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Strategic Management Made simple

VIRTALIBRY

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Chapter 1

The Fundamentals of Strategic Management

Introduction

Business strategy is the basis for organizational success in an ever-changing and competitive environment. For any organisation, large or small, multinational, or local, having effective business strategies that have been developed and implemented is imperative for an organisation to survive and grow. This chapter lays out the basics of business strategy, starting with how organisations establish their purpose through missions and visions, procurement, and strategic planning, highlighting all the tools for managers in practice. Understanding these concepts in business strategies is essential, as they set out a roadmap for all the decisions undertaken in a business, from daily management to major investment and market expansion.

The macro environment, which comprises forces beyond the control of an organisation, such as consumer tastes and preferences, market trends, the economy, technology, politics, and even societal trends, consistently influence and reshape market competition. Organisations must define the forces impacting their businesses and develop business strategies that adequately address these forces. Through further explanations of conceptual material and many real-world examples and case studies throughout the chapter, you will have a broad understanding of how organisations create direction in achieving their strategic direction and how they will achieve their goals.

Missions, Visions, Objectives

Understanding Mission Statements

A mission statement is a brief and precise conclusion explaining why an organisation exists. It describes the essential purpose of the organisation, what the business does, who and where the business serves, and how it creates value. Think of a mission statement as the reason for being of the organisation; in other words, why are we here versus where are we going?

For example, Tesla's mission statement is "to accelerate the world's transition to sustainable energy". This makes it quite clear that Tesla does not just exist for manufacturing vehicles. Instead, they want to actively influence the world powers themselves. It is action-oriented and fast and powerful,

broad enough to brandish as an umbrella for different products (solar panels, batteries, vehicles) but defined enough to give specific direction (sustainable energy).

The benefits of a well-crafted mission statement have many crucial functions, such as providing certainty and a focal point for all employees of the organisation at every level from the CEO to the frontline employee. When an employee understands why their organisation exists, it allows them to make better choices through the decisions they make as part of fulfilling their purpose. Second, the organisation's mission is communicated externally to other stakeholders in the business. Customers, investors, suppliers, and the community can see what the organisation stands for and relate to that in their expectations of doing business or relationships with the organisation. Third, the mission typically acts as a launchpad for developing strategies and underlying objectives.

For example, British retailer Marks & Spencer has a mission that centers on "inspiring every customer with fantastic product and service." The mission is linked to all areas of the business, from product development to program shaping and training staff. Marks and Spencer also used the same mission when thinking through strategies when the organisation experienced a decline in sales in the mid-2010s. The organisation returned to the mission statement as a means of reconnecting back to its core objectives, which led to renovations in store design and space, improved the quality of products, and retrained staff behaviour and service to inspire customers.

The Importance of Vision Statements

While a mission statement explains why an organisation is today, a vision statement discusses where the organisation is going in the future. A vision is an aspirational description of what an organisation strives to achieve in the long term—usually five to ten years or sometimes longer. It is a description of what a future state will look like and is meant to inspire and provide guidance for strategic initiatives.

Microsoft's vision statement is, "to empower every person and every organisation on the planet to achieve more," which shows how a vision statement goes beyond operations today to a future that is ambitious. To ensure that this vision of the future is exciting to the organisation and its employees, it is specifically broad and aspirational, which helps organisation members start thinking further than just software products and how it might impact human capability and achievement.

Effective vision statements contain several elements: they are focused on the future, so they describe what the ideal state might look like and not what is happening now. They are inspirational in that they call employees and stakeholders to suggest and be a part of something meaningful. They are easy to communicate and remember, and therefore easily capture the audience's attention. Finally, they are thought to be provoking and achievable in terms of stretching the organisation, but the statement is not completely unrealistic.

The distinction between mission and vision becomes clearer when analysed. One example is Amazon's mission statement: "to be Earth's most customer centric company, where customers can find and discover anything they might want to buy online." Nevertheless, founder Jeff Bezos's

aim has always been even bigger: to build a business that could ship anything to anyone, anywhere, to revolutionise the business of buying and selling on a global stage. This vision supported Amazon's growth from books to practically every product category, its construction of complex logistics networks, and the production of cloud computing resources using AWS.

Setting Goals

Goals are more specific and measurable objectives that an organisation develops based on its mission and aim. While mission and vision statements provide a broad direction, goals offer the same direction in specific action-oriented objectives as timelines. Goals expand on the question, "What do we need to accomplish specifically, and by when."

An effective goal is often designed using the acronym SMART. In other words, it is Specific, Measurable, Actionable, Realistic and Timed. A specific goal clearly sets forth what needs to be improved. A measurable goal has quantifiable criteria for accomplishing it.

An actionable goal is realistic, based on available resources and organizational or environmental constraints. A relevant goal aligns with the organisation's mission and vision. In addition, a time-bound goal sets the deadline for accomplishment. For example, a general statement, such as "improve customer satisfaction" is not an actionable goal. However, "increase customer satisfaction scores from 78%

to 85% within the next 12 months, as measured by quarterly customer surveys" meets all the criteria of SMART. It clearly states what will improve (customer satisfaction scores), what the improvement will be (from 78% to 85%), when (within 12 months), and what will measure the improvement (quarterly customer surveys).

Most organisations set goals at multiple levels. Objectives are typically corporate-level goals that focus on the effectiveness of the organisation as a whole, such as overall revenue growth or overall market cap goals. Business unit-level objectives are mostly focused on a specific division of the company; for example, launching three new products in a specific market, which would supply specific suggestions for functional departments, for example, decreasing manufacturing costs by 10% or decreasing employee turnover in the sales department by 15%.

The British supermarket chain, Tesco, offers a fantastic example of how objectives can drive organizational behaviour. In the early 2000s, Tesco set ambitious objectives for international expansion with the goal of generating 50% of revenues from outside the UK within a decade. The specificity of the objective allowed for strategic decisions about entry into individual markets, even if the strategic choice was to enter markets such as Asia and the United States. Ultimately, however, the US market did not engender the hoped profitability objectives, and leadership has since revised its objectives, which retracted from the North American market and have refocused back to their initial strength in the caveat from international expansion objectives. The suggestion that objectives should be routinely revisited periodically based on performance and change in context is

important for organisations to recognise.

The Relationship Between Mission, Vision, and Objectives

Mission, vision, and objectives form an integrated system that allows for strategic direction. The mission states why the organisation exists, the vision describes the desired destination of the organisation, and objectives prepare the way for providing the specific means to reach the destination. They presented a hierarchical arrangement, moving from a broadly stated purpose to a specific action.

Consider Aviva, a financial service company in the United Kingdom (UK). Their mission is to help people save their future and manage their risks. Their vision is to become the most digitally advanced insurer, delivering exceptional experiences to all customers. From these statements, they create specific objectives, such as achieving a number of customers interacting with them digitally, settling claims within 48 hours, and increasing retention rates by certain percentages within defined time intervals.

When the mission, vision, and objectives are aligned, a number of advantages occur. First, they provide strategic coherence - all agency-level actions are directed towards the same end. They provide communication, a language that provides the basis for discussions on priorities and progress. They create accountability - a standard against which to measure performance in agencies. They provide motivation; daily work is connected to the purpose of the organisation.

However, when misalignment occurs between mission, vision, and/or objectives, significant issues can arise. For example, objectives that do not advance the vision waste resources on activities that do not address the agency's desired future. When the vision is counter to the mission, stakeholders have an unclear sense of the organisation's purpose. Regular review and refinement of mission, vision, and objectives ensure alignment and relevance as the organisation and context evolve.

Understanding Strategy

Defining Strategy

Strategy is an intentionally designed course of action aimed at achieving organizational goals and objectives over time. In its simplest terms, strategy involves making choices about how to compete and win in a market. To make choices about how to compete and win, organisations need to decide what they will do, what they will not do, and how they will allocate their limited resources to achieve a competitive advantage.

The idea of strategy originated in the military, where generals developed strategies to defeat their enemies and achieve victory. An ancient Chinese military strategist, Sun Tzu, wrote in his text, "The Art of War,' that strategy is knowing yourself and knowing the enemy and selecting a battleground they are not familiar with. The strategy in war is about changing one's strategy to fit the circumstances. It is clear that these strategies can be translated directly into the idea of business strategy in which the organisation understands its strengths and weaknesses, its competitive

environment, selects a market with clear opportunities, and remains nimble in the way it acts on the various strategies available.

In the business world, strategy is not just a course of action or associated goals or objectives; it is deeply rooted in the notion of competitive advantage and competitive positioning. Michael Porter, one of the influential scholars of strategy and leadership, states that strategy is about making a deliberate choice to complete an activity differently than your rivals and/or to complete different activities than your rivals. These two assets of positional advantage are critical because they denote the essence of strategy as the hard choices of what makes the organisation uniquely valuable to their customers.

