MNG3701 – Exam Prep (S1-2015)

Extracts from Tutorial Letters and Feedback & Responses from Lecturers

"… examination we assess your insight and knowledge, and your ability to apply them. Please work through all the learning units and all the activities and assessment questions at the end of each learning unit. Study the learning units in conjunction with the prescribed textbook (the learning units are a wrap-around guide to the textbook). The learning units will help you develop insight into strategic implementation, while the prescribed textbook will provide you with the knowledge you need.

You may, however, accept that the types of questions that will be asked in the examination **may be derived from the learning outcomes** in the learning units."

- ✓ master all the *learning outcomes* of the module specified in your tutorial letter 101/2015/3,
- ✓ participate in the examination preparation questions on the myUnisa discussion forums,
- ✓ tutorial Letter 301 offers guidance on how to approach case studies and questions in general,
- ✓ revisit assignment 01 and 02 and consult with tutorial letters 201 and 202 as model answers to them.

Herewith follows each study unit with a breakdown of:

- Specific outcomes and assessment criteria (as per tutorial letter 101/2015/3) – *Section A* <u>*and their answers*</u>
- Discussion questions (taken from the end of each study unit) – *Section B*.
- Exam preparation questions (as posted on myUnisa & MNG3701-15-S1-1E tutor group) – *Section C*.

Format of the May/June 2015 Exam:

- Provisional Date: 25 May 2015 @ 08:30
- Duration: 2 Hours
- Marks: 70
- Type of Question: One case study question = 20 marks
  Five short theoretical & practical questions not based on case study = 10 marks each

- **Part 1** must be answers only by students registered in 2015, semester 1 for the MNG3701 module. Part 1 assesses the 2015 module syllabus. Students answering part 1 of the paper must not answer part 2.

- We recommend that you do **NOT** use previous examination papers as part of your examination preparations, as these papers were based on the previous module outcomes (the questions may not correspond to the 2015 module outcomes).

Study Unit 1

A) Specific Outcomes and Assessment Criteria

Specific outcome 1: Explain strategic management as an innovative approach to managing organisations.
Assessment criteria:

• Define strategy, strategic planning and strategic management.	Tutorial Letter 201
• Illustrate and explain the strategic management process.	TB Figure 1.1
• Explain the rationale for new perspectives on strategy.	SNW summary
• Explain the nature of strategic decisions.	SNW summary
• Describe the different levels of strategy in organisations.	myUnisa Feedback
• Explain the importance, benefits and risks of strategy.	Tutorial Letter 201
• Describe the tests for a winning strategy.	myUnisa Feedback

B) Discussion / Self-Assessment Questions

(1) Define the concept of strategy and briefly explain its relationship to strategic management.
(2) Explain what is meant by strategic management and discuss the dynamic nature of the traditional strategic management process.
(3) 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.
(4) Explain the different levels of strategy and decision-making in organisations, and expand on the importance of strategic decisions in strategic management.
(5) Distinguish between intended, deliberate, emergent and realised strategies.

C) Exam Preparation Questions

1. Critically differentiate between the concepts of strategy, strategic planning and strategic management.
2. Describe the different levels of strategy in an organisation.
3. Critically discuss the importance, benefits and risks of strategy.
4. Describe the tests for a winning strategy.

FEEDBACK ON OUTCOMES: **PAGE 3 TO PAGE 7**
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

***STRATEGY:** myUnisa Question: "Critically differentiate between the concepts of strategy, strategic planning and strategic management."

Described as the long-term direction of the organisation, a pattern in a stream of decisions, the means by which organisations achieve their objectives and the deliberate choice of a set of activities to achieve competitive advantage. [TB p10] OR

Can be defined as the direction provided by the actions and decisions of strategists in pursuit of organisational goals. [TB p10] OR

Generally acknowledged 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 environments. [SG (full) p4]

***STRATEGIC PLANNING or STRATEGY FORMULATION:**

The first phase of an integrated strategic management process, based on the concepts of strategic thinking and strategy, and comprises the following three main decision stages: [SG (full) p5]

(1) deciding on the future of the organisation – strategic direction
(2) analysing the organisation's external and internal environments
(3) selecting appropriate competitive strategies – strategic choice

It specifies the strategies that need to be implemented for the achievement of an organisation's long-term objectives and involves making decisions about the organisation's long-term goals and strategies. "Strategic planning becomes an ongoing activity in which all managers are encouraged to think strategically and focus on long-term, externally-oriented issues as well as short-term tactical and operational issues" [(Bateman & Snell, 2013:133–135) TB p4]

***STRATEGIC MANAGEMENT:** [TB p10 or SG (full) p7-8]

Traditionally defined as setting strategic direction, setting goals, crafting a strategy, implementing and executing strategy, and then, over time, initiating whatever correct adjustments are deemed appropriate. Recent research has suggested strategy is not a sequential and discrete process; it is a rather more messy, overlapping and iterative process. It is about how organisations achieve competitive advantage, superior performance and sustainability.

Purpose is to ensure that the organisation applies the following four key elements of a successful strategy:

1. Clear & consistent long-term strategic direction in terms of what the organisation wants to achieve in future.
2. A profound understanding of the competitive environment, to ensure that the organisation is able to align itself with opportunities and to deal with threats as effectively as possible.
3. An objective knowledge of the key resources and capabilities that the organisation possess, as well as an understanding of its value for the organisation, to allow the organisation to build on these and develop a distinct advantage.
4. The proper alignment of the organisation's structure, systems, culture and functional and operational management to ensure the effective implementation of strategic plans, projects and initiatives.

Strategic management is ultimately about consistently aligning the organisation with its internal and external environments and involves specifying organisation's objective, developing policies and plans designed to achieve the objectives

ILLUSTRATE AND EXPLAIN THE STRATEGIC MANAGEMENT PROCESS: TB p6 or SG (full) p6-8

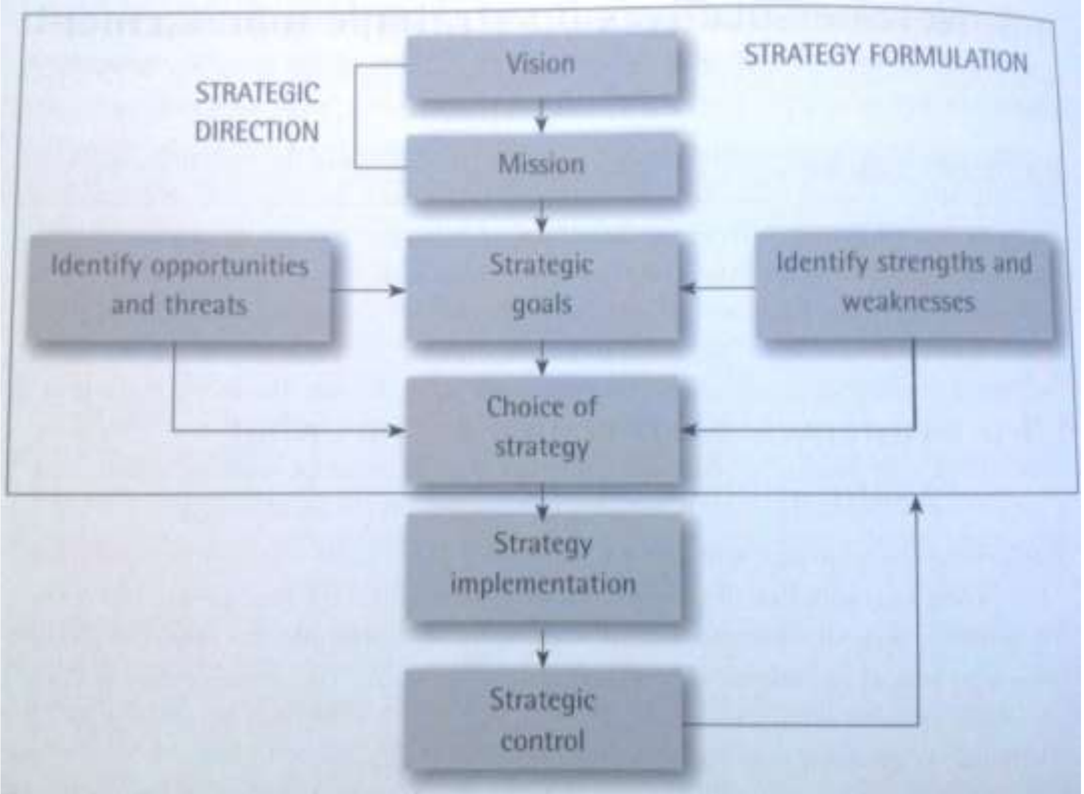


FIGURE 1.1 *The traditional strategic management process*

Strategic Planning / Strategy Formulation / 'Thinking' part (Top Managers)

- Deciding on organisation's **strategic direction** (Vision & Mission)
  - Leads to more specific long-term **strategic objectives** with measurable outcomes
- Analysing organisation's external & internal environments (internal and external consistency)
- Selecting appropriate competitive strategies - **strategic choice**

Strategy Implementation / Execution Requirements / 'Doing' part (Middle Managers)

- Leadership & culture: time-consuming process of aligning culture with strategic choice
- Competencies: ensuring right mix of knowledge, skills & attitiudes in individuals
- Learning organisation
- Systems, policies & procedures
- structure & Organisational architecture
- Cascading strategic objectives into short term, functional strategies & policies

Strategy Review, Feedback & Control

- Control measures ensuring that strategies are on track
- Feedback allowing organisation to adapt or react to changing environment

EXPLAIN THE RATIONALE FOR NEW PERSPECTIVES ON STRATEGY:

Criticism of the process approach that led to theory/process divide:

- ignores role of people at all org's levels
- separation of planning & implementation
- rise in emergent strategies
- strategizing as prerogative of top management
- too rational, linear process

Main drivers of new perspective on strategic management / strategy-as-practice approach: SG (full) 1 pg. 9-10

1) Rise of "emergent strategies" versus more traditional, deliberate strategies, also stemming from rapidly changing business environments
2) Increasing involvement in strategizing of people from all levels of organisation.

In real dynamic world of business orgs' strategies have come to be configured in the following ways:

- Planned strategies termed *intended strategies* – when realised termed *deliberate strategies*
- Intended strategies, fall by wayside & not realised termed *unrealised / abandoned strategies*
- Strategies not explicitly intended, are unplanned & emerge over time often due to changing environments / competitive circumstances, termed *emergent strategies*
- Emergent strategies realised become *deliberate strategies* together with *realised intended strategies*.

Strategies are often messy, emergent & fraught with failure rather than neat, intended / deliberate. Realisations:

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

EXPLAIN THE NATURE OF STRATEGIC DECISIONS:

Term share importance characteristics whether military or business context. Strategic Decisions:

- are concerned with long-term direction & sustainable success
- involve exploiting links between in- & external environments
- are shaped by values & expectations of stakeholders
- require major resources
- are directed by vision
- are likely to affect whole organisation

*DESCRIBE THE DIFFERENT LEVELS OF STRATEGY IN ORGANISATIONS: myUnisa Question

Managerial levels and corresponding levels of strategy generally found in organisations for both corporate / multi-business organisations and single business organisations are:

The Different Levels of Strategy: From Text Book pg. 12

	1. Corporate-Level Strategy	2. Business-Level Strategy	3. Functional Strategies
Where:	Corporate Centre	Single Business Unit (or Subsidiary)	Functional Management
Scope:	Multibusiness Corporation	Markets wherein Competing	Functional Area
Goal:	↑ Shareholder Value	Maintain Competitive Advantage	Executing Business Unit Strategy
Example:	Mergers, Internalisation	Draws means from corporate centre	Human Resources, Marketing

Levels of Strategy & Decision-making Roles in Multi-business & Single Business Organisations: From Study Guide pg. 14

Level of Strategy →	1. Corporate	2. Business	3. Functional	4. Operational
Corporate Entity →	CEO, Board of Directors, Corporate Staff	Divisional managers & staff of separate business units	Functional level managers & staff in each func. area in business unit	Frontline managers in operations departments
Single Business Entity →	None	Executive manager & senior staff of single business	Funtional managers & staff for each func. area in the singele business	Frontline managers in operations departments

Corporate level: responsible for organisation's financial performance and other non-financial goals like its image and social responsibilities. Focus is on creating shareholder value. Decisions made are about mergers, acquisitions, disinvestments and internalisation.

Business level strategies: The focus is the achievement of competitive advantage within its own market. It supports the corporate strategy by ensuring it is successful in the markets it is competing in and relies on the corporate centre to provide it with the means and resources to achieve this. Can use cost leadership, differentiation, focus low-cost leadership, focus differentiation or best-cost provider strategies that decide how it achieves its corporate objectives.

Functional/Operational level: How the parts of organisations (i.e. resources, process, people and skills) are pulled together to form strategic landscape for implementation of strategy. Involve coordination and allocation of resources between the various functions and sub-functions through which business unit level strategies can be executed efficiently and effectively. Relates to functional departments like marketing, human resources, operations etc. to develop strategies that support the implementation of business strategies.

Levels of strategy in both corporate & single business organisations must be totally aligned for any degree of success. Importance of the relationship between levels of strategy and decision making at these levels: Members at all levels should understand overall organisational strategy & its implications at their respective levels. This requires extremely effective communication throughout entire organisation.

Strategic decisions were typically seen to be long term, requiring significant resource commitments and involving high levels of risk. It should thus be clear why the correct strategic decisions at the corporate and business levels need to be made by formulating appropriate long-term objectives and choosing the correct business level strategies.

***EXPLAIN THE IMPORTANCE, BENEFITS AND RISKS OF STRATEGY:** myUnisa Question: "Critically discuss the importance, benefits … etc."

Strategy is a coherent narrative about the future direction of an organisation.
It 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. Importance of strategy & 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.
- ✓ Pools the contributions by organisational members, thereby facilitating 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.

Despite its acclaimed benefits, strategic management also deals with risks of a strategic nature. There are different perspectives on risk but, Slywotzky and Drzik (2005:80) define strategic risk as "an array of external events & trends that can devastate a company's growth trajectory and shareholder value".
Strategic risk can be categorised into seven major categories, namely:

- Industry risk
- Brand risk
- Customer risk
- Stagnation risk
- Technology risk
- Competitor risk
- Project risk

Rowe (2009) cautions that there is a common view that strategic risk is about managing risk strategically instead of examining it as a category similar to operational, financial and other risk areas. This is a common view that mainly stems from the complexity and difficulty of identifying strategic risk.

