strategies open the way for collective action and convergent behaviour.

Explain what is meant by strategy as practice? Critically defend why it is an appropriate approach to manage new strategic realities.

Strategy as practice

- ✓ The practice perspective focuses on social practices as the basis for explaining strategy emergence.
- ✓ It seeks to identify the strategic activities reiterated in time by the diverse actors interacting in an organisational context.
- ✓ The strategy as practice perspective is concerned with the detailed aspects of strategizing - how strategists think , talk, reflect, act , interact, emote, embellish,

politicize which tools and technologies they use, and the implications of the different forms of strategizing for strategy as an organisational activity.

- ✓ The strategy as practice perspective distinguishes between strategy praxis (the work), strategy practitioners (the workers) and the strategic process (the tools).

Explain why strategic thinking is important in setting a strategic direction.

- ✓ Strategic thinking also known as strategic formulation is important for setting a strategic direction because it gives the organisation opportunity to analyze the internal and external environment, set strategic goals, and choose the strategies that will help them achieve their goals.
- ✓

Explain what is meant by strategizing and critically explain the role of strategists and managers in the context of strategy as practice.

Strategizing

- ✓ Strategising is essentially what strategists do, and can be described as devising or influencing strategies.
- ✓ Through their actions strategists influence the allocation of the organisation's resources and control or influence key actions.
- ✓ Stratigising not only involves those inside the organisation ,but also consulting firms, business schools, business media, academic journals, professional societies, enterprises and management in joint endeavour that all recognize as somehow strategic.

Role of strategists

- ✓ A strategist is the 'doer' of the strategy. Whereas top managers have traditionally been regarded as custodians of strategy, the idea that other people and even objects (artifacts) can also be strategists is gaining ground.
- ✓ Any individual or group in an organisation that controls key or precedent -setting actions (e.g middle managers and strategy consultants) can be regarded as a strategist.

Categories of strategists

STRATEGISTS	DEFINITIONS
Detail-conscious strategy workers	Practitioners who are detail conscious are highly analytic and driven by the minutiae of available data, with little or no regard for intuition. They have a tendency to approach problems step-by-step, systematic fashion.
Big-picture-conscious strategy workers	Practitioners who are big-picture conscious can become preoccupied with gaining an overview of the problem at the expense of the details. They are highly intuitive in orientation, with little or no regard for analytic approaches t problem solving and decision making.
Non-discerning strategy workers	Non-discerning practitioners deploy minimal cognitive resources in order ro derive strategic insight, being disinclined to process the detail or to extract a bigger picture from such detail. They rely on opinion and wisdom received from others and thereby relieves themselves of the burdens of analytic and intuitive processing altogether.
Cognitively versatile strategy workers	These practitioners posses in equal abundance the inclination to attend to analytical detail and cut through that detail, as and when required. This type of practitioner is able to switch more readily between analytic and intuitive process.

Top Managers as strategists

- ✓ Top managers set the overall strategic direction of the organisation by formulating the strategy, choosing appropriate strategies to attain competitive advantage, allocating the resources and reviewing the strategic success.
- ✓ A strategist who is responsible for guiding the strategic planning, an expert in strategic thinking with specific analytical and technical skills in an organisation are referred to as *Strategic Planning Champion" (SPC).*
- ✓ There are three roles that a SPC must perform:

The social craftsman integrates different expectations from groups and individuals to ensure buy-in to the overall strategic direction, deals with tensions, conflicts and changes volatile situation into a positive one

i. The artful interpreter adjusts general strategic planning practices to align them with the local norms and routines.

ii. The known stranger ensures a balance between distance and closeness in the interaction between strategists and other parties to maintain objectivity while at the same time cultivating trust

Board of directors as strategists

- ✓ Strategic decisions are done by the senior management, the board of directors influences the overall direction and monitors the relationship between management and other stakeholders to ensure that the organisation is sustainable in the long term

Middle managers as strategists

- ✓ Middle managers responsible for:
    - implementing deliberate strategy; Synthesizing information;

- Reshaping the strategic thinking of top management by selling them strategic initiatives that diverge from their current conception of strategy and managing change and facilitating adaptability.

Consultants as strategists

- ✓ Consultants are generally used when organisations do not have the in-house expertise, or need new perspectives in terms of their strategies or management approaches.
- ✓ They are knowledgeable about the business environment and organisation and have a wealth of industry contacts

LEARNING UNIT 3 STRATEGIC ANALYSIS: ANALYSING THE EXTERNAL ENVIRONMENT

Explain the various methods for macro-environmental analysis

- ✓ Macro environment analysis is based on the PESTLE approach. Due to an increase in importance of global environment the approach display PESTLE/G
- ✓ This is an acronym for the following:
  i. Political – Legal factors
     - Political stability ensures a stable business whereas country's legal system and law enforcement is important to business security.
     - Both these factors can have a positive or negative influence on business depending on how they are presented.
  ii. Economic factors
     - Factors looked at here like gross national products (GNP), gross domestic products (GDP), income levels disposable income or buying power, unemployment rate, the growth rate of economy, interest rates, currency exchange rates, price inflation, etc.
  iii. Socio cultural factors
     - This refers to existing and changing social values, beliefs, attitudes, traditions and lifestyles in society, which can affect the certain products and services demand and preferences.
  iv. Technological factors
     - Technological change can both be creative and disruptive. It is a manager's duty to ensure that their businesses ready for any change and can respond to any technological change with better technology.
  v. Ecological/ Natural environmental factors
     - Global climate change and global warming are becoming a huge consent internationally where our air, water and land are at risk of pollution.
  vi. Global tectonics
     - This has been added due to Globalization has been encouraged by internal trade and investment barriers that have drastically declined.
     - We see countries signing inter trading agreements as well as opening their borders to trade.

Define the term industry and explain the importance of correctly defining an organisation's industry

- ✓ The ultimate purpose of defining an industry is to know who your customers and competitors are.
- ✓ We define an industry as a group of companies competing directly with one another in the marketplace.
- ✓ More specifically, an industry is defined as a group of organisations offering products and services that are close substitutes for one another - in other words, products or services that satisfy the same basic customer needs

- ✓ Industries can be defined broadly or narrowly, but each approach has its limitations.
- ✓ Where industries are defined too broadly, it might be difficult to decide exactly who your competitors are, which could result in devising inappropriate competitive strategies.
- ✓ Defining industries too narrowly could mean that you are not including all relevant competitors, again leading to inappropriate strategies.