As an example, consider two British fashion retailers that adopt very different business strategies: Primark and Burberry. The Primark strategy is based on offering faddish clothing with a highly competitive pricing. In this case, high volume of sales, minimum of advertising, quick turnaround from production to customer, and simplicity of store look and feel in the buying process are all part of the Primark strategy and business model.Burberry's strategic focus lies in luxury positioning, premium price points, exclusive designs, heritage brand storytelling, and meticulously curated customer experiences in flagship stores. While both companies find themselves within the fashion industry, they make strategic choices regarding how they would create value and compete in fundamentally different directions. Neither strategy is better than the other; rather, they serve completely different customer segments and require entirely

different capabilities.

Levels of Strategy

Organisations typically have strategies at three different levels: corporate, business, and functional. Understanding these levels and how they fit together is important for the effectiveness of strategic management.

Corporate strategy involves decision making concerning the overall organizational scope and direction. Corporate strategy outlines what industries and markets the organisation will participate in, how organizational resources will be allocated among the organisation's business units, and what the "corporate portfolio' should ultimately look like. Corporate strategy consists of decisions such as whether to diversify into new businesses, acquire other businesses, divest poorly performing business units, and establish joint ventures or strategic alliances.

An example of a corporate strategy is Unilever, a multinational conglomerate. Unilever is organized into several categories: food, beverages, cleaning, and personal care. Unilever's corporate strategy consists of a number of decisions: investment in individual brands, prioritizing geographical markets, acquiring brands or developing brands internally, or balancing the corporate portfolio between legacy and innovative products. In recent years, Unilever has adopted a corporate strategy that looks to sustainability and purpose-driven brands as a core principle, divesting slower-growing food brands as a result, and investing heavily in personal care products in line with consumer preferences for health and environmental awareness.

Business strategy, or competitive strategy, focuses on how a specific business unit or division intends to compete in designated markets. The questions are, who are the customers to target, what is our competitive position, what is the differentiation of our product, and what is the source of our competitive advantage? Business strategy falls within the boundary corporate strategy definition but is more specific about how to win in a specific market.

For example, the Tata Group, an Indian multinational conglomerate with a sizable footprint in the UK, illustrates that business strategy comes in many forms among its divisions. Tata Steel professes a business strategy based on operational efficiency, vertical integration, and service of large industrial customers. By comparison, Tata Consultancy Services (TCS) professes a business strategy based on digital transformation, innovation, and building long-term relationships with enterprise clients. Although both divisions operate under the Tata corporate umbrella, they have developed their own business strategies relevant to their competitive environment.

Functional strategies focus on how functions, marketing, operations, finance, human resources, information technology, and so on will execute business and corporate strategies. Functional strategies put each organisation's capability in alignment with the support strategy at a higher level. Functional strategies take a wide strategic direction and specify actions that occur within the various functions of an organisation.

For example, if a retail organisation values a business

strategy of superior customer service, the functional strategy of human resources might involve recruiting employees with high levels of interpersonal skills, extensive customer service training, and compensation based on customer satisfaction. The functional strategy of operations could reflect on store layout prioritising customer interaction, inventory systems perpetuating product availability, and developing quality processes that minimise defects. The functional strategy of marketing could focus on promoting the organisation as a superior service excellence organisation, customer testimonials, and service guarantees.

Deliberate and Emergent Strategy

One important component of understanding strategy is recognising that not all strategies are crafted ex ante. Henry Mintzberg, an important scholar of management, distinguishes between deliberate and emergent strategies. The deliberate strategy consists of the intended, intended, sought through, and plans that organisations consciously think through to implement. Emergent strategies develop through patterns of action that develop in an organic way from daily choices and responses to unforeseen events arising from these choices.

In practice, most organizational strategies may include a combination of emergent and deliberate strategies. An organization may have a deliberate strategy to expand into a new geographic market but the approach taken may emerge as the organization learns through experimentation what works, for example. Honda's supply of motorcycles in the US market during the 1960s illustrates this emergent deliberate duality. Honda had a deliberate strategy to compete in the US, a large motorcycle market dominated by

Harley-Davidson and European manufacturers. However, what they learned as they entered the US market was that consumers were drawn to small, fuel-efficient bikes, and American consumers had not even considered motorcycles in the past. Honda then shifted to an emergent strategy that embraced this opportunity in the market for small bikes. The emergent strategy was more successful than the original one.

Another example is the smartphone industry. Throughout the 2000s, Nokia undertook a deliberate strategy for hardware innovation and expanded its mobile phone line. However, when Apple launched the iPhone in 2007, Nokia was slow to emerge as a new strategy that emphasised the smartphone as a software platform instead of a communication device, and Nokia's failure to adapt its deliberate strategy helped lead to its rapid fall from the top of the market to almost insignificant in just a number of years. Nokia's phone business was ultimately purchased by Microsoft, who later exited the smartphone business, which shows that even large/established technology companies struggle when emergent changes upside down their deliberate strategies.

This dynamic of understanding is important for organisations to remain strategically agile. While deliberate planning still provides some direction and coordinates organizational fingers, organisations must remain vigilant about emergent patterns, unanticipated opportunities, and unforeseen threats. A successful strategy comprises both the upside of the planned direction unrealised and flexible upside planned to the downside of external threat change.

The Role of Strategy to Accomplish Business Objectives

and Goals

How Strategy Creates a Path to Success

Strategy is the vehicle between where an organisation is now and where it wishes to be in the future. Without strategy, objectives move from hopeful wishes (goals) to realistic plans. Strategy takes an objective from a simple goal into a plan for action by delineating how resources will be allocated, what capabilities will need to be developed, and how the organisation will address challenges and manoeuvres around competitors.

When thinking about strategy, consider a plan for transport to a specific destination. An example is a plan to move from London to Edinburgh. The goal is not so simple, with "London to Edinburgh" being the only destination. Your plan takes you beyond arriving at Edinburgh. Will you drive, train, or fly? Each of these modes of transport retains significant differences, in that each is a different strategic choice with implications for cost, timing, flexibility, and experience. Once you arrive at the mode of transport, your choices, and therefore strategy just begins; what is the route, when will your departure be, and what/where will stop along the way take place? Business strategy works similarly in defining the "how" of accomplishing objectives.

An illustrative example of a strategy that enables plans to accomplish objectives comes from the British retailer John Lewis Partnership. John Lewis set an objective of how to maintain its market share in a competitive retail market while maintaining its unique employee ownership

model. Its strategy engages several factors: it separates itself from its competitors on service and availability via its employee owners who enable hospitality service, price matching policy, heavy investments in omni-channel capability to connect facilitate shopping accessibility between a physical store and online shopping, and high-quality product brand context on trust that the customer knows they will get good value from that brand. Each part of their strategy works to enable progress in meeting their objectives while successfully blocking their competitive environment objectives from taking market share in a retail environment that is a complex future driven by pricing retailers displaced by online retailing.

Strategic Intent: The Aspiration Beyond Capability

Strategic intent refers to a more ambitious and remote vision of organizational leadership. It embraces the ambition that the organisation aspires to achieve, often beyond any organizational capability. The concept of strategic intent is attributed to Hamel and Hamel. Prahalad (2009) asserts that organisations can build aspirations that challenge their capabilities to provoke innovation instead of establishing their aspirations as a simpler objective involving only extended performance.

Strategic intent applies three considerations that differ from conventional goal-setting objectives. Objectives signify a measurable performance target within a known timeframe, based on existing capabilities. Strategic intent, unlike objectives, denotes a leadership position in the future, given the context of current capabilities. The conversation

becomes one of "What could we become?" instead of "What could we accomplish, reasonably, given what we have?"

An example of strategic intent is the historical context. In the 1980s, Samsung became a low-cost commodity electronics manufacturer. They were not even on the same competitive plane as some of the leadership brands, such as Sony and Panasonic. The leaders at Samsung established strategic intent during that time, that Samsung would become the leading electronics company in the world, and at time did not have the technology, brand confidence, or the design ability of the leaders within the product markets. Thus, there is plausibly some realistic debate around that goal. It, however, pushed Samsung to invest significantly in research and development, hire the best professors and executives around the world, and provide Tondo with some design capabilities and realized they and others would learn it would take time to learn as it related to their product performance, especially after learning through many deaths over closer to or just beyond about 25 years. Conversely, at least by the end of 2010 or beyond, Samsung overtook the world as the leading manufacturer of televisions and smartphones, as well as the world manufacturing of semiconductors in less time.

Strategic intent creates energy and motivation at all organisational levels. Employees might think differently about the work they are doing if they know their company had an overall aspiration for industry leadership, rather than just achieving some minor improvement or incremental growth. Strategic intent inspires innovation, because if we are going to achieve what seems to be impossible, we will need new organizational methods of operating rather than

just doing more of what is determined to be good.