Advantages of having a clear strategic direction, expressed through vision and mission statements: TB Table 4.1

- It provides direction
- It guides all the organisational efforts towards achieving the overarching goal of the organisation
- It binds the organisation members to work together towards achieving the overarching goal of the org.
- It communicates to internal & external stakeholders what the organisation wants to achieve in the long run
- It guides decision making
- It distinguishes the organisation form other org.'s
- It promotes a sense of shared expectations
- It contributes to synergy among managers and employees.

***DESCRIBE THE TESTS FOR A WINNING STRATEGY:** myUnisa Question

Four common requirements for strategy success: Grant & Jordan (2012:10–12) also TB Ch. 1 pg. 10; par 1.4.4

1) clear goals that are consistent & long-term
2) in-depth understanding of competitive environment (opportunities & threats)
3) objective appraisal of resources & capabilities (strengths & weaknesses)
4) effective implementation and complete & proper organisational alignment

Three tests used to assess 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 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.

Two measures from the textbook:

- *Shareholder Capitalism* (profit at all cost): suggests the only goal is the creation of shareholder's wealth through profitability. Focus on short term profits is not sustainable.
  – implicated in 2008-9 global economic crisis.

- *Stakeholder approach* (triple bottom line): focus on balancing the often conflicting interests of multiple stakeholders (i.e. employees, shareholders, communities, environment etc.)
  – criticised for vastly complicating decision-making process & diluting strategic goals.
  [Triple bottom line refers to financial, social and environmental contributions]

Study Unit 2

A) Specific Outcomes and Assessment Criteria

Specific outcome 2: Have a sound understanding of and insight into the traditional process perspective as well as the more recent strategy-as-practice approach to strategic management, strategising and the role of strategists in strategic management.
Assessment criteria:

- Explain the traditional process perspective on strategic management. myUnisa Feedback
- Explain the importance of strategic thinking and strategic direction setting in strategic planning and strategic management. myUnisa Feedback
- Criticise the traditional process perspective on strategic management. SNW summary
- Differentiate meaningfully between deliberate and emergent strategies as a basis for strategic decision making and strategising. myUnisa Feedback
- Explain strategy-as-practice as an effective approach to managing new strategic realities. myUnisa
- Explain the concept of strategising and the role of strategists and managers in the context of strategy-as-practice. myUnisa Feedback

B) Discussion / Self-Assessment Questions

(1) 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.
(2) Discuss the requirements for and importance of long-term objectives or strategic objectives.
(3) Explain the role of the balance scorecard in formulating strategic objectives.
(4) Explain the strategy-as-practice approach and how it differs from the process approach to strategic management.
(5) Explain the concept of strategising and the role of strategists in strategic management.

C) Exam Preparation Questions

1. What is meant by the traditional process perspective on strategic management? Provide a critical analysis of this perspective
2. Critically differentiate between deliberate and emergent strategies
3. Explain what is meant by strategy as practice? Critically defend why it is an appropriate approach to manage new strategic realities
4. Explain why strategic thinking is important in setting a strategic direction
5. Explain what is meant by strategising and critically explain the role of strategists and managers in the context of strategy as practice

FEEDBACK ON OUTCOMES: **PAGE 9 TO PAGE 13**
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

*EXPLAIN THE TRADITIONAL PROCESS PERSPECTIVE ON STRATEGIC MANAGEMENT [SM]: ALSO SEE ABOVE SU 1

myUnisa Question: "What is meant by the traditional process perspective on strategic management? Provide a critical analysis of this perspective."

A Rational, sequential, static, linear process with three distinct stages/phases to achieve strategic management:
1st Stage: *Strategic Planning / Strategy Formulation / 'Thinking' / Conceptual part* Mostly done by top management Consists of Environmental Analyses & Formulation of Strategies Sets of decisions and actions designed to achieve a company's objectives Pearce and Robison (2009) SG p i. Formulating strategic intent, vision, mission incl. broad statements about purpose, philosophy and goals (strategic direction) ii. Analysing external environment: Macro-, Industry and Market Environments iii. Analysing internal environment (strengths & weakness of resources & capabilities) iv. Analysing strategic options (matching resources & capabilities with opportunities & threats) v. Identify most desirable strategic options by evaluating against vision, mission & strategic intent vi. Select long-term objectives & strategies to achieve them.
2nd Stage: *Strategy Implementation / Execution Requirements / 'Doing' / Action part* All Staff are Tasked with Implementing Formulated Strategies vii. Develop annual objectives & short-term functional strategies & tactics, compatible with long-term choices viii. Implement selected strategies & tactics - using budgeted resource allocation and - matching & aligning tasks, people, structures, technologies, culture, rewards systems in the organisation - while ensuring that sustainability has been integrated into strategies.
3rd Stage: *Strategy Review, Feedback and Control* ix. Continuously evaluate success of strategic management process as an input for future decision-making Feedback allows organisation to adapt or react to changing environment

*EXPLAIN THE IMPORTANCE OF STRATEGIC THINKING AND STRATEGIC DIRECTION SETTING IN STRATEGIC PLANNING AND STRATEGIC MANAGEMENT [SM]: myUnisa Question: "Explain why strategic thinking is important in setting a strategic direction."

Strategic thinking:

- Relates to conceptual nature of strategy;
- Requires a strong foundation of critical thinking.
- The ability to see the total enterprise, spot trends and understand competitive landscape, to see where business needs to go and lead it into the future.
- Gives organisation opportunity to analyse internal & external environments, set strategic goals & choose the strategies that will help achieve them.
- Builds a vision for an organization's future prior to the linear process of developing a strategic plan.

All critical factors when setting organisation's strategic direction & may occur at three successive hierarchical levels.

Clear Strategic Direction: Refer to SU 1 above for advantages of clear strategic direction

- Is necessary for strategy formulation.
- Aligns the efforts of organisation & its members in the same direction
- Serves to inform both internal & external stakeholders of the organisation's purpose & long-term objectives; e.g. expressed as vision & mission statements.
- Key element against which all strategic decisions should be measured.
- Necessary for strategy formulation (1st step) in SM process; means all plans will be formulated in line with it.

CRITICISE THE TRADITIONAL PROCESS PERSPECTIVE ON STRATEGIC MANAGEMENT:

Major **Criticism** of the process approach that led to theory/process divide:

- Rational, linear process comprising consecutive phases that ineffectively embraces new competitive realities
- Linear process that doesn't fully consider complex & dynamic nature of external environment

- Notion that only top/senior managers/teams develop strategy, ignoring potentially valuable contributions from all levels of staff
- Strategy formulation & strategy implementation seen as separate phases
- Ignores strategy development by dialogue, conversation, inputs from other levels & external expertise
- Considered out of touch with strategy in practice or reality
- Regards strategies as being formulated through relatively formal structures & systems
- Little emphasis on interpersonal relationships & political processes

Develop emergent strategies & strategy-as-practice to cope & manage new realities, not replace process perspective

***DIFFERENTIATE MEANINGFULLY BETWEEN DELIBERATE AND EMERGENT STRATEGIES AS A BASIS FOR STRATEGIC DECISION MAKING AND STRATEGISING:** myUnisa Question: "Critically differentiate between deliberate and emergent strategies."

Despite basing strategic decision on a range of assumptions that were logically & conceptually developed, change can render strategies obsolete or force organisations to formulate strategies during the implementation process.

Deliberate strategies still have definite place in organisational context.
Tend to emphasise central direction & hierarchy. Implemented & realised as intended under 3 conditions:

- Management team knows precisely what they wish to achieve & intend for org.'s future before taking action
- Organisation = collective action. All members must believe in strategy & work towards it
- Realise strategy exactly as intended with no external interference (difficult given pace of change)

Planned/intended strategies work well in stable business environs. Environs are today becoming increasingly dynamic, turbulent & unpredictable leading to an increase of unplanned & emergent strategies:

Emergent strategies: happens if there is order in the absence of intention; suddenly rationalising a strategy to mean something very different from original intention;

- Typically actions taken by middle managers who are more involved in operations and can make changes to strategies when required. (strategic initiative arise without awareness of senior managers)
- Imply learning tactics that work.
- Emergent strategising often precedes full understanding of situations.
- Allows middle managers to shape realistic strategies as senior managers don't necessarily have current info
- Opens the way for collective action and convergent behaviour.
- Can influence intended strategies during their implementation.
- Managers' at all organisational levels and employees have specific roles to fulfil.
- Taking one action at a time in search of the viable pattern or consistency.
- Are more flexible & responsive, allowing organisation to learn & adapt to its environment

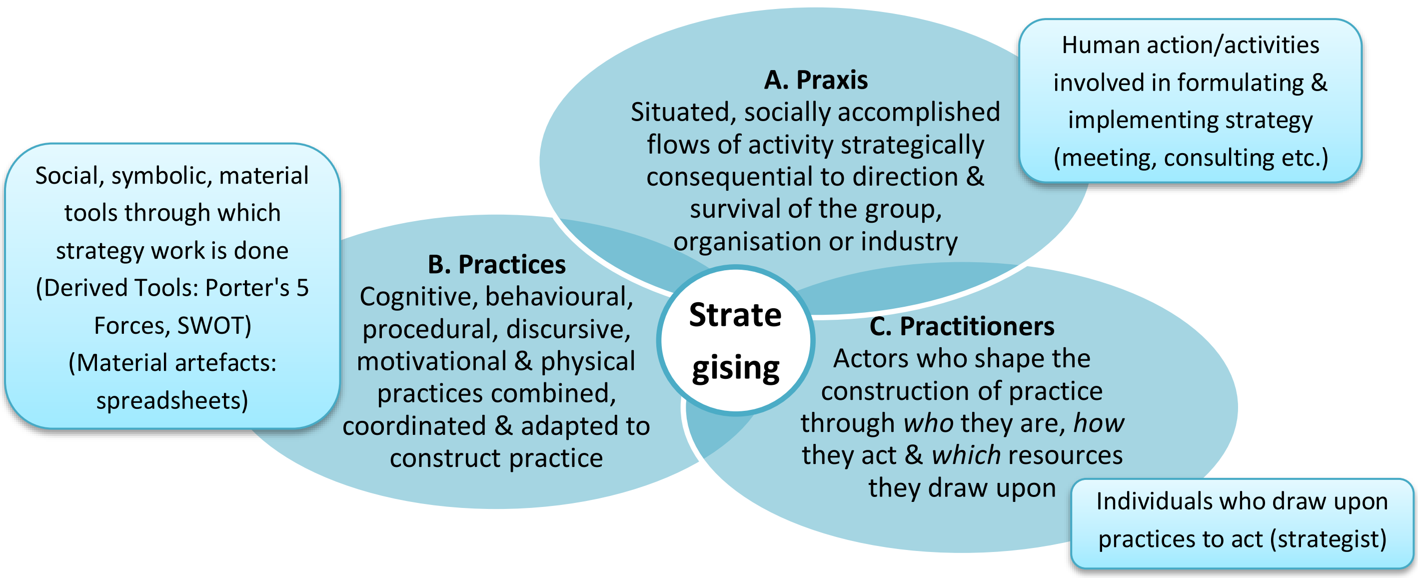
***EXPLAIN STRATEGY-AS-PRACTICE AS AN EFFECTIVE APPROACH TO MANAGING NEW STRATEGIC REALITIES:**
myUnisa Question: "Explain what is meant by strategy as practice? Critically defend why it is an appropriate approach to manage new strategic realities."

Practice Perspective offers broader view of strategic management, considering wider range of strategists (board of directors, top- & middle managers, consultants) but also allows for the messy realities of doing strategy in practice.

Strategy-as-practice: non-linear/non-sequential process enabling org.'s to cope with new competitive realities. Integrates activities & forces with strategising. That strategy is done by people and influenced by their context. Interaction between strategy praxis (the work), strategy practitioners (workers), strategy practices (tools of strategy) Org.'s will customise strategising practices to suit own unique circumstances.

Strategy no longer a mainly deliberate, top-down process but all levels of management & employees deemed strategic actors especially when coping with emergent strategies – wider scope than just strategy formulation. Strategy as a situated, socially accomplished activity: done by people & influenced by their context

Insight that strategy work (strategising) relies on organisational/other practices and strategists (thoughts, nature, personalities etc.) that significantly affect both the process & outcome of resulting strategies. TB fig. 5.1 p84



***EXPLAIN THE CONCEPT OF STRATEGISING AND THE ROLE OF STRATEGISTS AND MANAGERS IN THE CONTEXT OF STRATEGY-AS-PRACTICE:**

myUnisa Question: "Explain what is meant by strategising and critically explain the role of strategists and managers in the context of strategy as practice."

Strategising: "essentially what strategists do; described as devising or influencing strategies." Action performed by strategists (people) who guide strategic planning & management process.
Fuelled by an individual's quest for personal power. Increasingly occurs at all levels of organisations therefore:

- Everyone in org. has to know what the strategy is (requires visionary leadership, effective communication & receptive organisation culture)
- Depends on extent to which organisation become a learning organisation

Strategists: Individual, group or object in organisation that controls key/precedent-setting actions. External role players (consultants) can also be regarded as strategists ('doer' of strategy). Through their actions they influence the allocation of resources and key actions.

TYPE OF STRATEGY WORKER	DESCRIPTION TB TABLE 5.1
Detail-Conscious	Highly analytic; driven by minutiae of available data; little or no regard for intuition. Tendency to approach problems in step-by-step, systematic fashion.
Big Picture-Conscious	Can become preoccupied with gaining overview of problem at expense of details. Highly intuitive in orientation; little or no regard for analytic approaches
Non-Discerning	Minimal cognitive resources when deriving strategic insight; disinclined to process detail/extract a bigger picture from such detail. Rely on opinion & wisdom received from others, relieving themselves of burdens of analytic & intuitive processing
Cognitively Versatile	Equal abundance of inclination to attend to analytical detail & cut through detail. Able to switch more readily between analytic & intuitive processing strategies.