Analyse the structure, dynamics and attractiveness of industries/ Identify the impact of industry forces on profitability.

Analysing the industry structure

- ✓ The general types of industry structure are monopoly, duopoly and oligopoly and the competitive implications of major types of competition, namely monopolistic and perfect competition
  - A monopoly player, such as a state-owned enterprise, serves in a closed domestic environment and normally has a total advantage, while it retains government support.

In a monopoly there are high barriers to exit and entry into the market for firms.
A low degree of competition is evident and the market is stable and predictable.

  - An oligopolistic structure is characterised by a few large organisations, each with substantial shares of the market.

They try to maintain their own long-term competitive advantage through crafting largely defensive strategies.
In an oligopoly there are significant barriers to exit and entry into the market, there is a moderate degree of competition and the market share is stable.

  - Monopolistic competition has more rivals of a similar size, which can result in less stability and short-term competitive advantage.

This leads to aggressive strategic approaches and more intense competition.
There is also a moderate to high degree of competition.
A low to moderate degree of market stability is evident.

  - Perfect competition implies that an organisation would require an aggressive strategic approach.

The market would be volatile, with frequent entry and exit of players.
There exist a large number of identical firms with no barriers to entry and exit.
There is also a high degree of competition and a low degree of market stability.

Analysing the industry dynamics

- ✓ Industry dynamics refer to the rate of competitive and structural changes in an industry over time.
- ✓ The management challenge of dynamic industries is to know at all times the rules of the industry, who their competitors are and why change takes place.
- ✓ Change can be due to external factors, such as technological change or a change in one or more of the industry forces, or internal factors, such as new product and/or process development, or some other factors

Analysing the industry attractiveness

- ✓ The seven forces of industry attractiveness are customers, suppliers, existing competitors, potential competitors, substitute products and services, government intervention and complementors

Customers: Powerful customer buying power increases industry competitiveness and reduces industry profitability. The power of buyers is high when: (a) they are few in number or when they have the ability to buy in bulk; (b) the product or service being offered is similar, making it easier to switch to alternate suppliers; (c) the value of the buyers' purchases is a significant portion of the seller's total income; and (d) the buyers can move backwards into the supply chain by acquiring or developing the ability to produce the products or services themselves.

Power of suppliers: Powerful suppliers can increase industry competitiveness and reduce industry profitability. Supplier power is high when: (a) there are only a few major suppliers and they are highly concentrated in relation to the industry they serve; (b) supplies to the industry are not similar, thereby making it difficult for incumbents to switch to alternative suppliers; (c) few or no alternative or substitute products or services exists; (d) the suppliers can move forward into the supply chain

Intense rivalry has the effect of increasing industry competitiveness and reducing profitability where they prevail. The degree of rivalry is dependent on industry growth rate as well as the number of players, their relative size and competitive abilities. Competitive rivalry is high when: (a) there are a large number of rivals who are relatively equal in size and power; (b) the industry is growing slower and incumbents are vying (competition) for the support of existing customers rather than seeking new customers; (c) incumbents carry huge fixed costs; (d) rivals have excess capacity; and (e) existing players are unable to exit the industry either due to the high costs associated with ceasing operations or high exit barriers

Potential competitors and threat of entry: Ease of entry will increase industry competitiveness and adversely affect profitability. Organisations, therefore, create entry barriers, which are forces intent on keeping potential competitors out, while offering protection to existing industry incumbents. There are six barriers to entry, namely: (a) capital required; (b) access to distribution; (c) cost disadvantages not related to size; (d) economies of scale; (e) government legislation and regulation; and (f) high switching costs.

Providers of substitute products and services: It is possible that an increase of substitutes coming from outside the immediate industry, but which could replace industry products, would increase competitiveness and reduce industry profitability (cold drinks, no name brands)

Government intervention: Note that government intervention could be enhancing (e.g. deregulation) or constraining (e.g. nationalisation, competition policy). It could affect the structure, competitiveness and profitability of industries, especially where interventions are industry specific (e.g. telecommunications, energy and licensing in the retail liquor sector).

Complementors as additional forces: Complementors are products that enhance an industry member's own products (e.g. lease financing that enhances the sale of cars or handsets to use the service provided by mobile communication providers such as MTN, Vodacom and Cell C)

Discuss the importance of performing a competitor analysis

- ✓ Performing a competition analysis assist the organisation to identify the competition that is to know who your competitors are, detect if there has been new entrants or new products that have entered the industry market.
- ✓ Once you know your competitors you will be able to do a competitive intelligence (CI) on them which will assist you to predict their behaviour. This will enable the organisation to be ahead of its competitors

Analyse the structure, dynamics and attractiveness of the South African mining industry

Structure of South African mining industry

- The South African mining industry structure is an oligopoly.
- This is characterised by few large organisations with substantial shares of market.
- There are significant entry and exit barriers and there is also a moderate competition while their market is stable.

Attractiveness of South African mining industry

- ✓ There are five forces that are primarily responsible for industry attractiveness.
  - i. Customers - power of buyers in mining is low since mineral resources are scarce
  - ii. Power of suppliers - labour supply in critical skills is a challenge as a result of scarce skills.
  - iii. Existing competitors - rivalry is not a huge concern in since this industry is mineral resource
  - iv. Potential competition - no threat of new competition unless a new earth comes into being
  - v. Substitute providers – there are no substitutes in mined products. The industry is stable.
  - vi. A sixth force – Government intervention or regulators is a concerning mining industry. We saw the banning of asbestos mining. Another threat associated with sixth force is Nationalization.

Dynamics of a South African mining industry

- ✓ Mining industry is unfortunately one of those industries where fluctuation is common mostly due to industry drivers of change and macro environmental factors.
- ✓ It is easily affected by globalisation increase and regulatory influences and government policy changes.
- ✓ These affect mining dynamics and we see a lot of evolutionary activity in the mining industry.

Explain the value of scenarios in analysing the external environment.

- ✓ Scenarios are defined as possible or plausible futures of events.

