KASNEB NEW SYLLABUS

STRATEGIC MANAGEMENT STUDY TEXT

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2021

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STRATEGIC MANAGEMENT

STUDY TEXT

2021 New syllabus

PAPER NO. 13 STRATEGIC MANAGEMENT

UNIT DESCRIPTION

The aim of the paper is to strengthen the strategic thinking capability of the candidate in formulating and implementing a corporate strategy that can help organisations build a sustainable competitive advantage.

LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Analyze an organization's environment and formulate an actionable business strategy that is grounded in theory and practice from multiple business disciplines
- Demonstrate an ability for critical and strategic thinking
- Develop and implement a realistic strategic plan
- Understand the strategic decisions that organisations make in strategic management
- Effectively react to and incorporate emerging issues in strategic management.

KASNEB SYLLABUS

1. Overview of Strategic Management

- Concept of strategy
- Purpose of strategy
- Characteristics of strategy
- Advantages and disadvantages of strategic planning
- Strategy approaches
- Strategic versus tactical decisions
- Patterns of strategy development

2 History of the Organisation and Culture

- History of the Organisation
  - Importance of history
  - Path dependency
  - History as a resource
  - Historical analysis
  - Mission: stated and perceived
- Organisational culture
  - Influence of culture on strategy
  - Undertaking cultural analysis
  - Hofstede's Cultural Dimensions Theory

3 Strategy Levels and Intent

- Corporate strategy
- Business strategy
- Operational strategy
- Functional strategy
- Vision statement
- Mission statement
- Strategic objectives
- Statement of corporate values

4 Strategic Management Process

- Steps in the strategic management process
- Strategic management in different contexts
- Uncertainty and strategic drift
- Limitations of strategic management

5 Strategic Analysis: The External Environment

- Policy and administrative framework
- Political environment
- Economic environment
- Sociocultural environment
- Technological environment
- Ecological environment
- Legal environment
- Key drivers for change
- Industry and sector analysis
- Tools for external analysis
- Competitor Analysis

6 Strategic Analysis: The Internal Environment

- Distinctive resources and capabilities as a basis of competitive advantage
- VRIO- value of resources and capabilities, rarity, inimitability, organisational support
- Organisational knowledge as a basis of competitive advantage
- Diagnosing resources and capabilities
- The value chain and value system
- Activity systems
- Benchmarking
- Strengths and Weaknesses
- The Balanced Scorecard and Strategy map
- Critical success factor analysis
- Scenario planning
- Gap Analysis
- SWOT and the business model
    - Key features of corporate culture
    - Health cultures that aid strategy execution
    - Unhealthy cultures that impede strategy execution
    - Influence of culture on strategy
    - Undertaking cultural analysis

7 Business Strategy and Models

7.1 Generic competitive strategies

- Cost leadership strategy

- Differentiation strategy
- Focus strategy
- Hybrid strategy
- The Strategy Clock

7.2 Interactive strategies

- Interactive price and quality strategies
- Cooperative strategy
- Game theory

7.3 Business models

- Value creation. configuration and capture
- Business model patterns

8 Corporate Strategy and Diversification

- Strategy directors
- Diversification and performance
- Vertical integration
- Value creation and corporate parent
- Portfolio matrices
  - The BCG (growth/share) matrix
  - The directional policy (GE- McKinsey) matrix
  - PIMS (Profit Impact on Marketing Strategy
  - Parenting matrix
  - The Scenario/vision – building approach

9 International Strategy

- Internationalisation drivers
- International business environment and challenges
- Geographical sources of advantage
  - Locational advantage: Porter's Diamond
  - The international value system
  - International strategies
  - Market selection and strategy
  - Internationalisation and performance

10 Strategy Development Processes

10.1 Strategic thinking

- The paradox of logic and creativity
- The art and science of strategic thinking
- The "Deep Dive" analogy: acumen, allocation of resources and action

10.2 Strategy formation

- Deliberate strategy developers
- Emergent strategy developers
- Logical incrementalism
- Strategy as an outcome of political processes

10.3 Implications for managing strategy development

- Strategy development in different contexts
- Managing deliberate and emergent strategies

11 Matching Organisational Structure to Strategy

- Value chain activities to be performed internally
- Value chain activities to be outsourced
- Aligning structure with strategy
- Organisational structure
  - Simple structure
  - Functional structure
  - Divisional structure
  - Matrix structure
  - Multinational structures
  - Project-based structures
  - Strategy and structure fit
- Delegation of authority
- Systems
  - Planning system
  - Performance targeting systems
- Configurations and adaptability
  - The McKinsey 7-Ss
  - Agility and resilience
- Collaboration with external parties and strategic allies (network structure)