Finally, strategic intent can create or retain stability to anchor any development and deliverable changes made for what might be within what seems to be radical tactical changes.

There are major ropes regarding strategic intent. First, enthusiasm for strategic intent has to be managed with reasonable intermediate objectives and potentially adaptive and responsive strategies. An organisation pursuing strategic intent cannot just read aspirations as a vision chase to challenge its capabilities. They must break it down into reasonable milestones to make some stages achievable in the execution state. In other words, readiness is needed to build capabilities, but based also on those exchanges, there is responsive flexibility again back on the strategic intent. Second, it is easy to go beyond the scope of time and money to pursue a strategic intent.

Distinctive Strategic Directions

Businesses can grow and develop by adopting various strategic directions. The Growth Matrix from Igor Ansoff provides a clear way of understanding the different strategic choices and splitting strategies into four main directions: market penetration, market development, product development, and diversification. Market penetration appears to increase the sales of existing products in existing markets. This direction includes winning competitors' customers, encouraging existing customers to buy more often, or finding new uses for existing products in existing markets. Market

penetration strategies may include aggressive pricing, more advertising, better distribution, and improved customer service. The advantage of a market penetration strategy is that it builds from strengths and stays within a familiar territory, implying less risk. However, the growth potential of a market penetration strategy is always constrained by market size and competitive activity.

British supermarkets looking to conduct a market penetration strategy may offer loyalty cards to frequently reward customers for shopping, have aggressive price matching against competitors, increase store opening hours to offer greater shopping occasions, or offer convenience formats in residential areas to make shopping easier for the same customers.

Tesco has a successful Clubcard loyalty card which rewards customers for shopping frequently with the organisation in the same UK market and is able to tailor offers to individual customers based on their shopping habits.

Market development considers existing products in new markets, geographical locations, or new customer segments. Market development allows existing products to be adopted in new product markets and develop market share, which requires a deep understanding of the needs of new customers, the coordination of marketing activity, the creation and management of new distribution channels, and, in limited cases, modifying products.

Greggs, a British bakery chain, focused on market development by branching from their geographical core in Northern England to match its core offer of sandwiches, baked goods, and other pastries to Southern England and Scotland. While continuing to sell the same core product

offer, Greggs found ways to modify their operations to suit the needs of the new geography and its competitive landscape. In more recent years, Greggs has also embarked on a market development approach to the evening dining occasion by making preparations to extend their opening hours and providing more product choice to appeal to customers who would never have considered Greggs as a place to dine in the later parts of the day.

Product development refers to the creation of new products in the existing markets. This direction is aimed at tackling evolving customer needs, addressing competition, or exploiting technology transfer while appealing to customers in the same segment. The product development approach draws on existing deep market knowledge while also providing the need for innovation capability and a desire to take development risk.

The pharmaceutical industry is renowned for adopting a product development approach. The British Pharma company GlaxoSmithKline is constantly developing new medications to treat the same indications as they do for existing medications, which will offer better efficacy, fewer side effects, or a more convenient route of administration. While GSK sells to the same customers, being healthcare providers and patients, each new product in the pipeline treats the same indication as previously developed medications within these existing markets. Diversification requires organisations to develop new products for new markets. It is also the riskiest strategy, as even unknown new products are being developed for unknown markets.

Diversification creates growth opportunities when existing markets become mature, spreads risk across a number of

different businesses, and leverages existing organizational capabilities.

Richard Branson's Virgin Group provides an illustrative example of a diversification strategy. Virgin started as a music retailer but has since developed into airlines, mobile telecommunications, financial services, health clubs, and many other market areas. Each instance of new venture rationalisation is diversification, as new products are developed for new customer segments. Virgin has enjoyed some success from the premised offering (Virgin Atlantic), while others have failed miserably (Virgin Cola). Together, they serve as examples of both the opportunity and risk that accompany strategy diversification.

Organisations commonly undertake multiple strategies simultaneously. Amazon started with a market penetration strategy in the online book retailing space, but then went on to pursue product development by adding to other product offerings for the same online shoppers, followed by a market development strategy by going international or targeting business customers through its successful Amazon Web Services arm, and finally, a diversification strategy with its Amazon Fresh grocery service and Amazon Studios for entertainment content development. Indeed, the oven strategy is one of the key reasonforAmazon's phenomenal growth for many years.

Various Methods for Strategic Planning

SWOT Analysis: Grasping the Strategic Position

SWOT analysis is among the most commonly used tools for strategic planning, structured for reviewing the organisation's Strengths, Weaknesses, Opportunities, and Threats. This approach allows the entity to understand the internal capabilities and limitations present, while also identifying external aspects that promote or hinder the successful attainment of objectives.

Strengths are internal attributes and resources that facilitate successful outcomes. Examples of strengths include a strong brand reputation, proprietary technology, skilled workforce, financial resources, efficient operations, loyal customer base, or superior distribution channels. Identifying strengths allows the organisation to understand what it does well, identifying the capabilities that generate an advantage.

Weaknesses are internal limitations that may hinder performance. Common weaknesses include dated technology, inadequate access to financial resources, poor location, weak brand awareness, skill gaps in the workforce, and online operational efficiencies. Identifying weaknesses is imperative because it highlights the vulnerabilities that competitors may exploit and the areas of improvement that need to be addressed or mitigated.

Opportunities are external elements that an organisation may be able to exploit. Examples of opportunities include emerging industry trends, regulatory changes, weaknesses of industry competitors, technological development, demographic changes, and changing consumer preferences. Identifying opportunities increases an organisation's ability to foresee favourable occasions and make appropriate preparations to benefit.

Threats are external elements that negatively affect organisational performance. Examples of common threats include new industry market competitors, substitute products or services, unfavourable regulatory processes, economic downturns, changing customer preferences, or disruptive technologies. Identifying threats provides organizations with the ability to develop defensive strategies, or pivot before it causes damage. Potential English Text: "Using a SWOT analysis to evaluate the British engineering firm Rolls-Royce, a company largely known for its aircraft engines, its strengths may include being a global leader in engineering expertise, establishing long-term contracts with major airlines, having well-established relationships with aircraft makers like Boeing or Airbus, and having a reputation for reliability and innovation. The potential weaknesses may be high fixed costs, dependence on cyclical aerospace markets, complexity of managing global operations, and exposure to exchange rate fluctuations that can affect international contracts.

Roll-Royce may see opportunities in the context of growing air travel demand in emerging markets, such as Asia, increased demand for more fuel-efficient engines based on environmental concerns, the potential for military contracts as some governments modernise their military capabilities, and the opportunity to add digital services through their technologies in the area of engine monitoring and predictive maintenance. Risks could include economic downturns reducing demand for air travel, new competitors from countries with lower labour rates, the risk of technological disruption from alternative propulsion systems such as electric aircraft engines, or possible geopolitical tensions af-

fecting government defense expenditures. The real value of SWOT analysis does not come from simply listing strengths, weaknesses, opportunities, and threats, but from using the factors through developing strategies. Organisations should develop strategies to exploit strengths to pursue opportunities (SO strategies), exploit strengths to counteract threats (ST strategies), overcome weaknesses to pursue opportunities (WO strategies), and minimise weaknesses and threats (WT strategies).

For example, Rolls-Royce could deploy their engineering strength (S) to develop an engine that is more efficient and takes advantage of the opportunity (O) presented by the environmental regulation of lower emissions.

PESTLE Analysis:

Scanning the Macro Environment PESTLE analysis is a management tool that provides the analysis of macro environmental factors that have an impact on organizations. "The abbreviations stand for Political, Economic, Social, Technological, Legal, and Environmental factors. This framework assists organisations in systematically exploring external influences outside their control which are likely to influence strategic options and performance.

Political factors include government policies, political stability, tax policies, trade restrictions, tariffs, labour laws, and government attitudes towards business. Political variables can create opportunities or threats that require strategic response. Brexit is a great example of a political variable with macroeconomic implications for British business.

Organisations had to review supply chains, workforce strategies, compliance with regulations, and market access after the political situation in the UK changed drastically with regard to their membership in the EU. Organisations moved operations to other countries to retain employee EU markets for retail, adjust pricing policies for goods produced to accommodate tariffs and customs, or devise products and services that fit the new UK markets.