TOP MANAGERS AS STRATEGISTS: SU 2 pg. 32; par 2.10.3 & TB Ch. 5 pg. 89-90; par 5.4.1

Strategic responsibilities of top managers/top management teams:

- setting overall strategic direction
- conducting analyses
- allocating resources
- formulating & choosing appropriate strategies to attain competitive advantage
- ensuring implementation as well as review and control of the implemented strategies.
- effectively communicating strategies to middle & lower organisational levels

"Strategic planning champion'' (SPC): strategist responsible for guiding strategic planning; expert in strategic thinking with specific analytical & technical skills (ability & knowledge to apply strategic management concepts, use management tools & planning models for strategic practices). Three critical roles to fulfil to work effectively:

- *Social craftsperson*: integrates different expectations from groups & individuals to ensure buy-in to overall strategic direction, creating positive & common ground from which to plan strategic future. Deals with tensions & conflict, and change volatile situations to positive ones.
- *Artful interpreter* adjusts general strategic planning practices to align with local routines & norms. Contextualises the strategy that others can identify their own roles in it.
- *Known stranger* ensures balance between distance & closeness in interaction between strategists & other parties to maintain objectivity while cultivating trust.

BOARD OF DIRECTORS AS STRATEGISTS: SU 2 pg. 32-33; par 2.10.4 & TB Ch. 5 pg. 90; par 5.4.2

Focal point & custodians for corporate governance thus influences strategising & overall strategic direction.
Monitors relationship between management & stakeholders to ensure organisation's long-term sustainability.
SA's King III Report on Corporate Governance offers principles to oversee functions & role of the board:
The board has to ensure that the strategies are aligned with the purpose of the organisation.
Appoints chief executive officer & provides leadership by endorsing CEO to lead the process of strategy crafting
Role of board more aligned to monitoring & reviewing strategies than crafting them.

CONSULTANTS AS STRATEGISTS: SU 2 pg. 33-34; par 2.10.6 & TB Ch. 5 pg. 93; par 5.4.4

Consulting industry is a valuable source of expertise, available to organisations in need of specialised info & guidance. Considered knowledgeable about business environment & organisations; wealth of industry contacts & good reputation based on experience. Authoritative forces in advising on best practices.
Generally used when organisations do not have in-house expertise/need new perspectives in terms of strategies or management approaches.

MIDDLE MANAGERS AS STRATEGISTS: SU 2 pg. 33; par 2.10.5 & TB Ch. 5 pg. 91-93; par 5.4.3

Value of middle- & lower-level managers as strategists has increased due to:

1) Rapidly changing external & competitive environments in recent decades, requiring new approaches to strategising (emergent strategies complementing deliberate & intended strategies)
2) Evolvement of strategy-as-practice which accommodates emergent strategies occurring anywhere in org.

Developments have led to revised strategic roles of middle management to include:

Implementing Deliberate Strategy

- Aligned to traditional view but valid in contemporary business
- Managerial interventions, actions & tasks to align org. action with strategic intent of top management
- Critical general management implementation skill: Middle managers' ability to understand, anticipate & manage processes to secure positive & pervasive commitment to strategy
- Implement strategy by translating corporate strategy to action plans & individual objectives

Synthesising Information

- Interpretation & evaluation of info
- Understanding & sharing of info influences success/failure of org. strategies
- Middle managers provide info of in- &external events to top managers & subordinates, reducing uncertainty & resistance to change
- Info flow forms valuable foundation for management decision making
- Middle managers are "linking pins:" ability to combine strategic macro-info & hands-on micro-info

Continued

Reshaping Strategic Thinking of Top Management,

- by selling to them strategic initiatives that diverge from current conception strategy
- Role links with emergent strategising
- Managers become org. champions for initiatives developed at operating level
- Role is distinct from product championing as centres on influencing corporate managment to adjust current concept of strategy
- Define: persisitent & persuasive communication of strategic options to top management
- Proposes & defines issues for top managers, providing important contributions to strategic direction & influencing organisational effectiveness

Managing Change and Facilitating Adaptability

- Managers have downward influence; need to support, guide & alleviate concerns & fears of subordinates
- Manage change processes by adapting & amending work practices to align with changing environment
- Required to deal with conflict in operational units
- Authority & responsibility to facilitate change within middle management's areas of responsibility
- Should be clear thinkers; identifying what needs to be done & guiding subordinates to get it done

Study Unit 3

A) Specific Outcomes and Assessment Criteria

Specific outcome 3: Explain the role and strategic importance of analysing an organisation's broad or macro-environment and its task or industry environment as part of its strategic planning process.
Assessment criteria:

• Explain the structure of the external environment that organisations have to deal with.	Study Material
• Explain the strategic importance of analysing the external environment.	Study Material
• Discuss the relevant macro-environmental factors and forces.	Study Material
• Explain the need for macro-environmental analysis in strategy formulation.	Study Material
• Explain the various methods for macro-environmental analysis.	myUnisa Feedback
• Explain the term “industry” in the context of the external environment.	Study Material
• Analyse the structure, dynamics and attractiveness of industries.	Tut. 201 & myUnisa
• Identify the impact of industry forces on profitability.	Study Material
• Describe the importance of and approach to competitor analysis.	myUnisa Feedback

B) Discussion / Self-Assessment Questions

(1) Explain why an understanding of the external environment provides managers with a basis for strategy formulation.
(2) Explain the macro-environmental factors and forces that need to be considered in Macro-environmental analysis and why analysing these factors or forces is important in strategic planning.
(3) Define the term ``industry'' and explain the importance of correctly defining an organisation's industry.
(4) Explain why competitor analysis is essential and how it is conducted.
(5) Explain the value of scenarios in analysing the external environment.

C) Exam Preparation Questions

1. Explain the various methods for macro-environmental analysis
2. Analyse the structure, dynamics and attractiveness of the South African mining industry
3. Discuss the importance of performing a competitor analyses

FEEDBACK ON OUTCOMES: **PAGE 15 TO PAGE 21**
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

EXPLAIN THE STRUCTURE OF THE EXTERNAL ENVIRONMENT THAT ORGANISATIONS HAVE TO DEAL WITH

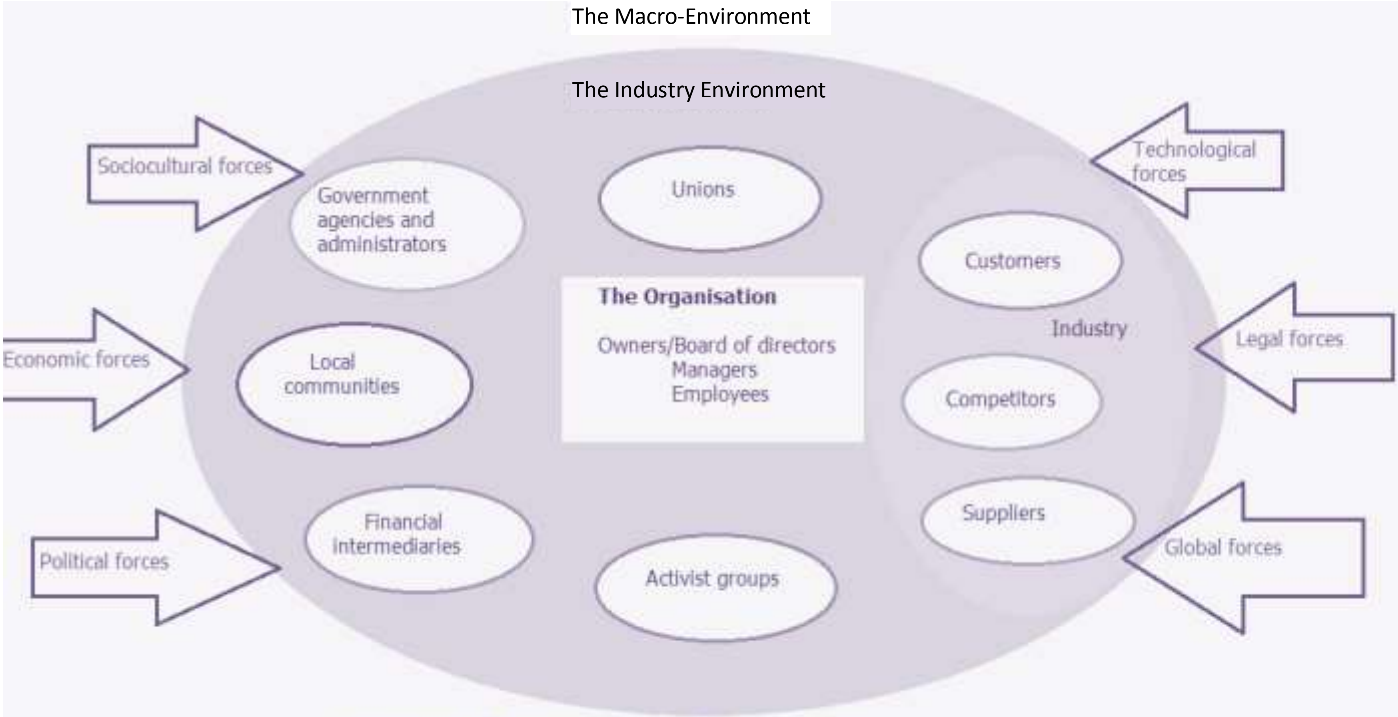


FIGURE 8.1 *The organisation and its environment*

The Structure of the external environment includes the following:

- Macro-environment (at both global & country levels) over which organisation has virtually no control
- Industry environment which may be influenced by organisation to a degree
- Organisation's internal environment: that which is typically controllable by organisation as such

EXPLAIN THE STRATEGIC IMPORTANCE OF ANALYSING THE EXTERNAL ENVIRONMENT

Analysing organisation's external environment to derive strategically important info for strategic planning. Discontinuous change has become the norm instead of the exception. A conscious effort to recognise, understand and respond to changing trends, opportunities, threats and risks has become a vital prerequisite for any degree of success in strategy formulation.

Organisation's growth and profitability is influenced by the changing External Environment. External Environmental Analysis focuses its attention on identifying and evaluating trends and events beyond the control of a single organisation, and also reveals key opportunities and threats confronting the organisation that could have a major influence on the organisation's strategic actions.

If managers do not understand how environment affects organization, they cannot identify threats and opportunities and execute plans.

Ideally, for strategic decision making and planning to work, managers must be aware of & understand all the dimensions of the external environment: current competitive environment and future competitive environment

DISCUSS THE RELEVANT MACRO-ENVIRONMENTAL FACTORS AND FORCES

Macro-environmental factors based on **PESTLE** approach, acronym meaning:

Political (-legal) factors (e.g. governments, political parties, legislation and competitive parties)

- Government is a major regulator, deregulator, subsidizer, employer & customer of an organization.
- Political, governmental & legal factors can represent key opportunities/threats for both small & large organisations. Not all laws & regulations apply equally to all organisations, some only to specific industries.

- The extent of political stability and a government's ability to ensure a stable business environment are possibly the two main political considerations for business.
- These political and legal factors could have a positive or a negative influence on business, depending on the actual situation.
- A positive factor in a market economy would include the privatisation of state-owned enterprises (SOEs).
- In contrast, nationalising an industry would typically be regarded as highly negative.
- Analysis of the political-legal factors should include an assessment of a country's political risk, especially where organisations are involved in international business.

Economic factors (e.g. levels of savings, unemployment rates, stock market indices and trends over time.)
- Impact largely on demand for products and services.
- Important for managers to monitor and forecast events in domestic and global economies (often interdependent with sociocultural forces.)
- Country's gross national product (GNP) and gross domestic product (GDP) play a role in assessing the economic environment and economic growth prospects for doing business in a country. Also income levels and disposable income that could reflect buying power and thus market demand in a country.
- To assess the effect of interdependent forces, organisations should model their business environment by proposing different scenarios to help managers make better decisions.
- Four economic factors important from a business perspective (growth rate of the economy; level of interest rates; currency exchange rates & price inflation)

Sociocultural factors [TB 8.4 p145] (e.g. social values, culture, lifestyles & demographics)
- Stakeholder groups are products of society.
- Values, morals, beliefs and subsequent behaviours and lifestyles are therefore influenced by society.
- Developing social trends may also offer business opportunities. Organisations can therefore gain if managers can identify and assess the effects and opportunities presented as well as managing and sustaining their relations and reputation with stakeholder group.
- Figure 8.1 shows the stakeholders that have potential to be the most important. Due to the ‘stake’ they can claim and ‘influence’ they can exert (incl. customers, suppliers, competitors, government agencies and a variety of external groups that have stake in the organisation.)
- ‘Stakeholders’ are individuals, groups and organisations who can affect the firm’s vision and mission.
- They are affected by the strategic outcomes achieved; and have enforceable claims on the company’s performance.
- All stakeholders should be analysed at both global and domestic level.
- Various stakeholders can lay claim to different stakes as follows:
    - Shareholders and directors can claim an ownership stake
    - Suppliers, creditors, customers and employees can claim an economic stake
    - Regulators, activist groups and local communities can calm a social stake.
- In addition, various stakeholders can influence organisations as follows
    - Shareholders exercise formal power associated with their rights.
    - Labour can display economic power by withholding services
    - Government can influence organisation behaviour through political power.
- External stakeholders:
    - Individuals, groups, and organizations that are not directly affected by the business’s performance.
    - These parties are not directly involved in decision making and other business affairs and, therefore, may or may not be affected by the company’s decisions or operations.
    - Include government entities, the general public, community businessmen, politicians, analysts, stock brokers, potential investors, etc.
    - Uses company’s financial info and other publicly available information for a number of purposes.

- Government entities such as Internal Revenue will use this information for assessing tax payments.
- Potential investors will use info to make investment choices. Media will use for public awareness purposes, and analysts and stock brokers will use them to advise clients or potential investors.

- Internal / Primary stakeholders:
  - Those that are directly affected by the business's performance.
  - Include owners, shareholders, creditors, managers, customers, employees, business partners, and suppliers are directly involved with the operations of the business.
  - Generally have a large influence on how the company is run e.g. owner's business decisions
  - Customers: the extent to which their needs are met will influence the company's sales.
  - Company's managers & workers also influence the company's day to day operations by the various business decisions that they make.