- ✓ Scenario planning compensates for two common errors of traditional planning approaches, that is, the under- and over-prediction of change.
- ✓ Apart from its predictive value, scenario planning can assist with strategic decision-making by providing valuable insights into the direction and potential impacts of plausible future macro-environmental and industry developments.
- ✓ Scenarios are developed to answer. What if? ‘‘Questions about the future.
- ✓ The type of scenario used depends on the purpose for which it is intended. The four types of scenarios are inductive, deductive, incremental and normative

a) Inductive scenarios emerge from the discussion and exploration of drivers and trends
b) Deductive scenarios choose two or more of those drivers to structure scenario worlds
c) Incremental scenarios are similar to official future- the one written in the strategic plans of the organisations- but different enough to move the organisation in a different direction and requiring new thinking
d) Normative scenarios are the realm of visioning- these are the futures that we believe —should happen

Explain the various methods/techniques for macro-environmental analysis.

i. Scanning- involves detecting and identifying early signals of potential environmental changes and trends.

Enables managers to forecast changes in the expected profitability of the industry and to adjust their strategies accordingly

ii. Monitoring- concerns the detection of meaning through ongoing observations of environmental changes and trends.

Analysts’ obverse environmental changes when monitoring to see if an important trend is emerging from among those spotted through scanning

iii. Forecasting- comprises developing feasible projections of what might happen, and how quickly as a result of the changes and trends indentified through scanning and monitoring

iv. Assessing- is about determining the timing and importance as well as the implications of environmental changes and trends for organisation‘s strategies and their management. Without assessment, the firm is left with data that may be interesting but of unknown competitive relevance

LEARNING UNIT 4 STRATEGIC ANALYSIS: ANALYSING THE INTERNAL ENVIRONMENT

Explain the importance of an organisation's resources, capabilities and core competencies in strategy formulation./ Describe an organisation's strategic resources, capabilities and competencies.

Resources

- are the productive assets owned by an organisation and can be grouped into the following five categories: financial capital resources, physical capital resources, human capital resources, organisational capital resources and technological capital resources
- Organisational resources can be further classified into tangible and intangible resources.

Capabilities

- refer to an organisation's resource coordinating skills and productive use.
- More generally, a company's capabilities are the product of its organisational structure, processes, control systems and hiring systems.
- Represent complex combinations of assets, people and processes that are used to create value by transforming inputs into outputs through high level of routine.
- Dynamic capabilities on the other hand are geared towards effecting and driving organisational change, strategic in nature and accordingly define the firm's path of evolution and development
-

Core competencies

- Distinguish an organisation from others in the industry, they are difficult to imitate - hence their importance as a basis for sustainable competitive advantage.
- Core competencies - arise from a combination of resources and capabilities as an intangible resource

Explain the Resource-Based View (RBV) and its role in internal analysis/Explain the role of the resource-based view in internal analysis.

✓ The RBV is a model for analysing the strengths and weaknesses of an organisation which can then be linked to environmental opportunities and threats as inputs to the formulation of competitive business level strategies.
✓ Combining external opportunities and threats with internal strengths and weaknesses is the basis for SWOT analysis
✓ An assessment of the organisation starts with a general internal evaluation to determine its strengths, specifically as related to the industry in which it operates.
✓ Important considerations for assessment are:
  - The strategic direction as conveyed in the vision, mission, purpose and values
  - The key internal stakeholders, including managers, their experience , strengths, weakness and management

- The owners of the organisation
- Operational issues such as sales, assets and location
- The type and level of employees and culture of the organisation

Limitations of RBV are:

- It has not yet been tested and proved empirically/practically
- It does not address how to increase profitability and/or how to develop further competitive advantages or create new ones
- The lack of future orientation and the inability to differentiate between valuable and less valuable resources and capabilities result in a lack of predictability

Critically discuss the concepts of competitive advantage and sustainable competitive advantage. Explain the requirements for a sustainable competitive advantage and support each requirement with an example from a company/organisation of your choice

- Competitive advantage is when an organisation is more profitable that its competitors. This position can be achieved in two different ways.
  i. Where an organisation produce products and services that are superior in value to those of competitors and thus charge premium prices or retain customers for longer period through a combination of resources, capabilities and core competencies.
  ii. An organisation produces products and services at a lower cost than its competitor's enabling it to gain high profits through efficiency.

For any of the above to be a success the following capabilities are required

a) Ability to produce high quality products or deliver excellent services to those of competitors
b) Ability to innovate products, services and organisational capabilities.
c) Responsiveness to customer needs better than competitors can.
d) Efficiency in the transformation of input into output

As compared to competitive advantage, sustainable competitive advantage refers to when an organisation has capabilities and core competencies that are durable over a long period, difficult to imitate, can be transferrable and be replaced in other settings.

For an organisation to have a sustainable competitive advantage it has to be:

i. Durable – Toyota 's long lasting culture of reliable vehicles
ii. Inimitable – Apple capability of superior products , charging high premium prices
iii. Transferability – KFC's secret recipe cannot be transferred from the source.
iv. Replicability – Mercedes Benz is known for their capability, high quality vehicles which cannot be replicated.

Explain the role of value chain and resource based view in internal analysis

- Value chain is for an organisation to gain a sustainable competitive advantage.
- While resource based view focuses on the internal strengths, resources, capabilities and competitiveness of an organisation, the value chain utilizes (supply chain development, financial management, research and development, marketing

development, intangible resources, such as reputation, patents, brand names, network, etc.)

- To separate useful activities from wasteful activities focusing on value creating activities that give the company many advantages like ability to charge higher prices, manufacture at lower cost, better brand images and faster responses to threats.

Discuss the differences between and importance of both the tangible and intangible resources of an organisation.

- Tangible resources are an organisation's physical resources that include physical infrastructure, land, plant, vehicles, manufacturing equipment, computer hardware, physical inventory and money,
- Intangible resources typically include the knowledge and know-how of managers and employees gained through experience; the intellectual property of the organisation including patents, trademarks and copyrights; software; human capital; brand names; and the reputation of the organisation

CRITICALLY DISCUSS THE CONCEPTS OF COMPETITIVE ADVANTAGE AND SUSTAINABLE COMPETITIVE ADVANTAGE.

✓ Competitive Advantage occurs when an attractive number of buyers prefer the company`s products or services over those of its competitors, when basis for this preference is durable over the long term.

✓ Eg most customers prefer Pick`n pay than Cambrigde because of the quality of Pick`n Pay products.

There are 2 ways to achieve this:

i. It can produce products and services that are superior in value to those of competitors, and that allow it to charge premium prices or to retain customers for a longer period of time.

ii. It can produce products or services at significantly lower costs than its competitors enabling it to leverage higher profit margins.

SUSTAINABLE COMPETITIVE ADVANTAGE

✓ It implies capabilities and core competencies that are durable over long periods that are difficult to imitate or replicate and are transferable whenever necessary in order to create superior value.