Economic factors include economic growth, interest rate, inflation, unemployment, exchange rate, and consumer confidence. Economic factors affect the purchasing power of consumers, their willingness to invest, and market growth. In the British retail context, during the 2008 crisis, many retailers adjusted their operational strategies as unemployment increased and consumer confidence decreased. In July 2008, high-end retailers reported a dramatic loss in sales due to consumers switching their buying habits and showing concern for commodities and values, such as discount retailers such as Poundland, which expanded during this same period. Organisations must improve their operational strategies based on the current economic climate instead of waiting for the economy to improve. Social factors can take many forms, such as demographic shifts, changes in cultural attitudes, changing lifestyles of consumers, changing levels of education, and changes to the consciousness of the population relative to health as well as working and leisure. Social changes often create opportunities for new markets, and sometimes create a context in which markets and products become obsolete. The growing health acculturation in British society, for example, created opportunities for new businesses to provide gym facilities, organic food retailers,

and wellness products, while threatening traditional fast-food chains and the tobacco industry. If an organisation is aware of social trends or changes in attitudes, it can capitalise on these trends before its competitors recognise that the market context has changed.

Technological factors refer to changes in the pace of technology, automation, research and development activity, technology incentives, and technological obsolescence rates. Technology by its nature can create opportunities through innovation but can also threaten established business models via displacement. The technology of streaming service businesses, for instance, threatened the video rental industry in the 1990s and adapted well-established businesses, such as Blockbuster Video, while also creating a monumental opportunity for both Netflix and its streaming competitors. Retailers in the UK (and globally) have invested heavily in e-commerce functionalities and mobile applications to respond to technological shifts in consumer buying behaviour. It is critical that organisations adopt new technologies, and perhaps more importantly, that organisations consider how new technologies will both support and disrupt their industry.

Legal factors include employment laws, consumer protection, competition regulations, health and safety stipulations, and regulations specific to industries. The changes associated with legal factors can significantly transform how an organisation operates, change cost structures, and contribute to competition. The introduction of the General Data Protection Regulation (GDPR) which was launched across European Union member nations in 2018, forced

businesses in the UK to fundamentally restructure how they collected, stored, and utilised customer data. Businesses needed new systems and processes to prevent legal actions which meant new compliance officers, and thus business process costs, as well as potential new businesses which had formed to deal with GDPR issues.

Environmental factors include climate change, environmental regulations, corporate social responsibility narratives, carbon footprints, and waste disposal practices. The climate change narrative has become more prevalent in recent years, and consumers, investors, and regulators have flipped environmental factors from considerations to strategic components for businesses. For example, businesses in the energy sector in the UK have a strategic imperative to transition from reliance on fossil fuels to providing energy in lieu of renewable energy sources. Furthermore, both BP and Shell span business in energy markets, and as such have both established periphery and strategic objectives for carbon neutrality, while spending billions on renewable energy initiatives, as they seek to fundamentally reposition their businesses in response to the changing dynamics of environmental factors.

Conducting a PESTLE analysis requires information obtained from a range of sources such as government publications, industry reports, market research, media sources, and experts in the field. The aim is not to create a comprehensive list of every single factor that could occur but to identify the factors that are most likely to significantly and strategically change the environment surrounding the organisation. These factors can then be used in strategic planning to either expose force strategies that need to contend with

opportunities that strategies should pursue, as well as to mitigate the possible threat of those strategies.

Porter's Five Forces: Assessing Competitive Rivalry

Michael Porter's Five Forces framework helps examine the level of rivalry within an industry, equipping firms with an assessment of the competitive forces that shape profitability and industry competition. The five forces are the threat of new entrants, supplier bargaining power, buyer bargaining power, threat of substitutes, and rivalry among the existing competition.

Let us consider the threat of new entrants, which assesses the degree to which new entrants (i.e. new competing firms) can enter the industry. When barriers to entry are low or non-existent, new competitors can enter with relative ease, increasing overall competition. An increase in competition can reduce the profitability of rival firms. Firms with high barriers to entry deter new entrants from competing, easing competitive pressure on existing firms. Barriers to entry include economies of scale, capital requirements, access to distribution channels, government regulations, brand loyalty, and proprietary products/technologies.

For example, consider the British supermarket. The barriers to entry are extremely high – new competitors need to invest huge amounts of capital to establish stores and distribution channels, negotiate supplier agreements, develop private label products, and build their brand awareness to compete with established players such as Tesco, Sainsbury, and Asda. While these entry barriers effectively keep emerging rivals out of competition, discount retailers such as

Aldi and Lidl successfully penetrated the Australian market by implementing a very different strategic approach, which is a significantly smaller product range offered at very low prices. The Aldi and Lidl example illustrates that while the barriers to market entry are high, established competitors can be undermined by rivals who have aggressive strategies that can then enter the market after a significant investment in developing their brand and gaining acceptance from consumers.

The power of supplier bargaining power, i.e., leverage over purchase price, quality and terms suppliers can differentiate their position. Suppliers may be powerful for a variety of reasons—because there are limited alternatives available, because switching costs are high, or because their items are critical and differentiated. Powerful suppliers can demand higher prices and better terms, which may undermine buyers' profitability. In contrast, suppliers may be weak because there are many alternatives, switching costs are low, and products are commoditised, allowing buyers to bargain favourable terms.

In the British automotive market, for example, major manufacturers encounter strong suppliers of a few critical items, such as advanced semiconductor chips sourced from limited global suppliers. Indeed, the power of suppliers presented itself during the 2021-2022 chip shortage when automakers reduced production in the face of strong demand, because they could not procure sufficient chips. Conversely, these automakers have high levels of power over commodity suppliers, such as standard fasteners or plastics, with many alternative suppliers competing for business.

Buyer-bargaining power is an assessment of customers' ability to negotiate prices and terms. Strong buyers—high-volume buyers, buyers with several alternative suppliers, buyers whose costs are significant, or buyers that could potentially backward integrate—are in a position to demand lower prices, enhanced quality, or improved services. Along the spectrum of buyer power, weak buyers—low-volume buyers, buyers with few alternatives, buyers with low switching costs, or buyers with limited total product cost exposure— have limited bargaining power.

British supermarkets possess unusual buyer power over food suppliers because they purchase massive volumes, alternative retail channels are less effective, and they can credibly threaten to develop private label alternatives. This allows supermarkets to negotiate a very low price with their suppliers, controversially squeezing supplier margins. In contrast, individual consumers have low buyer power when purchasing products in retail because the consumer buys small amounts and lacks the ability to negotiate prices or other terms.

The threat of substitutes considers how easily customers can move towards substitutes that satisfy the same basic needs but provide a different form. When similar substitutes are available, they limit the price that an industry can charge and reduce profitability. When quality substitutes are unavailable, an industry can maintain prices and higher margins.

British rail organisations have significant substitute threats in car travel, coach services, and domestic flights. Often, when rail fares reach certain levels of increase, a number of travellers will move towards such substitutes.

Thus, rail organisations cannot raise fares as much because of the threat to the substitute. Conversely, specialised pharmaceuticals have very limited substitute threats owing to the absence of other products that effectively treat particular medical conditions, allowing such companies to charge premium pricing where competition law permits, with virtually no substitute threat.

The rivalry among existing competitors reflects the level of competition among existing players in an industry. Intense rivalry occurs when the industry features many players of a similar size (or players of various sizes), slow growth in the industry, high fixed costs in the industry, low differentiation in the product or service, and high exit barriers, resulting in intense price competition and reduced profit margins. A less intense rival atmosphere involves either few players, or each has been able to highly differentiate their product or service offerings, and the industry is growing.

The British mobile telecommunications industry provides an excellent example of intense rivalry using these criteria. Despite the cellular Internet, the slow growth environment in this industry features several dominant players (EE, Vodafone, O2, and Three), competing intensely for customer advantage. Providers seek customer loyalty, but services are almost identical and easily substitutable with low prices, producing strong competitive rivalry and a low capacity to build differentiation, offering higher margins. Thus, providers of cellular services are forced to compete primarily on price, thereby producing low-margin offerings. Providers have sought to reduce this intense rivalry and competition-based pricing through bundling strategies, attempting to

differentiate between network quality, customer service, and customer loyalty programs, which increases switching costs for consumers.

Organisations implement a Five Forces analysis to identify the structural attractiveness of their industry and to identify specific strategic opportunities in their industry. If the five-forces analysis identifies weak forces leading to an attractive industry structure, strategies may involve maintaining favourable structural conditions and/or entering the industry. However, if the underlying Five Forces are strong and result in unattractive industry conditions, strategies might involve the company competing on differentiation to limit or reduce price competition, find protection sustainable niches in the industry, and/or possibly exit towards a more attractive industry. A framework such as the Five Forces analysis also identifies the forces that have the most significant impact on potential profitability, thereby prioritising strategic focus.

Scenario Planning: Preparing for Uncertain Futures

Scenario planning is the process of constructing three to five plausible scenarios in the future to examine how changes in the environment could emerge and affect the organisation differently. Scenario planning does not attempt to predict a single future but embraces uncertainty of the future by developing several future scenarios that are distinct but plausible and internally consistent, but based on different

possibilities about how the key uncertainties will play out.