Technological factors

- The innovation and technology fields have grown exponentially in recent years.
- Continuously driving development of new products and services and therefore new industries.
- Power to transform society and way business is conducted. Innovation and technology can spill over from one industry to another.
- Monitor developments in innovation and technology in other related industries. Evaluate consequences on their own products.
- Understand how changes could affect business and how they need to respond strategically to ensure that they are at the cutting edge of new technological advances in order to remain competitive.
- Dramatic increase in number of internet users has created new & unique marketing and other opportunities.
- Information technology (IT) is regarded as a major management, financial, marketing, operational and communications component of any strategy.

Legal (linked to political)

Considerations from a business perspective are the appropriateness of a country's legal system, the effectiveness of law enforcement and whether the country adheres to the rule of law.

Ecological (natural environment)

- Concerns about the natural environment have increased dramatically in recent years.
- Preservation of the ecology worldwide is threatened by continuous air, water and land pollution.
- Global climate change and global warming have been accelerated by humanity's activities.
- Corporate strategies worldwide are affected by environmental legislation and the cost implications of such legislation.
- Increasing legislation and regulation have also created opportunities for new products and services that are environmentally friendly and increasingly demanded by consumers.

Global tectonics: Factors relating to the global environment. [TB 8.3.2 p142] Extends PESTLE Framework to PESTLE/G

- 12 Global Trends which have potential to significantly affect and change leadership in next 30 years:
  - Increasing population
  - The spread of infectious disease
  - Environmental degradation
  - Knowledge dissemination
  - Biotechnology
  - Increasing conflict
  - Increasing urbanization
  - Natural resource crises
  - Economic integration
  - Information technology
  - Nanotechnology
  - Governance
- Has potential to shake up individual companies, entire industries or even entire economies
- Companies attuned to these challenges, which prepare for them and respond appropriately, will likely thrive; those that ignore them will do so at their own peril.
- 'globality' creates opportunities & threats for developed-world multinational and new champions.

EXPLAIN THE NEED FOR MACRO-ENVIRONMENTAL ANALYSIS IN STRATEGY FORMULATION

Apart from merely identifying and listing macro-environmental factors, they also need to be analysed and evaluated in terms of their actual or potential benefits, risks and uncertainty, and prioritised in terms of their strategic importance for industries and impact on individual organisations in industries.

The purpose of this approach is to identify opportunities and threats in the external environment for strategy formulation. Assessment of the driving forces in order to prioritise so that the organisation can focus resources on the most strategically important issues.

A tool for this assessment is the External Factor Evaluation (EFE) matrix. This matrix is useful in identifying whether an organisation's current strategy is appropriate, or could serve as a basis for adapting or revising its current strategy.

*EXPLAIN THE VARIOUS METHODS FOR MACRO-ENVIRONMENTAL ANALYSIS [myUnisa Question]

The **PESTLE** Analysis is a framework used to scan the organization's external macro environment [Ref question above.] The ultimate purpose of this analysis is to create a strategy that will leverage as many of the external factors as possible to the company's favour. Due to an increase in importance of global environment the approach displays as PESTLE/G This is an acronym for the following:

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.

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.

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.

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.

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.

Global tectonics: This has been added due to Globalisation 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.

Four important techniques which can be employed when analysing the external environment (i.e. macro, industry):

1. Scanning: Early signals of environmental changes and trends are identified
2. Monitoring: Meaning of environmental changes & trends is detected through ongoing observation.
3. Forecasting: based on monitoring changes and trends, projections of anticipated outcomes are developed.
4. Assessing: the timing and importance of environmental changes and trends for organisation's strategies and their management are determined.

EXPLAIN THE TERM "INDUSTRY" IN THE CONTEXT OF THE EXTERNAL ENVIRONMENT

Classification that refers to a group of companies that are related in terms of their primary business activities or offer products & services that are close substitutes for one another (i.e. products/services satisfying same basic customer needs). Basic customer needs that are served by a market define an industry's boundary.

In modern economies, there are dozens of different industry classifications, which are typically grouped into larger categories called sectors.

Purpose of defining industry is to know who your customers and competitors are. Industries can be defined broadly or narrowly, but each approach has its limitations.

- Too broadly = difficult to decide who competitors are; results in inappropriate competitive strategies.
- Too narrowly = could mean that you are not including all relevant competitors, again leading to inappropriate strategies. Results in missing viable opportunities, which alert competitors could capitalise on.

***ANALYSE THE STRUCTURE, DYNAMICS AND ATTRACTIVENESS OF INDUSTRIES** myUnisa Question: …"of the SA mining industry"

Industry Structure

The first and fundamental determinant of an organisation's profitability is 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. South African mining will not be regarded as monopoly as there are other groups such as Anglo American Platinum producing and/or selling the same products.

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. Mining industry is dominated by few producing firms such as De Beers and Transhex each with substantial market share hence is classified as oligopoly because it produces homogenous products such as zinc, copper and aluminium that exhibit large economies of scale.

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.

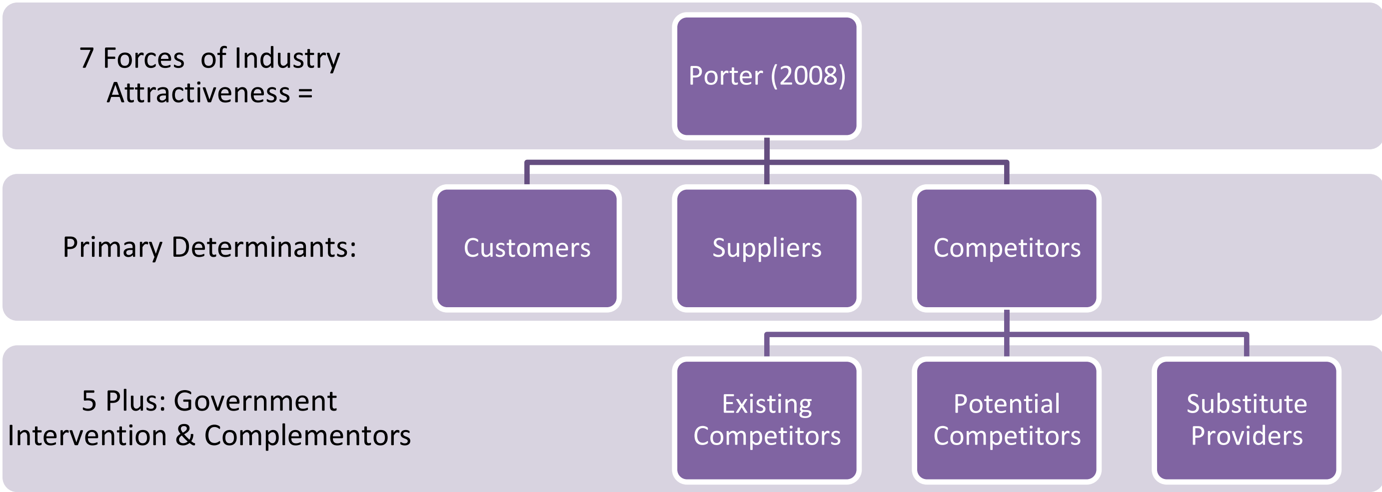
The type of role player will determine the extent of industry competition or a lack of it, as in the case of monopolies. Few, if any, organisations will operate in industry structures that correspond to these theoretical models, but will rather be positioned somewhere on a continuum between the two extremes. However, the greater the number of rivals in an industry, the closer it will be to perfect competition.

Industry Dynamics

Refers to the rate of competitive and structural change in an industry over time. 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 (e.g. technological change),
- change in one or more of the industry forces,
- internal factors (e.g. new product and/or process development),
- or some other factors.

Analysing Industry Attractiveness



Responsible for industry attractiveness (in terms of both nature of competition in an industry & its profitability).

Powerful *customer* buying power ↑ industry competitiveness; ↓ industry profitability. Power of buyer is high when:

- they are few in number or have the ability to buy in bulk;
- the product or service being offered is similar, making it easier to switch to alternate suppliers;
- the value of the buyers' purchases is a significant portion of the seller's total income; and
- the buyers can move backwards into the supply chain by acquiring or developing the ability to produce the products or services themselves.

Powerful *suppliers* ↑ industry competitiveness; ↓industry profitability. Supplier power is high when:

- there are only a few major suppliers and they are highly concentrated in relation to the industry they serve;
- supplies to industry are not similar, making it difficult for incumbents to switch to alternative suppliers;
- few or no alternative or substitute products or services exists;
- the suppliers can move forward into the supply chain; and
- value of the industry's purchases represents but a small portion of the suppliers total income (i.e. suppliers' income is derived from serving other or multiple industries).

Existing industry members and rivalry: Intense rivalry ↑ industry competitiveness; ↓profitability where they prevail. Degree of rivalry is dependent on industry growth rate as well as number of players, their relative size & competitive abilities. Competitive rivalry is high when:

- there are a large number of rivals who are relatively equal in size and power;
- industry is growing slower & incumbents are vying for support of existing customers rather than seeking new;
- incumbents carry huge fixed costs;
- rivals have excess capacity; and
- 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 ↑ industry competitiveness & 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:

- capital required;
- access to distribution;
- cost disadvantages not related to size;
- economies of scale;
- government legislation and regulation; and
- high switching costs.

Providers of substitute products & services: It is possible that ↑ of substitutes coming from outside the immediate industry, but which could replace industry products, would ↑ competitiveness and ↓ industry profitability.

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: products that enhance an industry member's own products (e.g. lease financing that enhances sale of cars; handsets to use service provided by mobile communication providers such as MTN, etc.)

IDENTIFY THE IMPACT OF INDUSTRY FORCES ON PROFITABILITY

The key learning point made in the above section is that where the original five factors all have high ratings, industry competition increases and profitability decreases and vice versa. The three steps of a seven forces analysis include:

- the analysis of each one of the seven forces
- and determining their combined effect,
- which then provides an indication of overall attractiveness or otherwise of an industry.

This information is vital for strategic planning.

***DESCRIBE THE IMPORTANCE OF AND APPROACH TO COMPETITOR ANALYSIS**

myUnisa Questions: "Discuss the importance of performing a competitor analyses"

Competitive analysis: transforming incisive information (competitors & nonmarket factors) into usable & actionable intelligence for strategic planning purposes. Involves the following two issues:

- identification of the organisation's competitors
- prediction of competitor behaviour

Defined industry / market segment will indicate who the competitors are. Next gather info on identified competitors regarding their strategic intentions, long-term objectives, strategies & capabilities, the assumptions on which their strategies are based, and their expected competitive behaviour. Competitor analyses helps:

- Identify competitors;
- Predict competitors behaviour
- Understand each other's objectives, strategies, assumptions and capabilities
- Firm to prepare an anticipation response profile for each competitor
- Managers who fail to perform a competitor analysis place the firm at a disadvantage.

As info is highly confidential, value of conventional analytical techniques is limited thus organisations started using competitive intelligence (CI), a highly specialised approach derived from the field of military intelligence.

Competitive intelligence (CI) for superior competitor analysis. Strategic Management tool to enhance competitiveness. Process of developing actionable foresight regarding competitive dynamics and nonmarket factors that can be used to enhance competitive advantage. Core of any CI system in a company is an intelligence cycle; a process perspective of the collection and transformation of data into actionable intelligence, essentially comprising the following five stages:

- *Plan*: Determine client needs, establish requirements and develop a plan.
- *Collect* data from in-& outside firm, conduct initial classification of collected data; *process* data production.
- *Analyse* data in order to generate effective informational outputs and outcomes, involving the skilful application of a variety of techniques in order to make sense of intelligence.
- *Disseminate intelligence*: Present/provide the insights generated to the customer/client.
- *Evaluate and control*: Obtain feedback; Assess whether process satisfied client's present & ongoing needs, and possibly restarting the process if the client is dissatisfied.

Study Unit 4

A) Specific Outcomes and Assessment Criteria

Specific outcome 4: Have a sound understanding of the internal analysis of an organisation's strengths and weaknesses, its resources, capabilities and competencies as sources of competitive advantage, and the relationship between its competitive advantage and its strategy.
Assessment criteria

- Describe the importance of internal analysis in identifying organisational strengths and weaknesses for strategy formulation. Par. 4.4 & Summary
- Describe an organisation's strategic resources, capabilities and competencies. myUnisa & Summary
- Explain resources, capabilities and competencies as sources of sustainable competitive advantage. 4.8.4
- Explain how the value of resources, capabilities and competencies is appraised. Group Summary
- Explain the role of the resource-based view in internal analysis. myUnisa & Par. 4.7
- Explain the use of the value chain in internal analysis. myUnisa & par. 4.8.3
- Explain the concept of sustainable competitive advantage. Tutorial Letter 201

B) Discussion / Self-Assessment Questions

(1) Explain the importance of an organisation's resources, capabilities and core competencies in strategy formulation.
(2) Discuss the differences between and importance of both the tangible and intangible resources of an organisation.
(3) Explain the RBV and its role in internal analysis.
(4) Conduct an internal analysis on an organisation of your choice to determine its strengths and weaknesses, and give your views on the sustainability of its competitive advantage.
(5) Define the concepts of competitive advantage, sustainable competitive advantage and transient advantage, and explain their importance in strategy formulation.

C) Exam Preparation Questions

1. Critically differentiate between resources, capabilities and competencies
2. Explain the role of the resource-based view in the internal analysis
3. Critically discuss the concepts of competitive advantage [CA] and sustainable competitive advantage. Explain the requirements for a sustainable CA and support each requirement with an example from a company/organisation of your choice.
4. Explain the role of value chain and resource based view in internal analysis.

FEEDBACK ON OUTCOMES: PAGE 23 TO PAGE 27
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

DESCRIBE THE IMPORTANCE OF INTERNAL ANALYSIS IN IDENTIFYING ORGANISATIONAL STRENGTHS AND WEAKNESSES FOR STRATEGY FORMULATION

Internal analysis aims to identify sources of an organisation's competitive advantage that should enable it to build a sustainable competitive advantage. When an organisation knows what it can & can't do & what assets it does & doesn't have, allows it to develop its vision or strategic intent, pursue its strategic mission, select & implement its strategies. Matching resources and capabilities with opportunities in the environment is essential for a successful strategy.