✓

FOR COMPETITIVE ADVANTAGE TO BE SUSTAINABLE

✓ They must be valuable, rare, too difficult or costly to imitate, non-tradable, durable and based on the exceptional deployment of organisational resources, capabilities and distinctive or core competencies in satisfying customer needs and market demands better than the competitors do.

LEARNING UNIT 5 STRATEGY IN CONTEXT: EXPLORING BUSINESS OPPORTUNITIES IN AFRICA

Critically discuss the obstacles and drawbacks in doing business in Africa. Use practical examples to support your answers.

Lack of infrastructure –

- ✓ The lack of infrastructure (such as roads, harbours, electricity, ICT networks and railways) is a significant damper on investment and business in Africa.
- ✓ For example, rural Africa has only 34 per cent road access, compared to 90 per cent in the rest of the world.
- ✓ In addition, the state of the infrastructure that does exit is generally poor, with many governments unwilling or unable to spend the amount of money required to keep roads in basic repair.
- ✓ The lack of infrastructure compounds the high poverty and low food security levels in sub-Saharan Africa, as it hampers the distribution of food and food aid, and information.
- ✓ Only 17 per cent of sub-Saharan roads are paved, something which does not bode well for growth, whichever strategy is being implemented.
- ✓ For businesses, this lack of infrastructure may translate into a supply chain and distribution system that is inadequate and disorganised, with much of retail sales occurring though informal channels.
- ✓ Good infrastructure is crucial if Africa is to become competitive.

Lack of industrial development –

- ✓ What has also been identified by the African Union is the need to improve and increase manufacturing capability.
- ✓ Most of the member countries apply primary resource development (e.g. mining and harvesting) and then export the raw product for secondary and tertiary economic processing.
- ✓ This results in extensive imports as the final products (tertiary economic products) then need to be brought back into these countries for local consumption.
- ✓ Development in secondary and tertiary industrial activities would negate this and result in greater creation of wealth (the strategic goal) and great independence of imports.
- ✓ Should the African Union member countries be successful in meeting this strategic objective, it could lead to greater production capabilities which in turn would stimulate exports, thus creating not only jobs but also wealth.
- ✓ However, as long as self-interest and political issue remain prevalent, no development will occur. This is evident from the countries issue facing Africa, namely political instability.

Political instability –

- ✓ From a business perspective, political instability in Africa takes the form of unpredictable government decision making that leads to volatility or armed conflict, making foreign investment extremely risky at best.
- ✓ As an example, in Zimbabwe, the government has been enforcing their 2007 Act requiring that all foreign business have a local 51 per cent partner.
- ✓ The Zimbabwean government gave all foreign small and medium enterprises (SMEs) which did not comply until January 2014 to close and vacate their premises or face arrest.
- ✓ To date, no implementation of this threat has been confirmed.
- ✓ This is not in line with the strategic goal of stimulating the micro-economy and will only weaken the overall strategic position of Zimbabwe.
- ✓ Added to this, the radical approach to land reform has led to a failed agricultural strategy at the same time as most Western countries are placing economic embargos on the country, resulting in a focus on emergency planning and the distribution of limited resources to support the ever-dwindling economy, rather than economic growth.
- ✓ Uncontrolled exploitation of the wealth of the country ('blood diamonds') is not contributing to the standing of the country either. Armed conflict and its effects are also prevalent on the continent.
- ✓ Of the 53 African countries, 15 are involved in war or are experiencing post-war tension or conflict. These wars are generally over natural resources such as land, oil or diamonds.

High levels of poverty –

- ✓ In most African countries (and many other developing countries), a significant proportion of the population fall in the economic bracket that C.K.
- ✓ Prahalad has termed the 'bottom of the pyramid'. The bottom of the pyramid is those families surviving on less than the international poverty line of $2 per day.
- ✓ While the causes of poverty are many varied, it is the impact of poverty that should be of serious concern to strategists.
- ✓ Those living at the bottom of the pyramid often endure poor living conditions.
- ✓ They are susceptible to diseases such as malnutrition, cholera and tuberculosis; yet do not have access to good healthcare.
- ✓ They are also unable to obtain an adequate education. This forces them into a cycle of poverty which is very hard to escape.
- ✓ A large proportion of the South African population survive on welfare grants and other social services funded by tax payers.
- ✓ This means that there is a massive expenditure on social welfare that could be spent on other services or invested.
- ✓ While the welfare grants have increased the spending power of the poor for now, this may not be a sustainable solution to the poverty problem in the long run.

Corruption –

- ✓ While levels of corruption may differ from country, the cumulative effect of endemic corruption on business and the African economy is massive.
- ✓ According to transparency International's 2012 Corruption Perception Index (CPI), 90 per cent of African countries scored below the 'pass mark' of 50.
- ✓ On average, Africa's CPI score in 2012 was 33. Although a slight improvement over the previous year's average score of 29, corruption was still hampering business and the provision of decent public services.
- ✓ It was not all bad news, though. For the first time, Botswana entered the world's top 30 countries perceived to be least corrupt, ahead of some European countries such as Spain and Portugal.
- ✓ Transparency International points out the danger of corruption as follows:
  - Looking at the Corruption Perceptions Index 2012, it's clear that corruption is a major threat facing humanity.
  - Corruption destroys lives and communities, and undermines countries and institutions. It generates popular anger that threatens to further destabilise societies and exacerbate violent conflicts.
  -

An inefficient public sector –

- ✓ In 2013, economic growth for the African economy was negative (- 1.5%).
- ✓ This dismal failure to alleviate poverty in sub-Saharan Africa, where per capita income now is less than what it was in 1994, can be attributed to an inefficient public sector.

Lack of key skills –

- ✓ Due to limited access to education at various levels, African markets often present investors with a lack of people with key business skills and an oversupply of semi-skilled and unskilled workers.

Example 1 - Starting a business is a lengthy procedure in sub-Saharan Africa and can cost a significant proportion of income per capita. This is partly true of South Africa, although the cost of starting a business is only 0.3% of income per capita compared to over 60% elsewhere on the continent

Example 2 - Getting electricity is a big concern for businesses in South Africa, taking 226 days and involving a string of lengthy procedures. Eskom, an electricity public utility, can take 60 days to provide an estimate after the application has been received, and 165 days to complete external connection works.