The scenario planning process begins with identifying the critical uncertainties that the organisation faces–critical uncertainties that will greatly impact strategic success, but have a highly uncertain future state. Some examples of critical uncertainty for a UK-based energy company include the rate at which climate policy will tighten, the price trend of renewable energy technology, the rate of consumer buy-in for electric vehicles, and the stability of global geopolitical situations impacting fossil fuel supply.

The organisation will then develop several scenarios, generally between three and five, that are distinct and plausible variations of how critical uncertainties could evolve. Each scenario will require a narrative that is coherent and describes the path into the future from present-day situations, the drivers that lead to the specific outcome, and the implications of the world it has created for the organisation. Scenarios are sometimes given imaginative names to evoke meanings. For UK energy companies, some scenarios could be "Green Transition Leaps Forward" - Tighter climate policies, a rapid reduction in the price of renewable energy technology, and strong consumer attitude would diminish the need for fossil fuel power significantly.

By 2035, renewable energy will become the dominant source of power, electric vehicles will reach mass adoption, and the largest carbon-intensive energy companies will experience heightened regulatory and market pressures.

Scenario #1 "Muddling Through":

Moderate policy tightening, slow technology advance-

ment, mixed consumer sentiment means a gradual but uneven transition to cleaner energy. Fossil fuels remain significant sources of energy until 2040, and renewable adoption moves steadily forward, but no leaps occur (like many electric technology improvements). Governments want to advance climate and clean energy agendas but have to balance the environment with high levels of economic concern.

Scenario #2 "Fossil Resurgence":

geopolitical instability, economic pressures, and slower than anticipated technological advancements in renewables will shift focus back on energy security, and renewable energy will become a smaller part of energy sourcing. Climate and related policies weaken or lack effective implementation, fossil fuel energy remains cheap and retains appropriate levels of market share and accuracy, and the energy landscape is configured back in favour of fossil fuels as acceptable energy sources.

Organizations then test strategic actions in response to each of the scenarios by asking the question: "How would this action or action plan do in each of these scenarios?" Robust actions will perform relatively well in multiple scenarios. Vulnerable actions will perform well in one or more scenarios and terribly in one or more scenarios. This process prompts organisations to consider flexible strategies which adapt to multiple futures instead of placing bets on a full investment in the probabilities of one future.

Shell was on the vanguard of scenario planning as early as the 1970s. Shell developed their scenarios based on concerns regarding oil pricing and geopolitical stability. When the

Saudi Oil embargo occurred, Shell was better prepared than its competitors because they had already developed scenarios involving disruptions in the oil supply and oil price shocks. Their scenarios placed them in a position to respond more quickly and better than competitors who were caught off guards. Shell performed strongly during a challenging period that severely harmed some of its competitors.

Scenario planning also allows organisations to develop the capacity to recognise early warning signals - bits of evidence that go past, reading the future, and signal what scenario is starting to unfold. Organisations can constantly monitor these signals; for example, if many signals signal the "Green Transition Accelerates" scenario has begun to occur, the energy company could accelerate its renewable investments and start to divest itself of fossil fuels sooner than anticipated.

The value of scenarios is not found in accurately predicting the future - which is impossible to do given genuine uncertainty - but in creating long-term strategic thinking, constructing appropriate assumptions about the future, and ultimately developing long-term organizational flexibility. Organisations involved in scenario planning create adaptive capacity, challenge wisdom from the past, and make plans that will enable organisations to respond faster when they are surprised.

Conclusion

Business strategy encompasses much more than simply academic study; it is the applied discipline that ultimately leads to the success or failure of an organisation in competitive markets. In this chapter, we explored the core

components of strategic thinking, from establishing an organisation's purpose via missions and visions to utilising rigorous analytical approaches as a basis for strategy-based judgments.

We have seen how missions express why an organisation exists; visions express where an organisation would like to 'get to'; and objectives express concrete, measurable targets that are derived from those high level statements. Strategy connects the present situation to the desired future and clarifies how to achieve objectives. Strategic intent is to move an organisation beyond a comfortable set of objectives toward higher, more ambitious visions which will require people to push their capabilities and enhance their innovation. There are four strategic directions for growth—market penetration, market development, product development, and diversification—that suggest different approaches to achieving organizational growth, each with its own level of inherent risk and/or reward.

The strategic decision-making methods examined in this chapter—SWOT, PESTLE, Porter's Five Forces, and scenario planning—are all systematic processes for enabling an organisation to understand its strategic positioning, competitive environment, and preparation for uncertainty. These techniques will not guarantee success, but they will significantly enhance and elevate strategic thinking by providing a complete view, challenging assumptions, and opening up avenues for opportunities and threats that might otherwise be overlooked while pursuing high-level responses.

Case studies from organisations in Britain and around the globe have illustrated how these concepts work in practice.

For example, Tesco's strategic expansion and subsequent strategic retrenchment, Samsung's strategic transition from being a commodity producer to being an innovation lead competitor, and Shell's pioneering use of scenario planning demonstrate the power of a good strategy and the dangers of poor strategy.

The macro environment will continually shape an organisation's strategic environment, whether through political changes and uncertainty, economic fluctuations, changes in societal thinking toward sustainability, the rapid advancement of technology and AI, legislative changes, or environmental concerns. Organisations will not have control of these forces, but they will need to interpret and respond to them by adopting strategies that are adaptive and planned, with a balance of direction and the flexibility to rearrange plans as the environment changes.

As you continue to academically study these concepts and eventually engage with them in practice, consider strategy as both science and art. The analytical frameworks provide scientific rigor, but success is derived from judgment or choices made in circumstances of uncertainty and creativity to think differently to overcome adoption. The most effective strategists have disciplined analytics combined with a deep understanding of entrepreneurial thinking—learning about best practices while also being committed to a broader long-term vision.

The strategic challenges businesses will face in the coming years—digital transformation, climate change, geopolitical instability, demographic shifts, and disruption due to change— undoubtedly necessitate the practice of sophisticated strategic thinking and responsive capabilities.

The ideas and tools explored in this chapter outline the foundation for developing the level of strategic competence that business leaders of tomorrow will need to navigate a complex world into which change is accelerating at locations where we have had little historical experience relative to establishment.

Learning activities :

Think about a popular business (e.g. Amazon, Tesco, or a local company), discover information about its mission and vision, and provide one current business objective. Then, provide a short analysis of how the organisation's strategy addresses at least two macro-environmental forces (e.g. social trends, technology change, etc.) described in the chapter. Write a short paragraph describing how the interconnection of the mission, vision, and objectives, and the external environment forces drive the organisation's strategy.

2

Chapter 2

The External Environment & Business Strategy

Introduction

Each business operates within a complex series of external forces that influence its fate. It could be laws set by governments, technological upheaval, shifting consumer preferences, or competitive dynamics; businesses must work within an environment they cannot control, but they need to know well. This chapter will address how the macro external environment, which is the external factor that broadly affects all businesses, will also affect organisational strategy and decision-making.

Understanding the macro environment is not simply an academic exercise but a mandate for business survival and success. Businesses that do not pay attention to changes in the macro environment increasingly find that they are

losing to competitors, caught off guard by new regulations, or recipients of technology that exceeds their expectations. However, businesses that are conscious of their macro environment on a regular basis and plan for the environment will first identify opportunities before their competitors, avert possible threats before they arrive, and increase their overall plan with what is actually happening in the business environment.

In this chapter, we engage with several powerful analytical frameworks that can aid managers in making sense of the macro environment. We use stakeholder analysis to view the complex web of individuals and groups which influence business success. We conduct a PESTLE analysis to analyse the political, economic, social, technological, legal, and environmental factors. We will touch on Porter's Five Forces model, which looks through competition and its influence on industry profitability. Finally, we examine the structure-conduct-performance model, which examines the relationship between the characteristics of an industry and a firm's characteristics.

Throughout this chapter, we will examine a variety of frameworks with real-world alignment to functionality through case studies and research, where we will translate theoretical understandings into practical takeaways. By the end of this chapter, analytical lenses will be used to assess how macro-environmental forces affect business strategy and organisational performance.

Exploring the Macro Environment

The macro environment is a large-scale external force impacting all organisations within a certain environment, regardless of the specific market, industry, or position within the market. The macro environment is different from the micro environment, which includes factors that immediately surround a specific firm such as customers, suppliers, and immediate competitors. The macro environment consists of broader societal forces that shape the overall business environment. These forces largely exist beyond the control of a specific organisation but nonetheless have a significant bearing on strategic choices and operational realities.

