

## **Chapter 1: The Concept of Strategy**

### **Introduction**

The major goal of this first class in Strategy is to convey an appreciation of what strategy is, by introducing students to a range of different perspectives and to some of the key debates in this field of study.

The principal themes that we emphasise are:

- The contribution of strategy to the success of individuals and organizations
- The origins and lineage of strategy - the ways in which ideas about 'strategy' have developed over time
- Key questions and debates in strategy which include:
  - What is strategy?
  - What role does strategy play in business organizations?
  - How can we describe and identify a firm's strategy?
  - What role does strategy perform?
  - Whose interests does strategy serve?
- The role of strategy in not-for-profit organizations

### **Lecture/Instructor-led activity**

There are a number of different ways of introducing strategy but the main aim is to get students engaged and reflecting critically on the material from the start. We outline two approaches that seem to work well. Which one is adopted depends to a large extent on the nature and size of the student group as well as the tutor's individual preference. The first approach is to start the session by asking students to write down what they understand by the term 'strategy' i.e. how they interpret the term in everyday speech. They are then asked to work in pairs or small groups comparing their different statements. The instructor invites selected groups to share their thoughts with the whole class and builds up a list of key terms associated with 'strategy'. Students tend to think define strategy in terms of plans, routes to achieving goals, competitive tactics and so on. Distilling points of similarity and difference between different students' common sense understandings leads nicely into a discussion of the history of strategy and the way different perspectives on strategy have emerged over time. It also highlights the fact that there is no universally agreed definition of strategy and that the perspective or definition that you adopt shapes the questions you ask and the role you think strategy plays within business organizations. This acts as a logical bridge to the next step of the session that looks more systematically at different definitions of strategy and the role that strategy plays within organizations.

An alternative starting point which tends to work well with large groups of undergraduates in a lecture setting is to start with images (or video clips) of successful individuals – in the text we focus on Lady Gaga and Jeff Bezos. The instructor invites members of the audience to identify these individuals, say something about what they do and why they think the instructor has chosen them as examples of successful individuals. The instructor then asks the audience to consider whether these individuals, despite their obvious differences, have anything in common. This leads to a discussion of the role that strategy plays in success and some of the key characteristics of strategy.

Having, hopefully, captured the student's attention, the session proceeds by posing some fundamental questions, in particular

1. What is strategy?
2. What role does strategy play in business organizations
3. How can we describe strategy?
4. How can we identify strategy?
5. Whose interests are/should be prioritised?

It is worthwhile spending a little time on questions 3 and 4 particularly if, at a later stage in the course, students are asked to undertake assignment work that requires them to gather information of selected companies. Many students find the notion of 'strategy' hard to get to grips with initially so the more concrete examples that can be given at the start, the better. Concluding the first session by connecting 'strategy' to topical debate about shareholder capitalism and corporate social responsibility alerts students to the currency and importance of the subject matter to which they will be introduced in subsequent sessions. It also creates the opportunity for the instructor to provide a road map for subsequent classes and to explain how themes introduced in this first session are subsequently picked up and developed in more detail. At the end of the class the instructor might ask students to reflect on their own goals and strategies for success, particularly given the rather turbulent economic conditions most economies have faced in recent years.

### **Tutorial/Student-led activity**

The mini-case that accompanies this session is 'Tough Mudder'. It goes without saying that it is a good idea to get students to read the mini-case in advance but the video clip that accompanies this chapter gives students a sense of the business and reinforces some of the information contained within the case. Tough Mudder was chosen as an introductory case because it is a business that is easily understood and likely to appeal to students.

The main aim of the case session is to get students thinking about strategy. The case allows the instructor to draw out both analytical aspects of strategy and also human and processual ones and invites us to pose questions about the links between strategy and success. Suggested answers to the case questions are provided in the teaching and learning materials for this chapter.

## Teaching Note and Suggested Answers to the Tough Mudder case questions

At the start of the course it is good for students to get to know each other by working in small groups. The instructor can either assign individuals to groups or allow them to self-select. Students discuss the case questions within their work groups and then engage in a general class discussion, with groups taking it in turns to lead the initial discussion.

*How would you describe Tough Mudder's strategy?*

Figure 1.5 on page 13 provides a template that can be applied to Tough Mudder and is a good starting point.