12 Leadership and Strategic Change

- Strategic Leadership vision and change
- Theories of leadership and change
- Types of strategic change
- Levers for strategic change
- Methods of introducing strategic change
- Strategic leadership roles and effectiveness
- Strategic change: revolution versus evolution

- Diagnosing the change context
- Managing major changes
- Problems of formal change programmes
- Managing corporate politics
- Managing complexity
- Leadership in practice

13 The Practice of Strategy

- The strategists
  - Top managers and directors
  - Strategic planners
  - Middle managers
  - Strategy consultants
- Strategising
  - Strategy analysis
  - Strategy issue-selling
  - Strategic decision making
  - Communicating the strategy
- Strategy methodologies
  - Strategy workshops
  - Strategy projects
  - Hypothesis testing
  - Business cases and strategic plans
- Strategy Implementation
  - Relationship between strategy formulation and implementation
  - Plans Programs and budgets
  - Steps for effective strategy implementation
  - Resource allocation

14 Strategic Control

- Evaluation and control in strategic management
- The strategic control process
- Monitoring evaluation and reporting
- Measuring corporate performance
- Strategic information systems
- Strategic surveillance
- Guidelines for proper control
- Balance Scorecard as a tool for control

- Sustaining organisational effectiveness

15 Contemporary issues and Case Studies in Strategic Management

CONTENT **PAGE**

TOPIC 1

OVERVIEW OF STRATEGIC MANAGEMENT

Concept of strategy

The word "strategy" is derived from the Greek word "stratçgos"; stratus (meaning army) and "ago" (meaning leading/moving).

Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vaccum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

Strategy is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between "where we are" and "where we want to be".

- **Purpose of strategy**

The purpose of strategic planning is to set overall goals for your business and to develop a plan to achieve them. It involves stepping back from your day-to-day operations and asking where your business is headed and what its priorities should be.
Strategic planning is necessary to determine the direction for your organisation. It focuses your efforts and ensures that everyone in the business is working towards a **common goal**. It also helps you:

- agree actions that will contribute to business growth
- align resources for optimal results
- prioritise financial needs
- build competitive advantage
- engage with your staff and communicate what needs to be done

Another significant **purpose of strategic planning** is to help you manage and reduce business risks. Growing a business is inherently risky. Detailed planning may help you to:

- remove uncertainty
- analyse potential risks
- implement risk control measures
- consider how to minimise the impact of risks, should they occur

- **Characteristics of strategy**

1. **Strategy is a systematic phenomenon:**

Strategy involves a series of action plans, no way contradictory to each other because a common theme runs across them. It is not merely a good idea; it is making that idea happen too. Strategy is a unified, comprehensive and integrated plan of action.

2. **By its nature, it is multidisciplinary:**

Strategy involves marketing, finance, human resource and operations to formulate and implement strategy. Strategy takes a holistic view. It is multidisciplinary as a new strategy influences all the functional areas, i.e., marketing, financial, human resource, and operations.

3. **By its influence, it is multidimensional:**

Strategy not only tells about vision and objectives, but also the way to achieve them. So, it implies that the organisation should possess the resources and competencies appropriate for implementation of strategy as well as strong performance culture, with clear accountability and incentives linked to performance.

4. **By its structure, it is hierarchical:**

On the top come corporate strategies, then come business unit strategies, and finally functional strategies. Corporate strategies are decided by the top management, Business Unit level strategies by the top people of individual strategic business units, and the functional strategies are decided by the functional heads.

5. **By relationship, it is dynamic:**

Strategy is to create a fit between the environment and the organisation's actions. As environment itself is subject to fast change, the strategy too has to be dynamic to move in accordance to the environment.

Success of Microsoft appears to be very simple as far as software for personal computers are concerned, but Microsoft strategy required continuous decisions in a turbulent and dynamic environment to remain leader.

6. **The purpose of strategy is to create competence (things firm does better than competitors), synergy (between different parts of the organisation and their activities) and value creation so as to attain vision and mission.**

An organisation can reach its destiny (vision) only if it can create value for the firm and its stakeholders (mission). Value creation involves economic value addition (profits for the company), customer value addition (Value customers perceive in relation to competitors), people value addition (Value gained from enabling employees to be most productive resource.) so as to fulfil the needs of all concerned.

7. **Strategy requires searching for new sources of advantage:**

To achieve sustainable long term competitive advantage the firm must invent new rules and new games to become unique and create wealth. Simply copying the leader means value is destroyed for all the firms. Thus to look different, strategy differentiation is a must.

8. **Strategy is almost always the result of some type of collective decision-making process:**

The vision, mission, objectives, and corporate strategies are determined by top management. Business Unit strategies are decided by heads of business units and functional plans by functional heads. But the top management consent is a must. It is the senior management which resolves paradoxes between the conflicting objectives, existing functions and future activities, and the resources allocation.