The macro environment matters because it can involve both opportunities and threats to existing businesses. A positive macro environment might involve stable political environments, growing economies, legal systems that support business, and rapidly changing technological advancement, all of which enable businesses to thrive.

Conversely, a negative macro environment, such as political instability, economic recession, restrictive regulations, and change in technology, could threaten the future of even strong firms. An example of a macro environmental shock brought about by the COVID-19 pandemic has devastated some industries (e.g. hospitality and aviation) while simultaneously presenting unprecedented opportunities for others (e.g. e-commerce, video conferencing, and pharmaceuticals). One can think about the case of Netflix to give an original example of a macro environment impacting organisational

strategy. Upon launching Netflix in 1997 as a DVD-by-mail rental store, there were several macro environmental factors involved in its early strategy. From a technological perspective, the Internet has become increasingly widespread, but it still presents slow broadband speeds.

Economically, the dot-com boom drove investor interest in start-ups that venture capital funding. Socially, consumers were familiar with the process of travelling to their local video rental stores. Legally, the company worked through copyright and donor-post regulations. As the macro environment changed (broadband Internet became ubiquitous, smartphones were created, and consumer preferences changed to request on-demand content) Netflix adjusted its strategy—starting as a DVD rental by mail to a global streaming powerhouse and content creator. The situation illustrates that organisations need to routinely assess and react to changes in the macro environment.

It is also important to consider the distinction between being reactive or proactive to changes in the macro-environment. Reactive organisations sit and wait to adapt to a macro environmental change until a shock occurs, and so they have to sprint to catch up with competitors. Proactive organisations methodologically review their macro environment to anticipate environmental change and position themselves better for any change. It is not abnormal that when Amazon recognised cloud computing as a strong transitional change in technology, they actively began developing Amazon Web Services as a new business segment that currently generates a solid portion of their revenues. This proactive approach to

the macro environment illustrates good strategic thinking.

Analysis of the macro environment can serve a variety of strategic purposes. Understanding the possible variables of the macro environment can assist organisations in identifying and taking advantage of new opportunities that arise, such as new trade agreements that open new market opportunities or changes in demographics that produce new consumer needs. The analysis can also expose potential threats that require defense strategies to overcome, for example, a disruptive technology that would impact the existing industry or market space for suggesting tightened regulations. The analysis can assist with the allocation of restricted resources by informing groups within an organisation on which capabilities will be most important to the future environment. The analysis provides utility by developing an organisation's forward-looking scenario planning, revealing other plausible futures that an organisation may experience. Most fundamentally, however, the analysis of the macro environment ensures that business operations are aligned with the external environment, as opposed to organizational perceived reality.

Stakeholder Analysis and the Stakeholder Matrix

Stakeholders are individuals, groups, or organisations that can affect or are affected by a business, its activities, objectives, and/or policies. The stakeholder concept acknowledges that businesses do not exist within a vacuum; they operate within a web of relationships with stakeholders that are much larger than shareholders. Stakeholders consist of, among others, employees who provide their

labour, customers who buy products, suppliers that provide raw materials, local communities where operations occur, governments that create the regulatory environment for operations, environmentalists that are concerned about the impact of business operations on the environment, etc. Each stakeholder group has differing interests, expectations, and levels of power to affect the decisions made by the organisation in which they are stakeholders.

Stakeholder analysis is the formal process of identifying stakeholders, determining interests and concerns, evaluating power and influence, and taking appropriate steps to engage or deal with stakeholders. This analytical process acknowledges that organisational success involves more than simply satisfying shareholders, but also involves managing relationships and satisfying multiple stakeholder groups because their support and opposition can affect whether the organisation's strategy is successful. If you do not understand or take stakeholders into account, you may create conflict, legislative hurdles, reputational damage, and organisational failure.

The stakeholder matrix is a simple but helpful tool used to categorise stakeholders in two dimensions: their level of power or influence over the organisation, and their level of interest in the organisation's activities. Power is the degree to which stakeholders can affect decisions and outcomes of the organisation for various reasons such as formally assigned power, control over resources, political power, or other reasons, and interest is the degree to which stakeholders care or pay attention to what the organisation is doing or decisions being made. When identifying stakeholders in

two dimensions, managers can construct a matrix with four quadrants that suggests different stakeholder engagement approaches. Each of the four quadrants directs stakeholders' strategic engagement. Stakeholders with high power and interest are important players and require proactive support and involvement. These stakeholders are most capable of impacting the organisation while also caring about the organisation's decision-making process.

In all likelihood, the organisation will need to hear from these stakeholders during decision-making processes and communicate regularly with them to keep their issues current and address them. These stakeholders may include large investors, key regulators, or powerful customer groups. Stakeholders with high power and low interest should be satisfied but will require limited communication. These stakeholders are capable of influencing outcomes, but lack overall engagement unless something arises relating to their interests. Their strategy is to keep them satisfied while not inundating them with information that may lead to increased interest levels. These stakeholders may include government departments with regulatory authorities, or financial institutions that provide support.

Stakeholders with low power and high interest should be posted through regular communication. These stakeholders are concerned about the organisation but lack significant influence, so to avoid dissatisfaction, the organisation needs to keep them informed. These stakeholders may engage in advocacy potential as they are invested in the organisation. These stakeholder examples may include employee associations, community groups, or specialist interests.

Stakeholders with low power and interest warrant minimal monitoring. These stakeholders are neither impactful to the organization's operations nor care much about the organization's activities. While greater involvement consumes resources, it is advisable to monitor their status, as time, events, or actions can change their power or interest. Distant suppliers, members of the public, or associations representing industries not directly affected by the project are some examples.

One project that exemplifies the use of the Stakeholder Matrix in stakeholder engagement is High-Speed 2 (HS2), the proposed high-speed railway in the UK. As this is an infrastructure project, it serves as a clear example of the Stakeholder Matrix in action. The UK government, as the major funder and decision maker, is within the space of high power and high interest, and needs to be closely managed as they are the key players in the long-term viability of the project. Local councils along the proposed route are also in the high-power, high-interest quadrant, as they have the authority to approve planning permission and have a deep interest in how the project will impact their communities. HS2 Ltd has developed extensive engagement strategies to approach this group, including ongoing consultation, compensation packages, and design improvements to address the concerns that key As the project delivery body, HS2 Ltd stakeholder have articulated.

Environmental organisations appeared in the low power, high interest quadrant initially, as they cared intensely about the impact on the environment but did not have official authority over project approval. The key to moving toward

the high-power, high-interest quadrant was successful campaigning, litigation against projects they disagreed with, and media influence. The stakeholders in the matrix were not static. For example, the Woodland Trust had a high degree of concern and challenged aspects of the project, particularly those affecting ancient woodlands. The Woodland Trust's interests succeeded through action, securing design modifications, and enhancing environmental controls. This experience again demonstrates why organisations need to continuously monitor stakeholder positioning in the matrix and not assume the status of their relationships.

Financial institutions providing funding and financial backing were located in the high-power, low-interest quadrant. They have substantial power, as their funding is critical, and without that funding, the project would not get off the ground; however, their interest was in the financial viability of the project and risk management, rather than all the finer details of the project. HS2 Ltd was able to satisfy these stakeholders by offering annual financial information and risk management updates that met the expectations of the stakeholder group but also did not overwhelm them with operational detail or minutiae. Stakeholders in areas removed from the proposed route were in the low power, low interest category, indicating that they could be considered to need low engagement; they only needed general information, such as updates from public information campaigns.

The Stakeholder Matrix details the inherent tensions and trade-offs that accompany strategic decision making. Stakeholder groups often have competing desires. HS2 was

particularly clear in demonstrating this: the government cared about improving national connectivity and economic growth, environmental groups were concerned about biodiversity and environmental sustainability, residents were interested in minimising disruption, business organisations encouraged an improved transport lead, and taxpayer advocacy organisations promoted value for money.

Regardless of what decision was made, there was no option to fully satisfy all stakeholders at the same time. The Stakeholder Matrix is a valuable tool for organisations and managers to appraise and understand stakeholder conflict and development; therefore, when relation management occurs, engagement occurs at the appropriate level of investment depending on what stakeholders they see fit.

The engagement of stakeholders is more than the mapping of stakeholder significance in or under the umbrella of stakeholder theory. Once stakeholders are identified and mapped into a quadrant, organisations need to consider accountability, communication, and engagement strategies. To engage key players, organisations can formulate formal engagement strategies, develop account managers, and gear their governance structures accordingly. Stakeholders needing satisfaction can be managed with regular updates and communication. Stakeholder groups that need to be informed can be managed through bulletins or newsletter consultations and formal meetings where engagement is appropriate. A stakeholder engagement awareness and approach will assist organisations to efficiently direct resources to key players while maintaining and cultivating relationships where needed.