Strategy as positioning	Strategy as direction
<p><i>Where are we competing?</i>                      Tough Mudder hosts 10 to 12 mile endurance obstacle runs which participants complete in teams.                      The company operates in a range of different locations in 9 different countries.                      The company designs, runs and markets its own events but partners with a number of other organizations to supplement its resources and capabilities and to generate revenue.</p>	<p><i>What do we want to become?</i>                      A 'household brand name' which retains an 'unconventional and edgy' image</p>
<p><i>How are we competing?</i>                      The 'endurance sports' market is very competitive and has relatively low barriers to entry. Tough Mudder endeavours to build and sustain competitive advantage by differentiating itself from its rivals in terms of its:</p> <ul style="list-style-type: none"> <li>• strategic positioning</li> <li>• brand name and reputation</li> <li>• product design</li> <li>• the quality of the customer experience it offers</li> </ul> <p>based on meticulous operational planning, highly effective staff recruitment and selection processes, sophisticated marketing and design, a strong corporate culture and continuous innovation.</p>	<p><i>What do we want to achieve?</i>                      To create 'life-changing experiences for participants'.</p>
	<p><i>How will we get there?</i>                      By retaining a strong focus and sense of corporate identity.                      By engaging in a process of continuous innovation                      By partnering with other organization that complement the brand</p>

*Why has the strategy been successful?*

An obvious place to start the discussion is posing the question ‘What constitutes success in this context?’ Figure 1.9 illustrates Tough Mudder’s rapid growth both in terms of number of participants and number of events. The company is one of the market leaders and has built a loyal customer base but we also note that “its margin of leadership over Spartan Races and Warrior Dash is narrow (p.33).

Figure 1.1 outlines three key elements of successful strategies and can be used to structure the answer to this question

Simple, consistent long term goals – the case emphasises the founders’ focus and their recognition of the need for a clear mission and brand. The company’s core values guide the action and behaviour of the management team.

Profound understanding of the competitive environment – the management team clearly recognises the threat that competition poses and pays close attention to customer feedback in order to improve the customer experience and strives to continuously update and improve the design (and novelty) of its obstacle courses.

Objective appraisal of resources- while the company seeks to build its resources and capabilities internally through the recruitment of knowledgeable, committed and enthusiastic individuals, it also recognises the advantages of partnering with other organizations.

*What do you think is the role of Tough Mudder’s sense of identity (‘we know who we are and what we stand for’) in influencing the effectiveness with which it implements its strategy?*

The organization’s sense of identity refers to what organizational members see as core, distinctive and enduring about their organization. In a highly competitive and fast moving market, Tough Mudder’s clear sense of identity enables it to reconcile its need for innovation and change with its need for continuity and stability. In particular, the case suggests that ‘every employee is aligned on the same vision and knows what they are working towards’ and ‘core values guide the actions and behaviour of the management team.’ Strategy implementation is likely to be much more effective in this context because organizational members are better motivated and their actions better co-ordinated than in organizations where no strong sense of identity exists.

*Distinguish the following concepts using examples drawn from the case:*

- *Corporate strategy and competitive strategy*
- *Strategy and tactics*

Tough Mudder’s decision to extend the geographical scope of its business is an illustration of its **corporate strategy** as is its decision to promote Tough Mudder clothing.

Tough Mudder’s programme of continuously updating and improving its obstacle course constitutes part of its **competitive strategy** as does its brand building activities. Tough Mudder’s decision to promote a collaborative, team-based approach to its obstacle courses is fundamental to its **strategy** whereas the particular choices it makes with regard to the locations of its events in any given year can be seen as **tactical**.

*What challenges and opportunities does Tough Mudder currently face and how should it adapt its strategy to meet the challenges and exploit the opportunities?*

Tough Mudder is experiencing strong competition from established rivals and the barriers to entry into this market are relatively low which means there is a potential threat from new entrants. In recent years endurance sports and military style fitness activities have increased in popularity (*an opportunity*) but the fitness industry, like many others, is subject to the vagaries of changing fads and fashion (*a challenge*). It seems reasonable to suggest that endurance sports might be income elastic; that is to say expenditure on this kind of activity is discretionary and something that individual and firms may choose to cut back on if they feel that “money is tight” (*a challenge*) or engage in when disposable incomes are rising (*an opportunity*). The obstacle courses are designed to present teams with physical and mental challenges but that is not without risk. Although the company has very well developed health and safety procedures, there is always a risk that a participant may injure themselves severely and that the company’s reputation could be damaged (*a challenge*). Social media is a double-edged sword – while the company has used it to great effect to develop its business, any shortcoming on its part would be disseminated very quickly.