Resources and capabilities = primary source of competitive advantage. An organisation has a competitive advantage over its rivals when its profitability is greater than the average of all the organisations in its industry.

Based on an organisation's vision, mission and long-term objectives the outcomes of internal analysis combined with those of organisation's external analysis, largely provide managers with info needed to devise & select competitive business level strategies that will enable them to attain a sustainable competitive advantage in pursuing their long-term objectives.

*DESCRIBE AN ORGANISATION'S STRATEGIC RESOURCES, CAPABILITIES AND COMPETENCIES

myUnisa Question: "Critically differentiate between resources, capabilities and competencies"

Resources = productive assets owned by an organisation. Grouped into 5 Categories:

- Financial capital resources: organisation's ability to generate funds, internally or through loans/investment.
- Physical capital resources: operational and manufacturing plant equipment, location and raw materials.
- Human capital resources: knowledge, management and employee insight, intellect, relationship, training, experience and judgement.
- Organisational capital resources: reporting structure and management, including planning, coordinating, controlling and networks.
- Technological capital resources: ICT systems, etc.

Organisations possess different endowments of resources, not all are strategically relevant. How types of resources are deployed & combined also differs. Organisations should focus on unique resource strengths as a source of CA. Individual resources often have limited value, but a combination of resources can become exceptionally valuable.

Tangible Resources – Physical resources, relating to any of the five types:

- E.g. infrastructure, land, vehicles, manufacturing equipment, computer hardware, physical inventory, money
- Relatively easy to identify.

Intangible Resources – long-term resources of an entity but have no physical existence.

- more difficult to identify
- Advantage: less visible = more difficult for competitors to understand, purchase, imitate or replace
- Cannot be destroyed by fire, hurricane, other accidents/disasters; helps build back destroyed tangible assets
- Organisations often rely on intangible resources for their core competencies and capabilities.
- Consequently more intangible & unobservable resources = more sustainable competitive advantage.
- Kristandl and Bontis define intangible resources as follows:
  - Not available to large number of firms (rarity)
  - Lead to future benefits which cannot be taken by others (appropriability); no imitations/substitutes
  - They are not tradable or transferable on factor markets (immobility) due to corporate control.
- 3 Types:
  - Human resources: knowledge, trust and managerial capabilities gained through experience
  - Innovation resources: ideas, scientific capabilities and capacity to innovate
  - Reputational resources: brand name, reputation of customers, perceptions of product quality and reliability.
- Not all knowledge is a source of competitive advantage as some knowledge is public. Knowledge can be:
  - Explicit knowledge: can be taught or conveyed with ease
  - Tacit knowledge: gained through experience, insight & intuition. Difficult to share/record making it virtually impossible to emulate & sell. Can be very valuable & can lead to competitive advantage.

Capabilities
- Capacity to deploy resources for a unique end result.
- They are what an organisation can do exceptionally well and increase with use to become more valuable
- Organisation-specific clusters of activities developed through complex interactions between tangible & intangible resources over time. Binds organisation together.
- Foundation of capabilities lies in skills & knowledge of employees & often in their functional expertise.
- Challenge is to create organisational environment that allows employees to fit all their knowledge together to organisations' advantage.
- Are intangible & do not reside in individuals but in the way individuals interact, cooperate & make decisions.
- High level, complex network of processes & skills that determine how efficiently & effectively org.'s inputs will be transformed into outputs of a particular type.
- A feature, faculty or process that can be developed or improved.
- *Dynamic capabilities*: organisation's ability to build, integrate & restructure capabilities to address the rapidly changing environment
- Distinctive organisational capabilities are special, unique & distinguishes organisation from its competitors
- Important to identify org.'s distinctive capabilities and then develop & leverage them (differentiation)

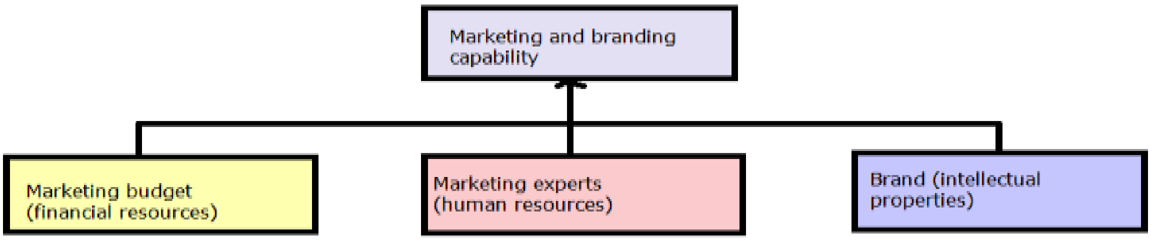


Figure 7.1: ***Link between resources and capabilities***

Core Competencies
- Competence = quality/state of being functionally adequate or having sufficient knowledge, strength and skill.
- Core competencies = distinctive capabilities (capabilities/competencies that distinguish org. from others) Only possessed by org.'s whose performance is superior to industry average (one or two core competencies)
- Arising from a combination of resources and capabilities as an intangible resource, taking place over a period of time
- Difficult to imitate thus forms the basis of competitive strategy and performance.
- Add greater value than general competencies/capabilities. Based on superior organisational skills/knowledge
- Are internal strengths of organisation enabling it to capitalise on opportunity identified in the environment.
- Process if accumulation and learning how to use a unique combination of resources and capabilities.
- Involves communication and intensive commitment to working across organisation.
- Coordination of diverse production skills and integration of multiple streams of technology.
- Provide the basis for the organisation's differentiation or low-cost strategies to create superior customer value that results in above-average performance and profitability.
- Provide access to a variety of markets and
- Significantly contribute to perceived customer benefits from products and services.

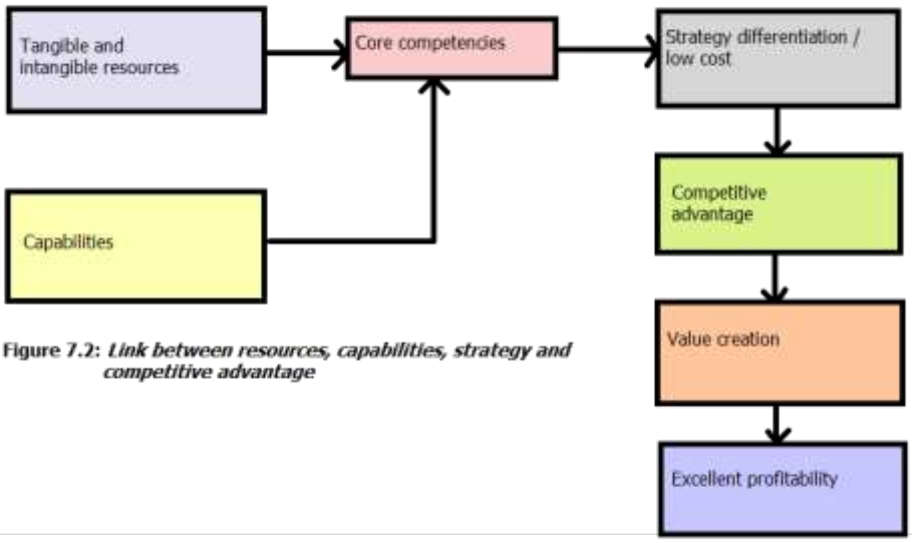


Figure 7.2: ***Link between resources, capabilities, strategy and competitive advantage***

EXPLAIN RESOURCES, CAPABILITIES AND COMPETENCIES AS SOURCES OF SUSTAINABLE COMPET. ADVANT.

Competitive advantage occurs when an organisation is more profitable than its competitors [Ref Fig. 7.2].
Two ways in which organisations can strategically create value & achieve CA is through strategies of differentiation and cost leadership.

To achieve this, organisations must first combine resources and capabilities in such a way that core competencies do allow superior product differentiation or substantially lower costs than competitors. Either strategic position can be achieved through having different resources & capabilities and the unique way in which they may be combined, resulting in core competencies based on the following:

- *ability to produce top-quality products* or deliver excellent services, superior to those of one's competitors
- *ability to innovate products*, services & organisational capabilities to create superior customer value and a sustainable competitive advantage
- *responsiveness to customers* relates to ability to satisfy customer needs better than competitors are able to
- *efficiency* in the transformation of inputs to outputs. Influenced by quality of inputs, processes and outputs which could result in higher productivity & ↑ competitiveness. Production efficiencies can be achieved by:
  - economies of scale – producing larger quantities at lower prices
  - economies of learning – as org.'s gain more experience, cost of production will go down
  - designing products for more economical production
  - designing production lines that allows cheaper production / using new tech as means of reducing costs
  - reducing unnecessary costs
  - leveraging location advantages e.g. by locating productive assets in areas where costs are lower.

EXPLAIN HOW THE VALUE OF RESOURCES, CAPABILITIES AND COMPETENCIES IS APPRAISED

Analysis of resources, capabilities & competencies is approached from a resource-based view of the organisation.
For resources & capabilities to become core competencies they need to be valuable (V), rare (R), inimitable (difficult to imitate) /non-substitutable (I), exploitable by org. (O) = VRIO framework for appraisal (use criteria to assess value)

Value (V):

- Extent to which resources & capabilities can be transformed to enable the creation of higher value for the consumer through differentiation or low cost. (Lower cost and higher value)
- Enable organisation to implement a strategy that improves efficiency and effectiveness.
- Either increase efficiency with regard to out- / inputs or increase revenue of an organisation.

Rare (R):

- Owning a valuable resource or possess a rare & valuable capability that competitors do not have, or is not available to them.
- Important that the resource should be sustainable
- E.g. pharmaceutical manufacturer's patent for a specific proprietary medicine.

Inimitable (I):

- To be valuable, resources & capabilities should in some way be protected against imitation.
- Valuable, unique & complex resources, including intangible resources (reputation, networks, client trust and intellectual property) and capabilities (knowledge, culture of the organisation, skills & experience) that make it difficult for competitors to copy activities = sustained competitive advantage
- Being too difficult or too costly to imitate, or there should be no viable substitutes.
- Imitation: same kind of resource is built.
- Substitution: replacing it with an alternative resource that achieves the same results. (equivalents/duplicates)
- Imitation by competitors is prevented if:
  - They do not understand the reason for the success
  - They do not have the same unique historical conditions
  - Cause of effectiveness is uncertain due to social complexity (e.g. trust, teamwork, informal relationships)
- Specific knowledge & trust relationships are not easily observable and therefore difficult to copy.

Organisation (O):

- Organisation's structure and systems should be suitable for a specific competitive advantage.
- Where organisations cannot exploit its resources, capabilities & core competencies, they are of little value.
- Way in which leadership, organisation culture, strategies, policies, systems, procedures are executed → should result in the optimal deployment of organisation's resources, capabilities and core competencies → leading to effective strategies, superior customer value creation and excellent performance.

*EXPLAIN THE ROLE OF THE RESOURCE-BASED VIEW IN INTERNAL ANALYSIS myUnisa Question

- RBV is a model for analysing the internal strengths and weaknesses of the organisation in terms of its resources and linking them to opportunities and threats in the external environment (SWOT analysis).
- Determines where organisation can build competitive advantage, superior performance and customer value.

Focus shift away from the external environment towards importance of resources, capabilities & competencies gave rise to development of RBV, which focuses on internal strengths, resources, capabilities and competencies of org.

Assessment of org. starts with a general internal evaluation to determine strengths within operating industry: Considerations for assessment include:

- Strategic decision – comes from vision, mission, purpose and values
- Key internal stakeholders – managers experience, strengths, weaknesses and management style
- Owners of the organisation
- Operational issues – sales, assets and location
- Type and Level of employees as well as culture of the organisation

RBV approach is widely accepted as valuable framework for strategy formulation, but has the following limitations:

- It has not yet been tested and proved empirically
- 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

*EXPLAIN THE USE OF THE VALUE CHAIN IN INTERNAL ANALYSIS myUnisa Question

Organisation's value chain links the value of its activities to its main functional parts, and is used to assess the contribution that each part makes to the overall added value of the business.

The RBV primarily focuses on value creation and gaining a sustainable competitive advantage. Resources, capabilities & core competencies can also be assessed by means of value chain analysis which typically considers the following:

- Supply chain management and operational management
- Financial management
- Research and development
- People management
- Marketing management
- Intangible resources (reputation, brand, patents, networks etc.)

For purpose of internal analysis using value chain to assist management in decision-making about activities that contribute value; those where cost can be↓; those to be removed, Porter linked the following two areas together:

- Identifying the added value that each part of the organisation contributes to the whole organisation;
- Identifying contributions that each of these parts might then make to CA of whole organisation.

Primary activities of the value chain:

- Inbound logistics: receiving, storing, distributing inputs for product manufacturing.
  Capabilities: purchasing; material & inventory control systems.

- Operations: activities that transform inputs into final products i.e. facility operations, machines & assembly. *Capabilities*: design & product development, quality control, component manufacture & assembly.
- Outbound logistics: collecting, storing & distributing products/services to customers. *Capabilities*: distribution coordinating, processes related to warehousing & dealer relationships.
- Marketing & sales: marketing, sales & purchasing of products/services of an organisation. *Capabilities*: innovative promotion & advertising, motivated sales force.
- Service: everything involved in improving & maintaining value of product for the customer. *Capabilities*: parts, warranty & servicing arrangements, quality & training of employees.

Secondary activities of the value chain:

- Administration & infrastructure supports entire value chain e.g. management, info systems, legal issues. *Capabilities*: risk management & integration of the value chain.
- Human resource management: employee appointment, development, retention, compensation at all levels. *Capabilities*: training, skills development, staff recruitment & retention.
- Technology development: all tech related to operations & management of org. *Capabilities*: integrated management information systems & technology-managed design & manufacturing.
- Procurement = purchasing function. *Capabilities*: inventory & database management

***EXPLAIN THE CONCEPT OF SUSTAINABLE COMPETITIVE ADVANTAGE** myUnisa Question

For competitive advantages (def.: when significant number of buyers prefer company's products over those of rivals & when the basis for this preference is maintained over the long term) to be sustainable, they must be valuable, rare, too difficult or costly to imitate, non-tradable, durable and based on exceptional deployment of organisational resources, capabilities & distinctive or core competencies in satisfying customer needs and market demands better than competitors do.