Stakeholder Mapping

Although a stakeholder matrix is useful for exploring power and interest, stakeholder mapping goes even further by exploring the entire ecosystem of stakeholders and illustrating their complex relationships. Stakeholder mapping creates visual mappings that show not only stakeholders themselves but also the connections between them, their own levels of influence, their attitudes towards the organisation, and their strategic implications. This is a more nuanced way of looking at stakeholders because they do not function independently but as part of a social, political, and economic network, which serves to amplify or constrain their influence.

A particularly useful stakeholder mapping method plots stakeholders along two axes which represent their level of support, or opposition, to the activities of the organisation and their level of influence or power. This essentially creates four quadrants in which strategies involving stakeholders have differing implications, depending on their placement in the quadrants. High-influence, high-support stakeholders, for example, represent champions of the organisation and should be fully engaged and enabled to become advocates. Such stakeholders are important alliances.

High influence, low support stakeholders represent blockers to your strategy and can present significant threats which must be managed to prevent negative consequences or, ideally, convert them to have a more favourable view. These are critical stakeholders, as they have the ability to derail strategies, tarnish reputations, or create obstacles to

regulatory approval if left unmanaged.

Low-influence and high-support stakeholders are supporters of the yet you seek. While their influence may not be much now, their enthusiasm means they could become advocates who increase their influence or work together to create substantial collective voices. Stakeholders with low influence and low support are critics who are worth monitoring but do not necessitate active engagement unless their opposition increases or their influence grows. Instead of expending resources engaging in this peripheral opposition, the resources may be more wisely spent on other stakeholders (noting that the issue may emerge later if the peripheral opposition escalates).

Nonetheless, monitoring their position and potential for escalation is reasonable, as things can and do change in the world of stakeholder engagement. The support-influence mapping system offers a different lens through the stakeholder mapping lens from the power-interest matrix. The power-interest matrix is valuable for determining stakeholder attention and stakeholders' ability to influence outcomes with their interest, while the support-influence mapping strategy is about stakeholders' attitudes and strategically prioritising folks you want to leverage support or manage opposition. Overall, the stakeholder landscape can be considered by using both mapping strategies for quality engagement. A stakeholder may be a high-power/high-interest stakeholder (with a close watch and active management), but also a high opposition (which requires the development of strategies to neutralise their opposition), which implies highly intensive and careful engagement.

Network mapping is another sophisticated stakeholder-mapping strategy that visualises stakeholder relationships. In this mapping approach, stakeholders are represented as nodes of the network, and the lines depict stakeholder relationships, alliances, conflicts, or communication channel relationships among one another. This process will provide useful insights into key stakeholder relationships, in which the real credible powerbrokers in the region might be mapping inclusive and aligned groups of stakeholders who can jointly exercise greater influence than perhaps summative individual percentages (greater sum reputation), and stakeholders or stakeholder groups charted on the diagram that visually represents opposing views of complained stakeholder groups that could complicate the strategic engagement initiative.

Network maps are useful in understanding that working with a central and well-connected stakeholder in the web of stakeholder relationships may help influence others nearby–one or two connections–older stakeholders or one or more stakeholders could unwittingly activate unpressured support or respectfully mitigate a potential stakeholder or stakeholder group of opposition or at the very least neutralise resistance when working with them. Generally speaking when working on real stakeholder engagement mapping, identifying a well-connected minor supportive stakeholder or stakeholder group may be a good target. Shell's suggestion to dispose of the Brent Spar oil storage platform in the mid-1990s is an excellent example of the relevance of stakeholder mapping.

Shell wanted to dispose of the platform by deep-sea sinking in the Atlantic Ocean after receiving UK government

sanctions and what the company considered to be a full assessment of environmental considerations. However, the company failed to sufficiently map out the stakeholder environment and network relationships that would determine the decision event and outcome.

Greenpeace possessed a high influence ability (both to generate media and to mobilise the public) and a high opposition view of disdain for this method of disposal, branding it 'environmentally irresponsible'. Initially, Shell underestimated the influence of Greenpeace, labelling the environmental group as possessing only a high interest but lower power.This was a big error. Greenpeace embarked on a dramatic campaign fully occupying the platform, drawing all kinds of media coverage and mobilising public opinion across Europe. More importantly, Greenpeace operated within vast networks of connected environmental groups, media outlets, political parties, and consumer advocacy organisations.This network amplification significantly increased the effective influence.

Consumer groups and the general public, initially stakeholders with low power, subsequently moved into a highly influential position as a result of the proofs of public opinion generated by the Greenpeace campaign, which created a cascading impact of opposition from stakeholders: concerned community members reached out to their elected officials to create political pressure; consumers started boycotting Shell's petrol stations, affecting revenue; media story coverage increased, damaging reputation; and the German and other European governments, which were peripheral stakeholders, became high-influence opponents and victims of opinion shifts, demanding policy changes.

In particular, the UK government, which was a high-power supporter, also found its support undermined by opposition from other stakeholders with more influence. Shell was defeated strategically and did not successfully map the dynamic nature of stakeholder positioning and anticipated opposing stakeholder positions as the campaign exerted pressure on the network. Ultimately, they decided to abandon the plan for deep-sea disposal while tearing down the lost platform onshore at a much higher cost. Shell suffered significant damage to its reputation, and this case shows why stakeholder mapping must be a dynamic process in comparison to a static one, anticipating how a campaign, event, or change in circumstances may alter stakeholder position, influence, and relationships within a network.

A more sophisticated mapping of stakeholders may have recognised that Greenpeace would be mobilising and utilising broad networks that would require Shell to proactively engage before the onslaught of too many feedback loops occurred.

Effective stakeholder mapping begins with several practical steps: initially, organisations will need to be comprehensive in identifying all the relevant stakeholders, some that may not be immediately identifiable. This is often beyond business relationships, such as community groups, NGOs, media, and academic institutions, which might affect and/or be affected by decisions. Second, organisations need to research and seek an understanding of each stakeholder's interests, motivations, and concerns related to their decision-making that they might not be vocalising to decision makers. This requires genuine engagement, listening, and guessing. Third, organisations need to deter-

mine the power and influence of every stakeholder and their position along relevant dimensions of support to oppose or interest to attention. Fourth, organisations need to map the relationships among stakeholders and determine networks, alliances, and conflicts.

This will also reveal indirect paths of influence and the potential for coalitions to develop. Fifth, organisations should devise strategies to engage with the different stakeholders in those groups based on their positioning from the mapping. By doing so, engagement resources can be allocated strategically, and engagement communication can be developed according to the needs and concerns of each stakeholder. Sixth, organisations will want to regularly update stakeholder maps as circumstances change, acknowledging that stakeholder dynamic positioning is exactly that, dynamic, and not fixed.

Events, campaigns, policy changes, or decisions made by an organisation can all shift the power, interest, and attitudes of stakeholders, warranting different strategic thinking.

Stakeholder mapping tools provide support for strategic decision-making in organisations. Stakeholder mapping enables organisations to project stakeholder reactions to chartering strategies and to generate an understanding of which stakeholders support or oppose their initiatives and the intensity of these respective positions. Stakeholder mapping can further illustrate potential coalition dynamics for which stakeholder groups may come together in support or opposition. Stakeholder mapping will also provide insights into where to allocate resources in ensuring priority of engagement work with stakeholders and stakeholder groups whose resources are a factor in decision-making,

with respect to engaged stakeholders with their position towards strategies, plans, or decisions-of-note to strategic success. Stakeholder mapping supports risk management in being proactive about potential sources of opposition, trouble, and/or conflict before decisions are in place for implementation.

Stakeholder mapping provides guidance for stakeholder engagement messaging to clarify the messages that resonate with various stakeholders. Most notably, stakeholder mapping provides a mapping perspective towards compelling organisations to be realistically aware of the complex nature of the social space, where all strategies must inevitably play out.

Environmental Analysis Using PESTLE

A PESTLE analysis is useful and can provide a framework for considering the macro environmental factors relating to organisations in a structured way. PESTLE is an acronym for Political, Economic, Social, Technological, Legal, and Environmental factors, the broader categories of external forces affecting business conditions. By analysing each factor step-by-step, organisations can ensure thorough and complete environmental scanning, which is potentially missed when considering all economic factors together. PESTLE is designed to break down the complexity inherent in the macro-environment into smaller and relatively easy analytical categories.