Example 3 - It takes 23 days and six procedures to register a property, although that can fluctuate significantly depending on how quickly a rates clearance certificate can be obtained from the local authority and how long it takes the conveyance to lodge the deed at the Deeds Registry

Critically assess the role of government in enhancing business conditions in Africa.

- ✓ African government will need to create an environment suited to investment and job creation.
- ✓ Africa will have to move away from what can only be described as a mono-cultural economy.
- ✓ African countries will have to become more assertive in their international trade terms.
- ✓ Strategic management In Africa should also address the current weak infrastructure
- ✓ Africa will have to be more focused on improvement and growth, with maintenance of infrastructure paramount in their development strategies.

Summarise your views on the role of governments in enhancing business conditions in the context of Africa/ Explain the role of governments in enhancing business conditions in Africa.

- ✓ Governments can enhance or deter economic growth and development through their strategies, policies and investment decisions, but their main purpose, apart from ensuring political stability is, inter alia, to create an environment conducive to economic growth, foreign investment, export promotion, job creation and poverty alleviation, especially in the context of countries in Africa.
- ✓ AU and SADC objectives and strategies are aimed at infrastructure improvement and promoting exports to increase the competitiveness of countries in the region, but these can only be implemented by individual countries themselves.
- ✓ Basically the role of governments is to provide an enhancing business environment in which businesses can effectively deploy their strategies to compete effectively.

Sustainable Approaches for Strategies in Emerging Markets

- ✓ An emerging market is a country that has some characteristics of a developed market but doesn't meet the standards of a developed market.
- ✓ These markets don't have level of market efficiency and securities regulation to be on par with advanced economies but have physical financial infrastructure.
- ✓ They do, however, have high returns and experience faster economic growth.
- ✓ Emerging markets have been popular for:
    - Attractive market opportunities to intern companies.
    - Reflect potential for increasing levels of demand for internationally recognized brands.
    - Could serve as manufacturing bases for outsourcing.
    - Serve as destinations for strategies materials.

- ✓ One sustainable approach for strategies in emerging markets is the Four-Tiered Structure of Markets proposed by Khanna and Palepu (2006).
- ✓ This approach says that most product markets in emerging economies comprise the following distinct areas:

Global Tier: In the product market, consumers who want offerings to have the same attributes and quality products as developed countries and are willing to pay global prices for these products. In the talent market, there are only top notch managers.

Glocal Tier: Consumers in the product market demand customized products of near global standard and are willing to pay a shade less than what global consumers do.

In the talent market, high quality managers only work for local companies even if they pay a little less.

Local Tier: The product market consists of consumers who are happy and content with local quality and prices.

The managers in the talent market of this tier put up with less-than-world class working conditions as long as they're paid higher average salaries.

Bottom (BOP) Tier: The consumers here can only afford the least expensive products.

Comment on the importance of identifying relevant KSFs when deciding to do business in Africa.

- ✓ Key success factors/KSFs are those competitive factors that affect industry members' ability to survive and grow - those particular strategy elements, product or service attributes, operational approaches, resources, competitive capabilities and core competencies that distinguish a strong from a weak competitor (Thompson Peteraf, Gamble & Strickland 2012:130)
- ✓ Key Success Factors (KSFs) for business operations in emerging markets have also been adapted. KSFs were identified and grouped into two categories, namely strategic KSFs and operational KSFs

Strategic KSFs

- choosing the appropriate strategies and organisational architecture
- making trade-offs in order to share benefits
- partnering with government
- bulking up for critical mass
- investing ahead of demand
- preparing to capture the opportunity at the BOP

Operational KSFs

- using expatriates (foreign nationals) effectively
- executing strategies and operations flawlessly

LEARNING UNIT 6 SUSTAINABLE ORGANISATIONS

Describe the four pillars of corporate sustainability/Explain what sustainable organisations are and why they are important / Make recommendations on how organisations can improve their sustainability/ Evaluate corporate sustainability in a practical setting. (Six Sustainability Dimensions)

1. Environmental context
    - for strategies to be sustainable, they should not harm the physical environment in which the organisation operates
    - involves ecological impacts, environmental awareness, quality local environments, and adhering to environmental legislations and regulations
2. Social context
    - Focuses on the contribution the organisation makes to the general welfare of the communities and the broader society in which it operates, usually through Corporate social responsibility (CSR) programmes
    - CSR is defined as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society as large
    - Sustainable business will use some CSR practices to help the business to create sustainability
3. Economic context
    - Refers to the economic contribution of the organisation in terms of its profit and wealth creation.
    - Through profits , the organisation potentially creates an advantage for managers and employees through a form of bonuses and possibly higher salaries and dividends for shareholders
    - By increasing the value of the organisation (eg value of shares increase over time) , the organisation creates wealth for its shareholders, who can in turn invest their wealth in other ventures, to the benefits of its stakeholders such as employees.
    - There should be a balance between the two goals, as without profitability there is no wealth creation.
4. Organisational context
    - Entails all the aspects that can have an influence on the sustainable planning process, involves looking at the internal strengths, weaknesses, resources and capabilities of the business in order to execute its strategy
    - Other specific elements to an organisation that will affect its ability to develop and execute sustainable strategies include:
    - Governance structures-rules, procedures, processes and structures that ensure that the organisation is managed in a suitable way
    - Structure-are the different elements of the organisation suited to the strategy and are position filled by competent people
    - Leadership and culture- determines change and shared values required for executing strategies

- Technology- refers to the equipment required for daily operation and production

5. Stakeholders
    - Stakeholders are those entities that can affect or be affected by the organisation's actions.
    - They can include creditors, directors, employees, government, suppliers, unions and community
    - The stakeholder salience model can assist managers in determining the relative importance of the stakeholders to the organisation, factors include:
        - Stakeholder power-the extent to which stakeholders control the resources required by the organisation (unions have control over employees)
        - Stakeholder legitimacy-the extent to which the stakeholder is affected by the decision of the organisation
        - Stakeholder urgency-determined by the time sensitivity of the stakeholders' claim and the level of the importance to the stakeholder

- Attributes can be used to classify stakeholders into three broad classes:
    - Latent stakeholder have one attribute, either power, legitimacy or urgency
    - Expectant stakeholders have two of the three attributes (government)
    - Salient stakeholder have the strongest claim and will be most important to the organisation (unions)

6. Strategic fit
    - The organisation needs to develop strategies that are aligned with the internal and external environment of the organisation, it must fit
    - Strategic fit should be dynamic- as the environment changes, the organisation needs to adapt and develop new sources of competitive advantage

Explain the "triple-bottom line" and why it is important in a company.