The following competitive business level strategies could also be important sources of competitive advantage:

- a cost-leadership strategy
- a differentiation strategy
- a focus strategy, based on either cost leadership or differentiation
- a best-cost provider strategy, based on optimal customer value creation

Requirements for sustainable CA [VRIO framework extended to incl. L (large enough segment) & U (unmet needs)]:

Value of resources & capabilities indirectly determined by:

- external environment, including demand & potential of the market.
- changes in external environment including technology, industry structure & customers' preferences.
- Differences in resources of organisations
- Either lower production cost than rivals or increased revenues or combination of the two.

Rare, too difficult/ costly to imitate / Non-tradable determined by:

- Transferability: how easy/difficult to acquire/buy a resource (intangible resources harder to transfer).
- Replicability: ability to use the resource in other settings

Durable: length of time over which capability is relevant and contributes to CA e.g. strongly ingrained culture.

Appropriability: Lead to future benefits which cannot be taken by others

Unmet needs(U): Resources, capabilities and distinctive or core competencies should identify and deployed to satisfy customer's unmet needs and market demands better than the competitors do.

Adaptability: dynamic capabilities & ability to adapt to address rapidly changing environments

Large enough market segment to allow for generations of sufficient financial returns.

Study Unit 5

A) Specific Outcomes and Assessment Criteria

Specific outcome 5: Have an understanding of the prevailing institutional and external environments for business in Africa as well as of the strategies for emerging markets in general and markets in Africa in particular.
Assessment criteria

- Explain the structure of the external environment that organisations have to deal with and the institutional environment of Africa in broad terms, with specific reference to the African Union (AU) and the Southern African Development Community (SADC).
- Explain the external environment relating to Africa as a frame of reference for doing business in Africa. Tutorial Letter 202 & Par. 5.6.5
- Identify and explain the drawbacks and obstacles in doing business in Africa. Tut Letter 202 Par. 5.4.2
- Compare the approach to strategy and strategic management in emerging economies to the approach in the developed world. Par. 5.6
- Describe suitable approaches for strategies in emerging markets in general and markets in Africa and sub-Saharan Africa in particular.
- Explain the role of governments in enhancing business conditions in Africa. Par. 5.7

B) Discussion / Self-Assessment Questions

(1) Critically discuss the most important socio-political issues which, in your view, could influence strategies for doing business in Africa.
(2) Identify and discuss the major external environmental factors that prevail in SSA and their implications for doing business.
(3) Briefly describe the approach of Khanna and Palepu (2006) to strategies for emerging markets.
(4) Comment on the importance of identifying relevant KFSs when deciding to do business in Africa.
(5) Summarise your views on the role of governments in enhancing business conditions in the context of Africa.

C) Exam Preparation Questions

1. Critically discuss the obstacles and drawback in doing business in Africa. Use practical examples to support your answers
2. Critically asses the role of government in enhancing business conditions in Africa
3. Describe suitable approaches for strategies in emerging markets, specifically the sub-Saharan Africa.

FEEDBACK ON OUTCOMES: PAGE 29 TO PAGE 34
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

EXPLAIN THE STRUCTURE OF THE EXTERNAL ENVIRONMENT THAT ORGANISATIONS HAVE TO DEAL WITH AND THE INSTITUTIONAL ENVIRONMENT OF AFRICA IN BROAD TERMS, WITH SPECIFIC REFERENCE TO THE AFRICAN UNION (AU) AND THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC).

Institutional Environment: explore the roles of the African Union (AU) and the Southern African Development Community (SADC) in promoting the well-being, posture and competitiveness of African countries in the global economy. The SADC countries have existing trade and other political assistance treaties in place between them as well as strategic alliance from which individual countries compile policies. SADC member countries are largely subjected to the same strategic issues facing Africa as a whole. All current governments of the SADC community have some form of strife underlying the governance process. In cases such as South Africa, considered to be the leader of the region, continuous allegations of fraudulent and other illegal dealings mar the country's status and position in the global arena.

Further key issues that guide and govern African strategic development are found in the various documents of the AU and SADC. These relate primarily to economic growth, education, health and regional integration and may be summarised as follows:

- Poverty alleviation
- Improved political and military stability (on the continent)
- Economic growth including increase in exports (on the continent)
- Improved education, health service and service delivery
- Improved public-private partnerships (on national and international levels)
- Improved infrastructure development

All of these need to be done against a backdrop of environmental conservation and sustainability.

At continental and regional levels, African nations have been cooperating with regard to strategies for Africa under the auspices of the AU, which undoubtedly impacts on the strategies of individual countries, their industries and business organisations in those industries. Wealth creation has been identified as a key goal of the AU, together with other key performance areas presented in the SWOT analysis in table 2.1 in the prescribed book. The AU expects member countries, working together with business, to consider and incorporate these goals into their own country strategies. From the SWOT analysis, key strategic issues that face Africa in general and SSA in particular have been identified.

In the case of the SADC countries, the two-fold approach is applied. Strategic plans are formulated to address growth, health and education of not only the organisation and its employees, but the nation as a whole. Water shortages and conflict are often issues that also need to be addressed.

Based on the manifestos of the AU and SADC communities, the strategic process in Africa should by no means differ from the theoretical model, but at the same time, Africa needs to strategize for its own future.

***EXPLAIN THE EXTERNAL ENVIRONMENT RELATING TO AFRICA AS A FRAME OF REFERENCE FOR DOING BUSINESS IN AFRICA.** These factors may also be referred to with regards to the next question/myUnisa question of "obstacles of doing business in Africa."

Challenges when investing in Africa / utilising opportunities:

<u>Local customs and customer preferences</u>: Investors/organisations exporting to Africa should bear in mind that countries are diverse and differ greatly - a few determinants that need to be contemplated as a start are:

Political stability	Industry characteristics	Size of Economy (e.g. GDP & DNP Levels)	Level of economic development	Rate of economic growth
Size of the country	Population size	Disposable income	Discretionary income	Infrastructure
Legal system	Market size	Consumer needs	Culture & Customs	Religious Traditions

Comprehensive country analysis would further involve country risk analysis & taking into account info derived from the Human Development Index & info made available by organisations such as Transparency International. Reaffirms international/global strategy successful in organisation's home country in most cases will not work in Africa. Deciding on business involvement in Africa must be preceded by extensive research & strategic analysis about the actual market needs & customer preferences apart from above mentioned macro-information requirements.

Legislation

Investors & business leaders should be aware of legal dispensation of the country. Intimate knowledge of a country's legal system, laws & regulations, extent to which the rule of law & effective law enforcement prevail is indispensable. Relevant issues include those relating to ownership, labour relations, taxation, customs & excise, direct investment, securities exchange & listing requirements, repatriation of profits & dividends to parent organisations in the home country, foreign exchange controls and transfer pricing rules.

E.G. "A key test for African policy makers, therefore, will be whether they can drive through reforms that can facilitate growth-sustaining diversification, facilitate the creation of formal employment and generate (and collect) taxable revenue. Progress is being made…"

Political considerations

Organisations face political complexities when setting up business in African countries. Ways that could be considered to circumvent or overcome such complexities include:

- *partnering with local stakeholders* for a number of reasons, including ease of entry into the country, shared ownership (international joint ventures) or involvement by agreement (strategic alliances) as a source of local market knowledge, potentially favourable government relations, and sharing risks, especially in the early stages of a venture where uncertainty is high
- responding positively to an awareness of community, cultural and social needs in terms of *customised products* (e.g. adapted packaging of beer by Diageo);
- Certain human resource management practices and an awareness of political events and national priorities could *enhance organisation-government relations*.

E.G. "taking a longer-term view, based on a wider set of country-specific macroeconomic, structural and regulatory considerations." OR "maintain or extend public spending could widen fiscal deficits" OR "fragile national cohesion"

Creative supply chain management

Underdeveloped infrastructure causes org.'s to have to devise their own, innovative supply chain solutions, especially logistics relating to procurement, inbound transportation & distribution of products to their markets. Following ways in which these challenges can be addressed:

- investing in own infrastructure
- product innovation to meet specific market needs (Promasidor's unique powdered milk product; MTN's inexpensive prepaid mobile phone fees)
- developing local suppliers to ensure consistent supply of raw materials
- developing distribution channel strategies that are sufficiently flexible to cope with both formal and informal distribution via wholesalers and retailers to serve their markets effectively

In the case of land-locked countries, logistics could present a nightmare. Not only could customs clearance at a country's nearest port take relatively long, but cross-border customs clearance en-route could cause further delays, while poor infrastructure (especially roads & ineffective rail transport) add to already existing time delays.
All translate into higher costs, potential production delays and getting products to market.

Investing heavily in talent

Lack of skills (especially key managerial skills), remains a drawback in African countries. Organisations doing business in Africa need to identify, attract and retain talent, but also invest in training and development, including mentorship.

*IDENTIFY AND EXPLAIN THE DRAWBACKS AND OBSTACLES IN DOING BUSINESS IN AFRICA.

myUnisa Question: "Critically discuss the obstacles and drawback in doing business in Africa. Use practical examples to support your answer." Also ref above question

Lack of infrastructure (i.e. roads, harbours, electricity, ICT networks, railways) - in African countries is a huge concern for investors & business. Generally, poor infrastructure, governments that are unwilling or unable to maintain or improve existing infrastructure, let alone providing new, much needed infrastructure, are a significant damper on investment and business in Africa. For the economic activity of a country in general and business in particular, lack of infrastructure invariably translates into inadequate supply chains which adversely affect the sourcing of strategic raw materials for production as well as the distribution of much-needed products to markets, especially in rural areas.
E.G. "Lagos state has introduced infrastructure improvements and provided incentives to attract and retain business."

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 and then export the raw product for secondary and tertiary economic processing. This results in extensive imports as the final 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 and greater independence from imports. Should the African Union member countries be successful in meeting this strategic objective, it could lead to greater production capabilities which in turn could stimulate exports, thus creating not only jobs, but also wealth.

Political instability

From a business perspective, political instability in Africa takes the form of unpredictable government decision making that leads to volatility, armed conflict even nationalisation of industries or expropriation of property and assets of business organisations, making foreign investment uncertain & extremely risky. 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.
E.G. "Zimbabwe gave all foreign small & medium enterprises up until Jan/'14 to close & vacate their premises or be arrested" [TB]

High levels of poverty - In Africa a significant portion of the population fall in the economic bracket termed by Prahalad as 'the bottom of the pyramid' (families surviving on less than the international poverty line of $2 per day). Those living at the bottom of the pyramid often endure poor living conditions and are susceptible to diseases, yet do not have access to good healthcare. They are also unable to obtain an adequate education, which forces them into a cycle of poverty. A large portion of the SA population survive on welfare grants and other social services funded by tax. This means massive expenditure on social welfare instead of investments.
E.G. "Firstly, Africa is poverty stricken with a large number of people affected with malnutrition and famine."

Corruption - Cumulative effect of endemic corruption on business & African economy is massive & can be disastrous. Corruption hampers business and the provision of decent public services. Transparency International points out: the danger of corruption as follows:

'Looking at the Corruption Perceptions Index 2012, it's clear that corruption is 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

The disappointing economic growth of the African economy in recent years can be largely 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 lack of people with key business & managerial skills and an oversupply of semi-skilled and unskilled workers.

COMPARE THE APPROACH TO STRATEGY AND STRATEGIC MANAGEMENT IN EMERGING ECONOMIES TO THE APPROACH IN THE DEVELOPED WORLD.

The obvious point of departure when doing business in Africa, or contemplating doing business, is the need to consider the relevant challenges. In order to formulate relevant strategies for emerging markets, managers need to at least consider the economic, political, legal, sociocultural, technological, ecological, infrastructural and demographic dispositions of the country or countries in which their organisations are already involved or if they are planning such involvement. Suffice it to say that conflict, as well as the general underdeveloped infrastructure generally poses serious challenges in many African countries, adversely effecting foreign investment and business.
Emerging markets have become popular business destinations for the following reasons:

- Present increasingly attractive market opportunities to international companies wishing to expand business and operations to foreign markets.
- Reflect the potential for increasing levels of demand for internationally recognised brands & relatively more sophisticated products and services.
- They could serve as manufacturing bases and destinations for outsourcing activities.
- Serve as destinations for sourcing strategic materials & commodities.

Benefits for developing economies invariably include higher economic growth and higher income levels, a better quality of life, improved skills, increased technology transfer and more competitive consumer markets.

Despite their attractive growth prospects, emerging economies typically involve high inherent risks, which apply even more so to Africa and SSA, the latter a vast "developing" region. According to Parker, SSA has been plagued by perennial problems such as self-serving governments, weak institutions, ethnic and religion induced civil wars, weak property rights, low productivity, the scourge of bureaucratic red tape and corruption.

According to Prahalad, the poor can be the engine of the next round of global trade and prosperity. However, this untapped source is virtually uncharted territory in terms of multinational corporations' understanding of the strategies required to capture this opportunity, an observation that has particular relevance for doing business in SSA. A critical fact, however, is that a high percentage of the population in Africa lives on less than 2$ a day, the people at the so-called “BOP”, which suggests that business in Africa needs to be approached differently when compared to business practices in developed economies. MNCs therefore need to develop specific strategies to meet the needs of the different consumer classes that make up the national markets in emerging economies, including the countries in SSA. This is especially relevant for those potential consumers at the BOP.

*DESCRIBE SUITABLE APPROACHES FOR STRATEGIES IN EMERGING MARKETS IN GENERAL AND MARKETS IN AFRICA AND SUB-SAHARAN AFRICA IN PARTICULAR. myUnisa Questions: "…specifically the sub-Saharan Africa."

??? – Unsure of this question. Found this reply on myUnisa

The approach to reducing poverty and inequality adopted by the PIR is based on breaking the forces that have perpetuated poverty, while promoting income, wealth & opportunity. It is based on the following assumptions:

- economic growth and human development are linked, and should enhance quality of life;
- this is best achieved through advancing the capabilities of disadvantaged communities, households and individuals by improving their access to assets, both physical and social;
- having established a framework for short-term macroeconomic stability, government should place increasing emphasis on redistributive measures;
- to achieve this, a more assertive role will be required by government in facilitating the transfer of assets and services from the wealthy to the poor, matched by market, institutional and spatial reforms benefiting the less well-off;
- the collection of social, economic and demographic information to monitor the extent and nature of change is a priority in managing the reduction of poverty and inequality.