-Advantages and Disadvantages of Strategic Planning

Advantages

1. **Facilitates communication between managers**. One of the goals of strategic managers is to facilitate the collaboration of functional managers to achieve synergy between different parts of organization. Managers in finances, marketing, operations and human resources are essential for an organization but they often compete rather than collaborate. Even worse situation is with separate SBUs. Strategic planning is in place to facilitate the collaboration between these managers.

2. **Identifies strategic goals and strategic intent**. CEOs are usually the people who create goals and envisions the future of the company. Nonetheless, they are often engaged in many other activities and have less time to search for the best strategic fit.

3. **Reduces resistance to change**. It is strategic planner's job to inform the whole organization of strategic changes, company's plans, current situation implications and what changes are expected to be done. Thorough explanation of this information to managers in every level, reduces resistance to change as managers are less uncertain about the future.

4. **Improves resource allocation**. New products, services, strategies, goals or objectives require resource allocation (moving people from one team to another or moving the facilities into another country), which is done more efficiently when aligned with strategic objectives.

5. **Leads to sustainable competitive advantage**. Competitive advantage is often achieved without strategic planning but if the company wants to achieve sustainable competitive advantage it has to plan strategically.

Disadvantages

1. **Costly to perform for small and medium businesses**. Strategic planning, the same as marketing or proper human resource management, adds a lot of expenses to an organization. Managers or strategic planners have to be hired, additional efforts are required towards analysis of external and internal environments and some tools have to be designed to properly implement strategic planning process. Although all of this is done to some extent by all organizations (who doesn't monitor firm performance or analyze competitors?), mainly the large enterprises are the ones capable to hire competent personnel to implement strategic plans.

2. **The process is very complex**. Strategic planning process consists of many steps that are connected to each other and must be constantly adjusted. Some unexpected factors also appear that may change the whole strategy and as a result, strategic planning process.

3. **Low rate of successful implementation**. Due to its complexity and heavy commitment to strategic goals, strategic planning is rarely implemented successfully. Often, the poor implementation is the reason for failure, although it is more often the case of misaligned operational and strategic goals.

Strategy approaches

As business environments have grown more diverse in recent decades, picking the right approach to strategy for each context has become increasingly important. We believe there are five broad approaches to strategy:

- **Classical:** clear phases of analysis, planning, and execution; useful in predictable and stable contexts, such as mature categories that grow with GDP (confectionary and cosmetics, for example)
- **Adaptive:** continual experimentation and scaling up of what works; useful in unpredictable environments in which new technologies or business models drive changing offerings and patterns of demand
- **Visionary:** use of imagination to create a game-changing product, service, or business model, followed by persistence in the creation and development of a market; useful when a firm can have a significant influence over the environment rather than merely adapting to it
- **Shaping:** collaboration in environments that are simultaneously unpredictable and malleable, requiring companies to leverage ecosystems and platforms

- **Renewal:** execution of necessary, radical moves when the environment is harsh or there has been a protracted mismatch between strategy and environment, with limited time and resources to analyze and deliberate a course of action

Five approaches to the strategy process

But despite this broadening array of approaches, the process of developing and realizing strategy within most companies follows still the "strategic planning" mostly associated with classical strategy:

Classical planning
An initial direction from the executive team is followed by various kinds of analysis, like market modeling (projecting category growth and future share) and financial forecasting. This process takes some time because ideas have to be analytically verified and consolidated, with the final call made by the executive team. An example is the strategy process in the core business of Mars. As past president Paul Michaels noted, "We plan because we operate in relatively stable markets." After consultation, plans are set from the top by a small group: "That's me, the CFO, and a few others."

Such a planning process is ill-suited to less classical environments – there, other strategy processes are needed:

Adaptive Experimentation
Experimentation happens in short cycles of testing and picking winners. Key ingredients of the process are the ability to collect and read signals to detect business opportunities; free flow of data throughout the company, enabling teams to identify opportunities with little central supervision; and the culture and organizational mechanisms to enable failures to be easily discontinued and successes to be scaled. Zara enacts its adaptive strategy in this way, identifying emerging trends via real-time market experiments with its clothing styles and making small commitments that can quickly be scaled up.

Visionary Imagination
Imagination works in iterative cycles, taking a starting point – often a desire, or a frustration that a need is not being met – and elaborating it into a worked-out proposal or prototype. In popular stories of imagination, like that of Steve Jobs, this process is assumed to occur in the head of one person. But in fact it is a social process: at Apple, Steve Jobs elaborated his ideas by iterating with Jony Ive and others. Key ingredients of this process are the richness of mental models brought to bear on the initial ideas; a