The company strategy is to differentiate itself from its competitors not only in terms of the design of its obstacle courses, its events and its customer service but also in terms of its values and its connection with purpose and people. Having a distinctive ‘identity’ gives it a slight edge in an increasingly competitive market place and is one way of meeting the challenge of competition. Other suggestions might include: drawing on its brand image and distinctive capabilities to move into adjacent markets e.g. other types of team building, risk assessment for third parties, events management.

*Is Tough Mudder a socially responsible company? To what extent are Tough Mudder’s corporate social responsibility activities a tool of competitive strategy?*

This question is designed to elicit reflection by students about the relationship of social value to economic value. Whether or not Tough Mudder can be said to be a socially responsible company depends on the extent to which it accepts social responsibilities that exceed those required by law and the immediate interests of stakeholders. Its web-site outlines its mission as ‘creating unconventional, life-changing experiences’ and states that ‘we believe that material goods and online social networking will never replace the value of real-world experience with friends, family, co-workers and fellow participants. We are inspired at every step by our participants as well as the work of our amazing charity partners such as the Wounded Warrior Project, Help the Heroes and Legacy Australia.’ The company’s encourages participants to raise money for charities of their choice and by 2015 had raised over 5 for its partner charities.

While Friedman would argue against mixing social engagements with business operations, others would argue that the alignment of self-interest to social responsibility creates a ‘win-win’ situation which both sustains company success and makes a difference. By aligning its mission and strategy with its values, Tough Mudder motivates its employees and enhances its consumer appeal.

## Suggested answers to self-study questions

1. *Choose a company that has recently been celebrated in the media for its success and examine its performance in relation to the four characteristics of successful strategies (clear, consistent, long-term objectives; profound understanding of the environment; objective appraisal of resources and effective implementation)*

Details of each of these characteristics and the role they play are outlined in the section 'The Role of Strategy in Success' (Chapter 1 pages 6-8). It is important to consider the criteria you are using to judge success, for example, is your chosen company deemed successful because it is highly profitable, innovative or is regarded favourably by the news media? You might also consider the extent to which it is possible to ascertain whether goals are 'clear and consistent'; resources and capabilities are 'objectively appraised' and so on. It is often difficult to establish whether there is a causal link between strategy and firm performance or whether we ascribe particular characteristics to successful firms after the fact.

2. *The discussion of the evolution of business strategy established that the characteristics of a firm's strategic plans and its strategic planning process are strongly influenced by the volatility and unpredictability of its external environment. On this basis, what differences would you expect in the strategic plans and strategic planning processes of the Coca-Cola Company and Google Inc.?*

In the section on a 'Brief History of Strategy' (Chapter 1 pages 8-10) we describe the transition from "corporate planning" to "strategic management." This can be attributed, in part, to increasing volatility and unpredictability of the business environment. The more unpredictable the external environment, the less able firms are to plan strategy in a precise way and the more strategy is defined around goals, vision, direction, and the creation of options.

This is likely to create differences in the approach to strategy making among firms that face different industry environments. A company like Google has an industry environment characterized by rapid technological change, and the constant emergence of new market opportunities and competitive threats. A company like Coca-Cola faces a much more stable environment. The world market for soft drink concentrates is dominated by two giant companies (Coke and Pepsi), and this is likely to continue for the foreseeable future: each firm's market position is reinforced by long-term agreements with bottlers and massive brand equity. Consumer tastes change slowly; there is minimal technological change.

Hence, each company is likely to have a strategy making process that differs in formality, precision, time horizon, and scope. E.g.:

Coca-Cola

Medium term (e.g. 3-5 years). Precise operational and capital expenditure budgets. Strong emphasis on short and medium -term performance targets. Strategic planning based on narrow market focus: soft drinks. Emphasis on design with top management exerting strong hierarchical control

Google

Short term (12 months?). Budgetary processes flexible. Little emphasis on performance targets; focus on 1st mover advantage and creating options. Strategic planning based on broad market focus: What is our core business? Emphasis on emergence with top management orchestrating bottom-up

3. *Select a firm and use internet resources to identify and describe strategy. Use the template provided in Figure 1.5 to structure your answer*

Figure 1.5 provides a framework for describing a firm's strategy and the discussion around the questions 'How do we describe a firm's strategy' and 'How do we identify a firm's strategy' (Chapter 1 pages 13 and 14) provides a basis for the answer to this question. Being able to gather and synthesise appropriate data is a key skill for students of strategy and it is worth reflecting on the limitations of data that are publicly available. Much published material is designed for public relations purposes and it is important to cut through the rhetoric and explore the chosen firm's strategy by looking at the decisions it has taken and the activities in which it is engaged as well as its published mission and vision statements. The investor pages of corporate web sites are usually good sources of information. If students are seeking inspiration about which firm to select, lists of the top 100 firms in their country often provide ideas.