Expansion of capabilities focuses on the relationship of people to the resources they have and the commodities they require when meeting their basic sustenance requirements. The important elements in this are:

1. the assets, claims and resources that are available to people;
2. the activities they have to undertake in order to generate a sustainable livelihood; and
3. the commodities and services they require for an acceptable standard of living.

Different policy options can impact on different elements within this system: for example, land reform could increase the availability of land for small-scale farming, while reforming financial markets could facilitate the actions required to produce a crop.

Experience has shown that unqualified reliance on market forces to allow the benefits of economic growth to 'trickle down' to the poor is not effective where the underlying institutional context has remained the same. In South Africa, while many

??? – Unsure of this question. Interpretations as taken from textbook / study guide

In recent decades, many multinational companies [MNC'S] from developed countries have approached emerging and especially Bottom of Pyramid markets in developing countries based on flawed analyses, inappropriate strategies, and with existing portfolios of products and services developed and priced for Western markets. Such products are often out of reach of both existing and potential customers in BOP markets.

It is imperative that MNCs understand the structure and needs of markets in emerging economies in general, and SSA market structures and market needs in particular. While these requirements obviously also apply to local companies in developing countries, it is of even greater importance for foreign MNCs wanting to compete in these economies. While there could be other strategic approaches to serve BOP markets, and acknowledging the fact that circumstances are bound to differ from one country to the next, the approach below proposed by Khanna and Palepu to strategically structure country or regional markets into various levels or tiers, including the BOP level, should be seen as a valuable basis for thinking about and contemplating other strategic options for emerging markets and revealing strategically important considerations.

Khanna & Palepu maintain that most product markets in emerging economies comprise the following 4 distinct tiers:
- "*Global*" customer segment that wants products of global quality with global features i.e. offerings with the same qualities & attributes as goods in developed countries. With customers willing to pay global prices.
- A "*glocal*" segment that demands products of global quality but with local features at less-than-global prices
- A "*local*" segment that wants local products with local features at local prices.
- A *BOP* segment that can afford to buy only the most inexpensive products

This four-tiered structure of markets in emerging economies poses significant challenges for local organisations, but significantly more so for rival foreign organisations. From the perspective of foreign MNCs, which would include South African companies venturing into emerging markets and SSA country markets in particular, the first imperative is to realise that emerging markets differ in structure compared to developed country markets, and require MNCs to decide where and how to compete. Owing to "institutional voids" in most emerging economies − a general lack of specialised intermediaries such as regulatory systems, adequate distribution systems, skilled market research firms and pools of skilled managerial talent − foreign MNCs find it difficult, at least initially, to serve anything but the global tier in emerging product markets as a result of the following:

- A general *lack of market research* organisations and absence of reliable market intelligence which make it difficult for MNCs to identify and understand local customers' preferences and tastes
- Generally *poor distribution networks* make it largely impossible to serve customers in rural areas effectively
- The MNC's deficient knowledge about the local talent pool (at least initially) and inability to attract competent *local employees* at the four different market levels, which poses an enormous challenge

According to Khanna and Palepu, MNCs typically rush into the global tier, while local companies dominate the local tier and, to a certain extent, the BOP tiers. However, opportunities exist at the BOP tier, but MNCs, both local and foreign, need different competitive and marketing strategies to compete successfully at this level. Over time, the glocal tier becomes the battleground between local and foreign rivals.

With their superior knowledge of local conditions, local companies tend to serve glocal customers better than their foreign counterparts. Companies depend on the extent of their competitive advantage for their success. For local firms, being able to circumvent institutional voids, tailoring their strategies to local markets better than foreign MNCs and being able to tap into capital and talent markets in developed countries, often give them the competitive edge in serving the glocal, local and BOP market tiers. Note that the basic requirements for cost leadership and differentiation business level strategies still apply, but that the approach to reconfiguration of products and services and their execution may need to be adapted. An example is the provision by MTN of prepaid mobile phone subscriptions costing a few dollars only, so that BOP customers could afford airtime, which increased their sales dramatically. Key success factors to successfully engage in emerging markets and, accordingly, SSA markets, appear to be critical for any degree of success. Despite the large proportion of consumers at the BOP level in most African countries, there is evidence that a number of unfavourable perceptions of the BOP segment have prevailed partly because of multinationals' misconceptions about these markets. These misconceptions include the following:

- The poor cannot afford their products and services.
- The poor do not have use for the products sold in developed countries.
- Only developed country customers appreciate and pay for innovations.
- Because of low income levels, BOP markets are not critical for the long-term growth of MNCs.
- It is difficult to recruit managers for BOP markets.

***EXPLAIN THE ROLE OF GOVERNMENTS IN ENHANCING BUSINESS CONDITIONS IN AFRICA.**

myUnisa Question: "Critically asses the role of government in enhancing business conditions in Africa."

Governments can enhance/deter economic growth & development through their strategies, policies and investment decisions. Main purpose, apart from ensuring political stability is to create an environment conducive to economic growth, foreign investment, export promotion, job creation & poverty alleviation. Role of governments is to provide an enhancing business environment in which businesses can effectively deploy strategies to compete effectively.

Section focuses on strategies of overarching institutions like the AU, regional bodies (SADC) & individual countries. For Africa to grow and comply with the AU and SADC strategic objectives:

- African government (policy decisions) will need to create an environment suited to investment & job creation;
- Africa needs to move away from "monoculture" economy (depending on a single agriculture source) to multicultural to increase competitiveness and international trade;
- Increase necessary skills , value adding manufacturing capabilities and exports; decreasing imports
- Become more assertive in their international trade terms.
- African countries will need to be more focused on improvement & growth, with maintenance of infrastructure of critical importance.

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.

Study Unit 6

A) Specific Outcomes and Assessment Criteria

Specific outcome 6: Explain what sustainable organisations are and evaluate strategic decisions to determine how they contribute to sustainability.
Assessment criteria

- Explain why corporate sustainability is important. Tut 202 & Sum
- Describe the four pillars of corporate sustainability. Group Summary
- Explain what sustainable organisations are and why they are important. Tut 202 & Sum
- Explain the "triple-bottom line" and why it is important. Group Summary
- Explain what corporate social responsibility (CSR) is and give examples of CSR activities in a company.
- Explain the importance of stakeholders and stakeholder management for sustainable business. Sum
- Conduct an analysis of stakeholder salience and make recommendations based on your analysis. Sum
- Explain the importance of ethical business, giving examples of what org.'s can do to promote it. Sum
- Explain the role of corporate governance in corporate sustainability. Group Summary
- Evaluate corporate sustainability in a practical setting. Tut 202 & Sum
- Make recommendations on how organisations can improve their sustainability.

B) Discussion / Self-Assessment Questions

(1) Explain what corporate sustainability entails and how it is measured. Use practical examples to illustrate your answer.
(2) Differentiate between the broad definition of CSR and how it is applied in practice in South Africa.
(3) 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?
(4) Conduct an analysis of the ethical business guidelines for an organisation of your choice. What could the organisation do to improve its ethical business conduct?
(5) Consider the failure of African Bank in 2014 (http://www.bloomberg.com/news/2014-08-27/how-brightest-brain-kirkinis- HYPERLINK ``http://www.bloomberg.com/news/2014-08-27/how-brightest-brain-kirkinis-failed-with-hisafrican-bank.html"failed-with-his-african-bank.html). What could African Bank have done differently to ensure its sustainability?

C) Exam Preparation Questions

1. Critically distinguish between the different types of business level strategies for creating and sustaining competitive advantage. Provide business practical examples for each business level strategy discusses. SU7?
2. Describe the four pillars of corporate sustainability
3. Explain what sustainable organisations are and why it is important
4. Discuss the "triple-bottom line" and explain why it its important
5. Explain what is meant by corporate social responsibility (CSR) and give examples of CSR activities in a company
6. Explain the role of corporate governance in corporate sustainability

FEEDBACK ON OUTCOMES: PAGE 36 TO PAGE 40
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

*EXPLAIN WHY CORPORATE SUSTAINABILITY IS IMPORTANT. Similar to myUnisa question

Ability of the organisation to survive and outperform rivals in the long run. Can also be referred to as business sustainability or organisational sustainability. Business sustainability is accepted to mean:

- Balancing economic objectives (profit) with the welfare of the communities in which the organisation operates (people) and protecting the environment in which the organisation physically exists.
- Purpose of sustainable strategy: generate a maximum increase in the outputs, turnover, consumers and employee value by embracing the opportunities in the macro and micro environments and managing risks derived from environmental and social developments.

Difference between Competitive advantage and sustainability:
CA Focuses on profitability while Sustainability is focused on long term survival. CA does not guarantee sustainability.

Benefits to organisations that address sustainability issues:

- Company / Brand image
- Competitive advantage
- Product, service or market innovation
- New sources of revenue or cash flow
- Enhanced stakeholder relations
- Cost Savings
- Employee satisfaction, morale or retention
- Business model or process innovation
- Effective risk management

*DESCRIBE THE FOUR PILLARS OF CORPORATE SUSTAINABILITY. myUnisa Question:

Corporate **S**ustainability has 4 pillars: (**CSCS**) SG p89

Corporate Social responsibility: Ethical arguments as to why corporations should work towards sustainability goals

Sustainable Development: the boundaries of the subject matter and description of a common societal goal.

Corporate accountability theory (Business Ethics): Ethical arguments as to why companies should report on sustainability performance.

Stakeholder Relationship: Business arguments as to why corporations should work towards sustainability goals.

*EXPLAIN WHAT SUSTAINABLE ORGANISATIONS ARE AND WHY THEY ARE IMPORTANT. myUnisa Question:

Argued that having competitive advantage does not necessarily guarantee sustainability. Implies that org. decision-making may have to give up profits in the short term in exchange for survival, wealth creation & continued evolution in the long-term. Sustainability is concerned with the survival of a business in the long term.

Sustainability in businesses is commonly accepted to mean balancing economic objectives (such as profit) with the welfare of communities in which the organisation operates (a social dimension) and protecting the environment in which the organisation physically exists.

According to Venter et al (2014) sustainable strategies thus, consider all three elements and strike the right balance between them namely:

• Ethical profits
• Healthy environment
• Healthy communities

This implies that profits should be legally and ethically obtained in order to be regarded as sustainable. Purpose of a sustainable strategy is to generate a maximum increase in the outputs, turnover and other aspects of a company, the consumers of the company and employee value by embracing opportunities in the macro-and market environments and managing risks derived from environmental and social developments.

*EXPLAIN THE "TRIPLE-BOTTOM LINE" AND WHY IT IS IMPORTANT. myUnisa Question:

This is an accounting framework with three parts:
- ethical profits (economic bottom line),
- a healthy physical environment (environmental bottom line) and
- healthy communities (social bottom line).

These three divisions are also called the **three Ps**: people, planet and profit, or the "three pillars of sustainability"

Business profits should not be at the expense of future generations. Leads to sustainable development.

"*People*" pertains to fair and beneficial business practices toward labour, the community & region in which a corporation conducts its business.
"*Planet*" refers to sustainable environmental practices.
"*Profit*" is the economic value created by the organization after deducting the cost of all inputs.

Actively engaging Triple Bottom Line components requires organisations to adopt a more innovative approach to business while constantly communicating with current & potential customers. Consumer demands combined with the world's rising population, unstable economic situation and environmental struggles have created a new global climate that no organization can afford to ignore.

*EXPLAIN WHAT CORPORATE SOCIAL RESPONSIBILITY (CSR) IS AND GIVE EXAMPLES IN A COMPANY. myUnisa Q

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.

Planning is important because if the project fails to deliver, it will not only reflect negatively on the company's reputation, but can also be detrimental to the company's long term sustainability. Project success is also location specific – what works in one area/country will not necessarily work in another.

Successful projects are usually designed in participation with all role players and beneficiary's, who then feel connected to the project and believe that the projects address their most important needs.

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 and also attempt to invest in causes that will benefit them in the long run.

EXPLAIN IMPORTANCE OF STAKEHOLDERS & STAKEHOLDER MANAGEMENT FOR SUSTAINABLE BUSINESS.

Stakeholders are those entities that can affect or be affected by the organisation's actions.
Examples: creditors, directors, employees, government, unions, suppliers, the environment etc.

They are not all of equal status and any action undertaken by the organisation will affect stakeholders differently. I.e.: If the organisation has to cut costs and plan layoffs, this negatively affects employees, but may positively affect shareholders due to increased profitability.

In terms of a sustainable business strategy, the organisation should try and balance the needs of all key stakeholders. They need to weigh up the claims of all stakeholders and the relative power and influence of each. This can be done via the stakeholder salience model.

The stakeholder approach has been criticised for vastly increasing the complexity of strategic decision making and diluting the strategic goals of the organisation.

CONDUCT AN ANALYSIS OF STAKEHOLDER SALIENCE & MAKE RECOMMENDATIONS BASED ON ANALYSIS.

This is a model that can assist managers in determining the relative importance of stakeholders to the organisation. The drivers of stakeholder salience are Power, Urgency and Legitimacy **(PUL).** Salient stakeholders have the strongest claim on the organisation.

To assist managers, the stakeholder salience model can be used for prioritising stakeholder claims based on their relative importance. The stakeholder salience model includes three determining factors **(PUL)**, namely

- *Stakeholder power* – the extent to which stakeholders control the resources required by the organisation.
- *Stakeholder legitimacy* – determined by the extent to which the stakeholders are affected by the decision of the organisation, and the more affected, the higher the legitimacy.
- *Stakeholder urgency* – determined by the time sensitivity of the stakeholders claim, and the level of importance to the stakeholder.

These factors are used to categorise stakeholders into three broad classes: **(LES)**

- *Latent stakeholders* – have only 1 attribute, either power, legitimacy or urgency.
- *Expectant stakeholders* – have 2 out of 3 attributes
- *Salient stakeholders* – have all 3 attributes and thus the strongest claim.