- ✓ Triple bottom line is framework that incorporates three dimensions of performance, the social, environmental and financial; these three dimensions are regarded as pillars of sustainability.
- ✓ Triple Bottom Line Model address and tackle various pertinent issues that ultimately lead the way to sustainable development.
- ✓ It is important because social and environmental issues are considered along with economic ones.
- ✓ Triple bottom line thinking holds that a company should combine standard metrics of financial success with those that measure environmental stewardship and social justice
- ✓ The economic bottom line includes financial and economic objectives such as ethical profits while the environmental bottom line involves protecting the physical environment in which the organization physically exists.
- ✓ The social bottom line is about contributing towards the welfare of communities in which the organization operates.
- ✓ The focus on all elements of the triple bottom line prepares the achieve survival and wealth creation in the long term.

Differentiate between the broad definition of CSR and how it is applied in practice in South Africa/ Explain what corporate social responsibility (CSR) is and give examples of CSR activities

- ✓ **Corporate Social Responsibility (CSR)** is a broad concept that refers to the role of business in society.
- ✓ It is based on the principle that managers have an ethical obligation to consider and address the needs of society, not merely to act solely in the interests of the shareholders or their own self interest.
- ✓ In South Africa, CSR is more often used as a specific term referring to the externally oriented sustainable development activities of organisations.
- ✓ There is no recipe for CSR investment, but most large companies generally invest in a relatively broad range of social and environmental causes, such as education, training and combating HIV/AIDS.
- ✓ Instead of being purely reactive, most organisations have a range of CSR causes in which invest (see, e.g. Pick n Pay) and also attempt to invest in causes that will benefit them in the long run.
- ✓ For example, Pick n Pay invests in capacity building for small farmers and entrepreneurs to make them more competitive, which ultimately benefits retailers because it encourages greater competition between suppliers and a wider range of suppliers to buy from.
- ✓ CSR looks to the past actions of a company while sustainability looks forwards by changing the nature of the company to be more successful in the long run

Choose any organisation and conduct a stakeholder analysis for it. Who are the organisation's priority stakeholders, and what does this imply for its management of stakeholders? / Explain the importance of stakeholders and stakeholder management for sustainable business/ Conduct an analysis of stakeholder salience and make recommendations based on your analysis.

- ✓ Stakeholders are those entities that can affect or be affected by the organisation's actions.
- ✓ They can include creditors, directors, employees, government, suppliers, unions and community
- ✓ The purpose of a stakeholder management approach is to help the organisation to prioritise and develop strategies for dealing with stakeholders.
- ✓ To assists managers, the stakeholder salience model can be used for prioritising stakeholder claims based on their relative importance
- ✓ The stakeholder salience model can assist managers in determining the relative importance of the stakeholders to the organisation, factors include:
    - o Stakeholder power-the extent to which stakeholders control the resources required by the organisation (unions have control over employees)
    - o Stakeholder legitimacy-the extent to which the stakeholder is affected by the decision of the organisation
    - o Stakeholder urgency-determined by the time sensitivity of the stakeholders' claim and the level of the importance to the stakeholder
- ✓ Attributes can be used to classify stakeholders into three broad classes:
    - o Latent stakeholders have one attribute, either power, legitimacy or urgency

- Expectant stakeholders have two of the three attributes (government)
- Salient stakeholders have the strongest claim and will be most important to the organisation.

For example unions have the high power, high legitimacy and high urgency. However it could be said that shareholders in this case are also salient stakeholders, which may help to explain the deadlock between management and labour regarding the remuneration claims of the union

Explain the role of corporate governance in corporate sustainability.

- ✓ Corporate governance is described as the system by which corporations are directed and controlled and it performs the following functions
- ✓ It specifies the distribution of rights and responsibilities among different participants in the corporation such as board of directors, managers, shareholders, etc
- ✓ It specifies the rules and procedures for making decisions in corporate affairs
- ✓ It provides a structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environments
- ✓ It is a mechanism for monitoring the actions , policies and decisions of corporations
- ✓ It is a mechanism for aligning the interests of different stakeholders
- ✓ It's guided by the King III Report. The King Code of Governance Principles (King III) is a sound framework to guide companies on governance principles.
- ✓ It is the responsibility of organisations to ensure that they comply with the principles of King III.

Describe the four pillars of corporate sustainability.

Corporate sustainability has four pillars:

1. Sustainable development
    - The notion of sustainable development had its roots in the triple bottom line of economics, environment and society.
    - Sustainable business hinges on three main factors, namely ethical profits (economic), a healthy physical environment (environmental) and healthy communities (social).
    - A holistic model of a sustainable business includes:
        - environmental context
        - social context
        - economic context
        - organisational context
        - stakeholders
        - strategic fit
2. Corporate social responsibility (CSR)
    - CSR refers to the role of business in society.
    - It is based on the principle that managers have an ethical obligation to consider and address the needs of society, not solely the interests of the shareholders or their own self-interest.
3. Stakeholder management
    - Stakeholders are those entities that can affect or be affected by the organisation's actions.

- Not all stakeholders have the same effect or are entitled to the same consideration.
- The purpose of a stakeholder management approach is to help the organisation to prioritise and develop strategies for dealing with stakeholders

4. Business ethics (corporate accountability theory)
    - Ethical business is an essential element of corporate accountability.
    - It is ultimately up to every organisation to define what ethical business means in its context and how it will deal with it.
    - There are some obvious guidelines as to what would constitute unethical business practices:
        - Behaviours that are illegal or in contravention of regulations or legal contracts.
        - Discriminatory and unfair practices, for example, in the appointment of employees.
        - Misleading stakeholders deliberately.
        - Deliberately behaving in ways that are detrimental to stakeholders.
        - Being unduly influenced in, for example, purchasing and recruitment practices.

In strategic management it is important to have a code of conduct that will guide the actions of management.

LEARNING UNIT 7 SELECTING OPTIMAL BUSINESS LEVEL STRATEGIES

What is the relationship between the hierarchical levels of an organisation, levels of strategy and levels of decision making in organisations? How important are these relationships in strategy formulation?

- ✓ Corporate and business-level strategies are mostly considered.
- ✓ The corporate centre is typically the head office of a multi-business organisation and manages a portfolio of business with a view to maximise the value of the portfolio for the benefit of shareholders.
- ✓ The corporate head office will typically add value to strategic business units (SBUs) by means of specific capabilities or shared corporate services.
- ✓ SBUs are the organisational units that exercise control over most of the resources they require to be successful

Why are long-term objectives essential in the choice of competitive business level strategies?