4. *What is your career strategy for the next five years? To what extent does your strategy fit with your long-term goals, the characteristics of the external environment and your own strengths and weaknesses?*

The same principles that we apply to business strategy can also be applied to individuals' career strategies. Indeed, several prominent "self-help" books are essentially about strategic approaches to self-development. (E.g. Stephen Covey's *Seven Habits of Highly Effective People* is a systematic approach to life planning that begins with the choices about lifetime goals. Marcus Buckingham's *Go Put Your Strengths to Work* is based on the simple observation that success results from individual's identifying and deploying their resource strengths. Vaughan Evans' *Backing U!* applies the tools of strategy analysis and business development to your own career choices.)

This exercise involves using the basic framework of Figure 1.1. The principle stages are:

- Goals and values: What are you seeking—wealth, power, influence, fellowship, excitement, security, making a difference in the world?
- The environment: Which careers offer the best prospects in relation to your chosen goals? (Career opportunities may relate to work type (brand manager, financial

analyst, general manager, entrepreneur, politician) and sector (financial services, manufacturing industry, public sector, international organization...) For the most attractive careers, you identify, what are the key success factors

- Resources and capabilities: What are your resources and capabilities? What are your strengths and weaknesses in relation to intelligence, skills and aptitudes, financial resources, qualifications, experience, contacts, etc.?
  - Strategy: On the basis of these considerations outline the principal elements of a career strategy in terms of:
    - Where? What type of job? In which sector? Where located?
    - How? How will you acquire your next job? What will be your approach to performing in that job? What kind of job sequence do you anticipate? What kind of additional training or personal development do you see as desirable?
5. *Firms abandon shareholder value maximization in favour of some woolly notion of stakeholder satisfaction at their peril'. Discuss, explaining the benefits and drawback of firms acting primarily in the interests of shareholders.*

It worth starting the discussion by defining what shareholder value maximisation means. It is usually taken to mean that the primary goal of a firm is to increase the wealth of its shareholders (owners) by paying dividends and/or causing the price of the firm's shares to increase.

#### *The case for shareholder value maximisation.*

- Any decision can be justified as maximising stakeholder (as opposed to shareholder) value. For example paying staff at above-competitive rates can be justified as creating value for employees; paying suppliers at above-competitive rates for goods bought-in can be justified as creating value for suppliers. In this sense the notion of satisfying stakeholder as opposed to shareholders is 'woolly'.
- Taking the interests of multiple stakeholders into account vastly increases the complexity of decision-making and opens the door to political wrangling and management paralysis
- In competitive markets firms that do not maximise shareholder value get taken over or are driven out of business.
- Active investors put pressure on boards of directors to improve shareholder returns so few companies have the luxury of pursuing goals that diverge from shareholder value maximisation.
- Managers who sacrifice profit for the common good are imposing a tax on their shareholders and arbitrarily deciding how money should be spent
- In the long run stakeholders interests converge with those of owners. Profitability over the long run requires loyalty from employees, trusting relationships with suppliers and customers and support from government and communities.



*The case for a stakeholder approach*

- Businesses have an ethical duty to serve the interests of multiple constituencies - employees, customers, society and the natural environment and management's role is to balance the competing interests of multiple stakeholders.
- Management decisions that maximise shareholders' value are frequently detrimental to other stakeholders
- Shareholder value maximisation is associated with short-term decision-making financial manipulation and excessive risk-taking
- Companies that do 'good' do 'well' i.e. the public interest and the private interests of shareholders are often in line with each other. Fast food outlets have benefitted from providing healthier options to consumers, car producers have benefitted from offering more fuel-efficient cars

The featured example of Kraft's takeover of Cadbury (Chapter 1 pages 21-22) can be used to illustrate aspects of this debate. The accompanying video clip highlights a number of aspects of this debate.