Salience is assessed by rating its power, legitimacy and urgency as high (H), moderate (M) and low (L). Higher ratings suggest higher salience (importance) and thus more attention. It is essential for the organisation to understand the claims of stakeholders and to be aware of the salience of each stakeholder’s claim.

EXPLAIN IMPORTANCE OF ETHICAL BUSINESS, GIVING EXAMPLES OF WHAT ORG.'S CAN DO TO PROMOTE IT.

Profits need to be earned in an ethical and legal manner and be sustainable. Unethical behaviour would include:

- Behaviours that are illegal or in contravention of regulations or illegal contracts.
- Discriminatory or unfair practices – i.e. gender, race, religion
- Misleading stakeholders deliberately
- Deliberately behaving in ways that are detrimental to stakeholders. I.e.: failing to recall a faulty product leading to the death of a customer
- Accepting favours in return for a contract (being unduly influenced)

It is important to have a code of conduct that will guide the actions of management and will help the organisation avoid ethical pitfalls. The corporate governance process attempts to create such a code of conduct for conducting business ethically and sustainably.

12 Guidelines for the ethical behaviour of executives:

- Be honest in all communications and actions. Ethical executives are, above all, worthy of trust and honesty is the cornerstone of trust.
- Maintain personal integrity. Ethical executives earn the trust of others through personal integrity. Integrity refers to a wholeness of character demonstrated by consistency between thoughts, words and actions.
- Keep promises and fulfil commitments. Ethical executives can be trusted because they make every reasonable effort to fulfil the letter and spirit of their promises and commitments.
- Be loyal within the framework of other ethical principles. Ethical executives justify trust by being loyal to their organisation and the people they work with.
- Strive to be fair and just in all dealings. Ethical executives are fundamentally committed to fairness.
- Demonstrate compassion and a genuine concern for the well-being of others.
- Treat everyone with respect.
- Obey the law.
- Pursue excellence all the time in all things.

- Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models.
- Build and protect the organisation's good reputation and the morale of its employees.
- Be accountable. Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions

Practical tools that can be implemented to guide employees and to curb unethical behaviour:
- A group code of ethics to guide the behaviour of every employee
- Training in ethics for employees
- An ethics line to allow employees to report breaches in ethical guidelines safely and to promote a culture of transparency and safe whistle-blowing
- An anti-bribery policy
- The conducting ethical culture assessments throughout the group

***EXPLAIN THE ROLE OF CORPORATE GOVERNANCE IN CORPORATE SUSTAINABILITY.** myUnisa Question:

Corporate governance describes the system by which corporations are directed and controlled, and it performs the following functions: (**DRAMP**)
- Specifies the *distribution of rights and responsibilities* among different participants in the corporation.
- 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

Corporate and public sector governance both have the same overarching goals: to provide guidelines for managing ethically & sustainably. 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.

King III and the Companies Act
New Companies Act requires all companies, whether public or private, to establish a Social and Ethics Committee and a Social and Advisory Panel to assist the committee – has dramatic implications for companies and good corporate governance. The King III recommendations cannot be legally enforced, but the Companies Act is legally binding and must be adhered to.

The role of the board of directors
- developing, formulating and monitoring corporate strategies
- formulating policies
- enhancing the public image of the organisations they represent
- reviewing and monitoring managerial activities and performance
- reporting to stakeholders
- employing, evaluating, providing advice to and rewarding top executives
- ensuring organisational compliance with related legislations and governance guidelines
- managing financial resources
- developing a risk management plan
- conducting self-assessments (i.e. measuring board performance)
- initiating board development activities, such as director training

Ultimately the role of governance frameworks is to provide mechanisms to help corporations and other entities to attain sustainability.

EVALUATE CORPORATE SUSTAINABILITY IN A PRACTICAL SETTING.

In addition to the triple-bottom-line, a sustainable business model must also consider the following six elements when developing sustainable strategies:

Environmental context – strategies should not harm the physical environment in which organisation operates. Consider: Ecological impacts, environmental awareness, quality local environments, adhering to environmental legislations & regulations

Social Context – Sustainable strategies contribute positively to local communities.
Consider: new standards & behaviours, community involvement, social inclusion, community safety.

Economic Context – economic success and contribution of the organisation; using financial measures such as profit, return on equity and economic value added.
Consider: profit generation, wealth creation, ethical & legal profitability.

Organisational Context – internal functioning of the organisations; relates to strategy implementation processes as well as internal role players i.e. board of directors, management, employee effectiveness and corporate governance.
Consider:
- governance structures: rules, procedures, processes & structure for managing org. in a sustainable way
- structure: extent different organisational elements are suited to the selected strategy and that the positions are filled with people who have the right skills & competencies.
- leadership & culture: determines capacity to change & shared values required for executing strategies
- technology: equipment & machinery required for daily operations & production to perform optimally

Stakeholders – key stakeholders include creditors, directors, employees, government (& agencies), owners, unions, suppliers and communities from which business draws resources. Multiple stakeholders demands/needs must be balanced.

Strategic Fit – the strategies of the organisation need to be aligned with the internal and external environments, and if processes and capabilities exist to adapt to changes in the environment.

Evaluate these in a practical setting, by mentioning each along with an example from applicable case study.

MAKE RECOMMENDATIONS ON HOW ORGANISATIONS CAN IMPROVE THEIR SUSTAINABILITY.

??? - Use elements discussed throughout above sections and perhaps apply to a give case study
Sustainability is the ability of an organisation to survive in the long-term. Any recommendations should then answer to a set measure of what would be ideal. Assuming that this measure is in fact the evaluation of sustainability of strategies, then would recommendations be to improve in order to obtain the following?

- not harm the physical environment in which the organisation operates
- contribute positively to the communities in which they operate
- economic success and contribution of the organisation, typically measured by financial measures such as profits, return on equity and economic value added
- strategy implementation processes as well as internal role players such as the board of directors, management, employee effectiveness, corporate governance, and so on (what is a measure here?)
- the organisation must, as far as possible, develop strategies that balance the demands of multiple stakeholders
- strategies of the organisation are aligned with the internal and external environments, and processes and capabilities exist to adapt to changes in the environment.

Other than instituting policies and procedures, what other recommendations can be made to assist an organisation in obtaining these goals? Please assist with some examples

Study Unit 7

A) Specific Outcomes and Assessment Criteria

Specific outcome 7: Examine the various generic competitive business level strategies available to organisations and explain their appropriateness in specific situations.
Assessment criteria

• Explain the importance of choosing appropriate business level strategies.	
• Explain the levels of strategy in organisations.	Par. 7.4 & myUnisa
• Distinguish between the different types of business level strategies.	Tut 202 & Par. 7.6
• Explain how business level strategies are chosen.	?
• Assess the advantages and disadvantages of each type of business level strategy.	Par. 7.6 & myUnisa
• Explain how business level strategies are evaluated.	Par. 7.7 & myUnisa

B) Discussion / Self-Assessment Questions

(1) 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?
(2) Why are long-term objectives essential in the choice of competitive business level strategies?
(3) What are the main differences between cost leadership and differentiation strategies?
(4) What would be the implications of adopting a differentiation strategy for a standardised, mass-produced low-cost product? From the organisation's perspective? From the customer's perspective?
(5) Why do strategies need to be evaluated?

C) Exam Preparation Questions

1. Critically distinguish between the levels of strategy in organisations
2. Differentiate between the different types of business level strategies. Give an example of an organisation, product or serve in each business lever strategy discussed.
3. Critically discuss the advantages and disadvantages of each business lever strategy
4. Explain how organisations can evaluate business level strategies

FEEDBACK ON OUTCOMES: **PAGE 41 TO PAGE 44**
SEE ALSO VENTER TEXT BOOK AND STUDY GUIDE FOR ACTIVITIES & PRACTICAL EXAMPLES

EXPLAIN THE IMPORTANCE OF CHOOSING APPROPRIATE BUSINESS LEVEL STRATEGIES.

Corporate level strategies essentially deal with the number of products and services the company will offer & the markets which they will pursue. *Business-level* / competitive strategies consider how to compete successfully in these markets. These strategies focus on how to position company within industry in such a way that it has CA. Important to realise the relationship between levels of strategy & decision making at the various levels because they are typically long-term, require significant resource commitments and involve high levels of risk.
Therefore the correct strategic decisions at corporate & business levels need to be made by formulating appropriate long-term objectives and choosing the correct business level strategies.

Many variations in business-level strategies, but most significant differences among competitive strategies are:

- Whether an organisation's target market is broad or narrow
- Whether an organisation is pursuing a competitive advantage linked to low cost or product differentiation
- A combination of the above

*EXPLAIN THE LEVELS OF STRATEGY IN ORGANISATIONS. myUnisa Question: "Critically distinguish between the levels …"

Regarding the <u>levels of strategy</u> in organisations, strategic management and decision making takes place in different levels in organisations, namely [N.B. Refer to pages 5 and 6 above for more detail and examples]:

- corporate level strategies
- business level strategies
- functional level or tactical strategies
- operational level strategies (often omitted)

Four levels of strategy in corporate organisations & three levels of strategy in single business organisations need to be totally aligned in both these types of organisations for any degree of success.

Corporate centre: typically the head office of a multi-business organisation. Manages a portfolio of businesses with a view to maximise the value of the portfolio for the benefit of the shareholders. Corporate head office typically adds value to strategic business units (SBUs) by means of specific capabilities or shared corporate services.

SBUs: organisational units that exercise control over most of the resources they require to be successful. They have their own set of competitors; can be internal to the organisation or external. These SBUs, in turn, compete in their respective markets & industries with a view to establishing competitive advantage for their corporate owners. The complexity of strategic choice lies in the alignment between choices and the realities found in the operating environment in which it operates.

*DISTINGUISH BETWEEN THE DIFFERENT TYPES OF BUSINESS LEVEL STRATEGIES. myUnisa Question: "… give examples"

Regarding the <u>business levels strategies</u>, these competitive strategies consider how organisations compete successfully in the markets they pursue. Four distinct generic competitive strategy approaches of business level strategies stand out:

- *Cost leadership* strategy: Becoming the lowest cost organisation in a domain of activity by significant margin. Strategy targets a broad spectrum of buyers. Cost leadership does not necessarily imply low price – in fact, having low production cost and low price will result in average returns, and no real competitive advantage.

- *Differentiation* strategy: Uniqueness along some dimension that is sufficiently valued by consumers to allow a price premium. This strategy may focus on either a broad section of buyers or a narrow buyer segment.

- *Focus strategy* (*of either* Cost-leadership / Differentiation): Target a narrow segment/domain of activity & tailor products/services to the needs of that specific segment to the exclusion of others.

- *Best cost provider* strategy: Hybrid strategy involves giving customers more value at the same price OR the same level of value at a lower production cost than rivals.

EXPLAIN HOW BUSINESS LEVEL STRATEGIES ARE CHOSEN.

? - These strategies relate to the organisation's deliberate decisions on how to meet its customers' needs, how to counter the competitive efforts of its rivals, how to cope with the existing market conditions, and how to sustain or build its competitive advantage. Once an organisation has selected potential strategies, it needs to evaluate these options to choose the most appropriate strategy or combination of strategies.

***ASSESS THE ADVANTAGES AND DISADVANTAGES OF EACH TYPE OF BUSINESS LEVEL STRATEGY.** myUnisa Question

Cost leadership strategy – Advantages:

- sustainable cost advantages = increasing competitiveness & market share
- durable cost advantage = protection for organisation against competition
- durable cost advantages, evident from analysis of the organisation's competitors, serve as barriers to:
  - imitation;
  - threat of substitute products;
  - threat of new entrants to the market
- large-scale purchases = potential discounts = protection against powerful suppliers
- low-cost advantage & competitive pricing possibilities = protection against power of buyers

Cost leadership strategy – Disadvantages:

- not keeping up with changes in external environment, for example, where core competencies relate to and are sensitive to changes in technology which are not recognised
- 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 strategy – Advantages:

- Brand loyalty = safeguard organisation against competition
- Slightly higher pricing than their competitors = enhances profit margins.
- Powerful suppliers are rarely a problem.
- 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.

Differentiation strategy – Disadvantages:

- Org.'s inability to maintain uniqueness from a customer perspective − not fully responding to the durability challenge of competitive advantage.
- Danger of product design / physical features being much easier to imitate than uniqueness (that stems from intangible sources like innovation, quality of service, reliability, brand and prestige).

Focus low-cost leadership and differentiation strategies – Advantages:

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

Focus low-cost leadership and differentiation strategies – Disadvantages:

- inability to realise economies of scale = high production costs
- not being aware of changing technology and consumer preferences
- not being able to effectively ward off an attack by rival differentiators

Best-cost provider strategy – Advantages:

- Stem from implications of Porter's five forces model for industry analysis (i.e. threats from competitors, powerful suppliers, powerful buyers, threat of substitute products & new entrants).
- Cost advantages of cost-leader org. = protects from industry competitors; relatively safe as long as it can maintain this advantage because low prices are important for consumers.
- Differentiation strategies will be successful when the variety of products offered meets customer needs better than those of competitors in a sustainable way.
- Distinguishing feature of best-cost provider strategy is that it uniquely combines low cost & differentiation, while maintaining quality and providing good value at a reasonable price compared to competitors.

Best-cost provider strategy – Disadvantages:

- result from not being aware of changing competitive industry environment
- 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 HOW BUSINESS LEVEL STRATEGIES ARE EVALUATED.** myUnisa Question

After being formulated these strategy options have to be evaluated and the most appropriate strategy or combination of strategies selected for implementation. Strategies can be evaluated in terms of their:

Suitability: 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. To identify whether a strategy is suitable, the strategist should have a good understanding of org.'s internal & external environment. In practice it often happens that more than one strategy may be suitable, but that limited resources necessitate the screening of options to select the most appropriate strategy.

Acceptability: The ability of the strategy to produce the expected results over both short & long term in line with stakeholder expectations. It also considers evaluation of factors such as benefits, risk & stakeholder reaction. Companies engage in formal risk assessment if strategic options require substantial investments. Tools such as sensitivity analysis, financial ratios and break-even analysis are useful to assess acceptability. To assess the final consideration, which is the reaction of stakeholders, strategists can make use of stakeholder mapping.

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?

For the feasibility measure, the organisation’s financial and human resources as well as resource integration need to be evaluated.