- ✓ Long-term objectives flow from the organisation's mission statement.
- ✓ Long-term objectives are used to operationalise the mission statement, are specific, cover a well-defined timeframe and provide guidance on how the organisation can work towards pursuing its mission and vision.
- ✓ Competitive business level strategies involve an organisation's unique plans to compete successfully in dynamic, complex and rapidly changing external, industry and market environments.
- ✓ Therefore long term goals are important because they guide the choice of business level strategies

Differentiate between the different types of business level strategies. Give an example of an organisation, product or service in each business level strategy discussed

- ✓ Cost leadership strategy
  - is to under-price competitors by building and sustaining their competitive advantage through the reduction of cost or keeping lower than those of their competitors, while providing products and services that customer wants, at the same or higher quality than their competitors.
  - An example will be when ICASA told all the Telecommunication's Company to work on their tariff plans and make them to be more affordable for consumers, what Vodacom did was a good move as they introduced new packages that gave consumers what they are looking for and benefit them.
  - Most of consumers are moving with the technology and require more data than talk time, Vodacom introduced Smart packages that gave their consumers more data to use on their smart phones, Smart L at a cost of R579.00 which includes 250 talk time minutes, 500 sms bundle and 500MB of data.

- ✓ Differentiation strategy
  - is to produce products and services that are unique in the industry for customers that are not price sensitive and willing to pay premium price for products and services with unique, differentiated features that they desire.
  - Vodacom introduced Red-VIP package after Telkom Mobile came up with an unlimited package with offered their consumers unlimited talk time, unlimited SMS and uncapped data.
  - Vodacom introduced their Red-VIP at a cost price of R1999, 00 which had unlimited talk time, unlimited SMS and 5GB of data.
- ✓ Focus low-cost leadership
  - is a set of actions designed to produce or deliver goods or services to a narrow target consumer based on specific differences in the market.
  - Blackberry introduced a Blackberry 8520 which was targeted at the Youth market and it took the market over and sells went high the year it was launched.
  - Every teenager had that phone because it came out with a blackberry service (BIS), if you had the service you could browse the internet for free, send BBM messages, Whats app and Facebook for free, have e-mail account linked to the phone and able to receive mails on the phone for free.
- ✓ Best-cost provider strategy
  - achieve a lower price than competitors while trying to keep the value of the product and service at the same level as competitors or provide greater value at the same price as competitors.
  - Cell C and Vodacom dropped their pre-paid tariffs so that they can be able to attract consumers, Cell C introduced 0,99c For Real which gave their consumers the most affordable flat rate to any network, any time, any place.
  - Then Vodacom introduced prepaid 0,79c offer, which local call is 0,79c per minute to any network at any time.

What are the main differences between cost leadership and differentiation strategies? / Assess the advantages and disadvantages of each type of business level strategy.

- ✓ **Cost leadership**-
  - This strategy entails under pricing competitors by building and sustaining their competitive advantage through the reduction of costs, or keeping lower than those of their competitors, while providing products and services that customers want, at the same or a higher quality than their competitors.
  - Low cost and price as a competitive advantage can thus be achieved in a variety of ways such as:
    - selling cost-effective products and services that satisfy customer needs, resulting in higher market share than that of rivals
    - enhancing profit margins through economies of scale, lower unit costs and organisational efficiencies
    - basing cost effectiveness on the organisation's core competencies

The advantages of cost leadership strategies include the following:

  - an increasing in competitiveness and market share through sustainable cost advantages

- protection for the organisation against competition as a result of its durable cost advantage
- protection against powerful suppliers because of large-scale purchases and the resultant potential of discounts
- protection against the power of buyers because of the low-cost advantage and competitive pricing possibilities
- durable cost advantages serving as barriers to imitation, barriers to the threat of substitute products and barriers to the threat of new entrants to the market, which should be evident from analysis of the organisation's competitors

The disadvantages of cost leadership strategies can include the following:

- not keeping up with changes in the external environment, for example, where core competencies relate to and are sensitive to changes in technology which are not recognised (e.g. the fuel-efficient aircraft of Mango Airlines that have put other low cost airlines that have not adapted at a competitive disadvantage)
- not being aware of changing consumer needs and preferences with regard to products and services in the low-cost market sector that could seriously affect competitive market position
- not being aware of industry dynamics, changing industry competitive forces, and the actions of competitors as far as imitating, or even worse, improving on an organisation's low-cost core competencies, is concerned the so-called curse of complacency.

✓ **Differentiation**-

- this strategy entails producing products and services that are unique in the industry for customers that are not price sensitive and are willing to pay a premium price for products and services with unique, differentiated features that they desire.
- The uniqueness can be achieved in the following ways:
  - based on dimensions widely valued by customers in an effort to achieve higher market share than one's rivals, demonstrating how product or service functions and features better meet customer needs compared to those of competitors
  - basing differentiation on the organisation's own core competencies that could lead to a sustainable competitive advantage

The advantages of differentiation strategies include the following:

- They could safeguard an organisation against competition as a result of brand loyalty by slightly higher pricing than their competitors.
- Powerful suppliers are rarely a problem.
- Differentiators are unlikely to experience problems with powerful buyers.
- Threats of substitute products really depend on competitors' products to meet or exceed customer needs before customers would be willing to switch products.
- Effective differentiation and brand loyalty could act as barriers to entry.

The disadvantages of differentiation strategy can include:

- The organisation's inability to maintain uniqueness from a customer perspective - not fully responding to the durability challenge of competitive advantage.
- The design or physical features of a product, which are much easier to imitate than uniqueness, which stems from intangible sources like innovation, quality of service, reliability, brand and prestige

Focus of the market

- This strategy is used when an organisation is able to identify and serve a niche or focus market competitively.
- A focus strategy - cost leadership or differentiation - becomes attractive when one or more of the following conditions exist:
  - the existence of a relatively small target or niche market
  - successfully avoiding industry leaders as a result of the relatively small market
  - the existence of effective barriers to the entry of multi-segment competitors
  - the possible existence of a multiplicity of niches

The advantages of focus strategies include the following:

- protection from competitive rivals owing to the uniqueness of product(s) or service(s)
- power over buyers because of significant uniqueness and exclusivity
- passing supplier price increases on to customers
- customer loyalty as a protection against substitute products as well as new entrants

The disadvantages of focus strategies include the following:

- high production costs, basically because of the inability to realize economies of scale
- not being aware of changing technology and consumer preferences
- not being able to effectively ward off an attack by rival differentiators

Best Cost-

- This strategy seeks to achieve a lower price than competitors while trying to keep the value of the product or service at the same level as competitors, or provide greater value at the same price as competitors.
- Sources of cost advantage could originate from:
  - market size and economies of scale
  - specialised equipment and facilities
  - the ability to keep overhead costs low
  - the intention to relentlessly pursue exceptional quality

The advantages of focus/best cost strategies include the following:

- protection against powerful suppliers because of large-scale purchases and the resultant potential of discounts
- protection against the power of buyers because of the low-cost advantage and competitive pricing possibilities

- durable cost advantages serving as barriers to imitation, barriers to the threat of substitute products and barriers to the threat of new entrants to the market, which should be evident from analysis of the organisation's competitors

The disadvantages of a hybrid best-cost can include:

- From not being aware of a changing competitive industry environment,
- And the risk that the cost leadership and/or differentiation features that underlie this strategy do not measure up to market expectations, leaving this strategy stuck in the middle, and therefore uncompetitive.

Explain the levels of strategy in organisations.

1. **Corporate- level strategy** - How do we create value for the corporation as a whole

   a) **Internal growth strategies**- Growing within, the aim is to leverage the organisation's current range of products/services and the markets it serves and propose growth strategies which combine new and existing products and markets.

Depending on whether products and markets are new or not, three internal growth strategies are possible, which are:

Market penetration -The aim of this strategic option is to increase market share by selling more of the organisation's existing products and services in its existing markets
Market development - The purpose of this strategy is to sell the organisation's existing products in new markets, as explained in the prescribed book.
Product development - The purpose of this strategy is to sell the organisation's new products and services in its existing markets

   b) **External growth strategies** - Some organisations to grow by adding new businesses to their current portfolio.

These external growth strategies create diversification by means of new products or markets or integration when organisations acquire an enterprise similar to the currents business.
They are classified into two as:

Diversification strategies - This strategy is driven by two key objectives, namely growth and risk reduction.
These objectives are supplemented by an intention to exploit economies of scope in resources and capabilities; it has the potential to create shareholder value.
Related diversification- businesses are related when there is close resemblances between how they perform key value chain activities.
It allows the organisation to build shareholder value by leveraging synergies between the two businesses enabling the organisation to perform better as a whole.
Unrelated diversification strategy focuses on entering and operation businesses in unrelated industries
Integration strategies - It's when organisations acquire other businesses similar to their own.
The aim is to achieve growth through acquisitions and/or mergers with competitors through (horizontal integration) or suppliers or distributors (vertical integration)

c) **Cooperative strategies** - allow different organisations to form partnerships to share resources, capabilities or technical know-how/combine to build a competitive advantage. There are two popular options:

Strategic alliances - is a formal agreement between two or more separate companies in which there is strategically relevant collaboration of some sort, joint contribution or resources, shared risk, shared control and mutual dependence
Joint ventures - A strategic alliance which involves ownership ties is called joint venture. In thus agreement, a new corporate entity is formed and is jointly owned by two or more companies that agree to share in the revenues, expenses and control of the newly formed entity

d) **Exit/divestment/ turnaround strategies** -When organisations are performing poorly and not in a position to grow, to effect a turnaround executives need to acknowledge problems and consider strategic options that could yield immediate returns.

Sometimes there is no choice but to cut losses and exit the industry.
There are three turnaround strategies that can be used to improve productivity gains:

Retrenchment strategies are used typically used to reduce the size or diversity of the organisation through cost cutting and reducing non-core assets
Recovery is used stabilise the business and aims to introduce new entrepreneurial blood in the form of a turnaround specialists or a new leadership team
Revenue growth strategies aim to grow sales by dropping prices, increasing promotions, product modification, more sales staff and attentive customer service. Turnaround can also be achieved through divesture

2. **Business- level/ competitive strategy** –

This strategy seeks to determine how an organization should compete in each of its businesses.
For a small organization in only one line of business or the large organization that has not diversified into different products or markets, the business strategy typically overlaps with the organization’s corporate strategy.
For organizations with multiple businesses, however, each division will have its own strategy that defines the products or services it will offer and the customers it wants to reach.
The business level strategy support the corporate level strategies, they focus on creating competitive advantage for the organization and if properly chosen, they can help the organization in realising its.

3. **Functional level strategy**

This strategy seeks to determine how to support the business strategy.
For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business strategy.
The strategic issues at this level usually relates to business processes and the value chain.

4. **Operational level strategy**

This strategy focuses on the operations of the company

This level of strategy is extremely significant in shaping the success of other strategies as it translates strategic decisions into strategic actions by directly impacting the design of operational processes and networks, scheduling activities, and optimal utilization of assets and resources.

Explain how organisations can evaluate business level strategies.

Strategies can be evaluated in terms of their:

SUITABILITY

- This is the degree to which an organisation's strategy deploys its core competencies to exploit external opportunities and overcome external threats and internal weaknesses.
- Methods that are available to test suitability include SWOT analysis, the five forces industry analysis, and scenario analysis and planning.

ACCEPTABILITY

- This requirement relates to the ability of the strategy to produce the expected results over both the short and the long term in line with stakeholder expectations.
- It also considers the evaluation of factors such as benefits, risks and stakeholder reactions.
- Sensitivity analysis, financial analysis and break-even analysis, inter alia, can be used to assess acceptability.

FEASIBILITY

- Feasibility implies that the organisation is capable of executing the strategy.
- The following questions need to be answered:

Can the strategy achieve the set objectives? ; Can the strategy be implemented effectively and efficiently? Are the required resources and capabilities available for implementation of the strategy? etc

- For the feasibility measure, the organisation's financial and human resources as well as resource integration need to be evaluated.
- Once formulated, strategies need to be evaluated according to the above-mentioned
- measures discussed in this section if they are to be deemed fit for purpose

Explain the importance of choosing appropriate business level strategies/ Explain how business level strategies are chosen.

- Business level or competitive strategies are consider how to compete successfully in these markets, in other words how to position a company within in an industry in such a way that it has competitive advantage
- The biggest and most significant differences/variations among competitive strategies are the following:
    - Whether an organisation's target market is broad or narrow

- Whether the organisation is pursuing a competitive advantage linked to low cost or product differentiation
- A combination of the above

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