Political factors include government policy, political stability /instability, trade regulations and policies, taxation policy,

government leadership, and a broad category evaluating the political environment in which businesses operate. As a multitude of factors affect business conditions by encouraging or restricting access to markets, increasing or decreasing operational costs, encouraging or discouraging employment or investment opportunities, and political factors when combined or assessed, play an important role in organisations' planning for the future. Political factors can affect positive and negative business conditions. As political stability increases or decreases, organisations may decide as part of their risk assessment to invest, operate, or locate a facility, product, or service in a location. Government policies regarding trade (tariffs, trade agreements, etc.) dictate what markets businesses can access and in what terms. Taxation policy is an important consideration when sourcing revenue and measuring potential profit and growth. Government spending decisions have implications for organisations regarding demand in various business sectors. Regulatory approaches determine whether an organisation is heavily monitored and controlled, or if government regulators take an interventionist role in business practices. The extent of political factors varies significantly from country to country and should certainly be seen as an important consideration in international business.

An example of political factors that have implications for an industry might be the automotive industry following Brexit in the UK. EU membership prior to Brexit afforded UK automotive manufacturers tariff-free access to markets in Europe, with regulatory alignment for the quality of the products as well as facilitating seamless supply chains across borders regardless of sector, which were able to remain

compliant with regulatory requirements. Brexit has enacted political uncertainty as an external market condition that significantly affects strategic planning. Some manufacturers, such as Nissan operating a plant in Sunderland UK, questioned how their tariff arrangements for exports would look forward when exporting for the various markets, customs arrangements, and regulatory alignment. The negotiated political environment between the UK and Europe would determine the extent to which tariffs applied to UK exports, whether customs checks and requirements would need to happen, and/or whether regulatory divergence would require manufacturers to comply with various regulatory arrangements across borders.

Such political factors forced automotive manufacturers to engage in scenario planning to consider the implications of various possible political outcomes for their business. Some manufacturers decided to withhold long-term investment in the UK until clarity was offered politically. Other manufacturers solicited and established political commitments (Nissan received political assurances from the government about the competitiveness of their site in the Sunderland UK before committing to a new investment). Ultimately, political negotiation would shape the trade agreement and subsequently set the stage for the strategic environment in which the sector would operate not only in the UK but internationally, and also provide the political context moving forward.

The above example illustrates how political factors create uncertainty calling on organisations–especially international organisations–to strategize flexibly to actors in the

political system, and attend to or shape political events impacting their interests.

Economic factors include economic growth patterns and rates of inflation, interest rates, exchange rates, unemployment levels, disposable income, overall conditions affecting consumers' purchasing power, and the cost of doing business. Economic factors directly impact demand from consumers, cost of operations, and potential viability of investment. Economic growth signals the potential expansion of market demand as consumers' purchasing power increases and businesses begin expansionary investment.

When recessionary conditions exist, consumer demand reduces, as does the potential for increased financial distress. Interest rates affect the borrowing capacity of both businesses and consumers, affecting their purchasing behaviour and investment or durable goods purchasing behaviour. Exchange rate conditions affect both international competitiveness and profitability of domestic businesses engaged in cross-border trade. Unemployment levels affect spending and labour market conditions, and disposable income affects consumers' ability to purchase the goods or services needed.

The 2008 global financial crisis illustrates the impact of economic factors on business strategy. The crisis started in the US housing market, but it spread rapidly around the world to create an economic environment characterised by falling consumer confidence, rising unemployment, falling asset values, and a contraction of credit to both businesses and consumers. Economic factors have devastated certain industries while creating opportunities for others. Luxury goods retailers were burdened by a significant decrease in

consumer demand as consumers eliminated discretionary spending. Investment banks failed or required government bailouts, as their values combined with the failure of asset-backed collateralised loan obligations. Developers of property projects found previous projects to be unviable as financing dried up and demand evaporated.

However, under the same economic circumstances, opportunities arose for other firms positioned to take advantage of them. Discount retailers, such as Aldi and Lidl, gained share as consumers switched to value-based purchasing. Asset management firms buy distressed properties at bargain prices. Debt collection agencies have experienced growth with an increase in loan defaults. The disparate impacts of the economic consequences on some business sectors and not others illustrate the principle that different economic factors will have differing levels of impact in different sectors, requiring the analysis of specific economic sectors.

Social factors include cultural norms, demographics, lifestyle changes, levels of education, social attitudes towards work and leisure time, and social values that affect consumer behaviour in the marketplace and labour market.

Social factors provide situational contexts for what a consumer may physically want and have the economic capacity to buy, and also provide information regarding how they prefer to interact with businesses and what they may expect from an employer, demographic factors, such as aging populations, urbanisation, or shifts in household formation, generate new market segments, and create new patterns of demand. Cultural perspectives on health, sustainability, convenience, or social responsibility all drive choices when

it comes to purchasing products. Likewise, educational attainment affects the capabilities of the workforce and sophistication of consumers. Changing lifestyles create new opportunities for production or provisioning as priorities shift.

The emergence of plant-based food alternatives provides an example of the strategic implications of social factors. Today, many consumers—particularly millennial consumers—demonstrate awareness and concern for animal welfare and care about both environmental sustainability and personal health. The shift we have seen in social values around animals, sustainability, and health has created new opportunities for manufacturers to provide plant-based substitutes for traditional animal products. Companies such as Beyond Meat, Impossible Foods, and Oatly have been successful businesses that adjust their product lines and marketing strategies according to social macro trends. Furthermore, larger, traditional food companies, such as McDonald's and Nestlé, have recognised the implications of these social trends in response to plant-based burger offerings or ready-to-drink ranges of well-known vegan brands.

These strategic responses or adaptations demonstrate that social factors created fundamental shifts in consumer demand, not fleeting trends. Furthermore, the demographic analysis performed indicated, as valuable as plant-based substitutes were for consumers embracing plant-based diet, younger populations were increasingly embracing plant-based diets for health and environmental reasons. Thus, as younger consumers age, they are likely to reinforce the trend, particularly as they gain purchasing power. In addition to

the analysis of observable behavioural changes, survey data analysis found that even individuals not identifying fully as vegans were, at least, consuming less meat for health or environmental reasons, thus expanding the target market.

Social media platforms such as Instagram provide social connections through influencers communicating plant-based lifestyles and products more broadly across large-scale market segments. Companies that identified these social elements early and adjusted their product lines ahead of the game as the market changed.

Technological factors include the pace of innovation and improvements in technological and automation infrastructure, research and development (R&D) activity, pattern of technology adoption, and the implications of these changes for conduct and competition. Technology is one of the more rapidly changing macro-environmental headers, wherein pacing creates opportunities and threats. As new technologies are developed, they can be used to develop new products and services, as well as new business models that threaten or disrupt existing markets. Digital technology has disrupted industries, ranging from retail to financial services to entertainment. Automation of technology can also affect the amount of labour required for a product or service and the cost structure. Communication technologies are changing how businesses communicate with their customers and coordinate with other parts of the business. Data analytics capabilities allow businesses to analyse information in new ways and create new models of personalisation.

The taxi industry has experienced disruptive power of technology through the introduction of ride-hailing plat-

forms. Technologies such as smartphones, GPS navigation, mobile payment, and ride-hailing algorithms have allowed companies such as Uber and Lyft to wrestle their market share from the taxi industry by offering new business models. These technological factors converge to enable ride-hailing as an opportunity. For example, smartphones increased available access to the software that riders and drivers both had in their pocket; GPS allowed for the ability to track geographic location and route the ride efficiently; mobile payment systems removed friction from cash transactions; rating systems ensured accountability and trust between the ride-hailing app and both riders and drivers; and ride-hailing platform and app algorithms matched riders to drivers based on proximity and charged surge pricing for demand.

Traditional taxi companies face a strategic dilemma as these technological factors change the competitive environment. Some have attempted to maintain regulatory barriers that protect taxi companies from entering the market. Other companies have invested in developing their own applications and digital platforms to compete with technology. Others partnered with ride-hailing apps and platforms, instead of competing. These strategic decisions reflect an individual taxi company's assessment of adaptability and whether technological change could be resisted or needed to be adapted to. Cities and countries addressed technological disruption differently, as some regulated ride-hailing platforms allow innovation as the norm, while in other contexts, regulations sought to protect the taxi service from encroaching technology.

This case shows that there are many important aspects

of the technological factor to note in PESTLE analysis. First, technologies tend to be combined synergistically; ride-hailing is made possible by the conjunction of many technologies, not just a single new technology. Second, technological change can be extremely rapid and often provides incumbents little time to adapt. Third, technological factors tend to intersect and have political and legal factors as secondary conditions, and both political and legal systems define how societies respond to technological disruptions. Fourth, technological change creates winners and losers—businesses need to analyse whether they are in a place to benefit from these trends or if they are being threatened by them.

Legal factors refer to laws and regulations which affect the operation of a business, including employment laws, consumer protection, competition laws, health and safety regulations, intellectual property laws, and other laws which may operate within a specific industry or context. Legal factors place limits on business behaviour, generate compliance costs, and create a legal framework which governs behaviours in the market. Legal factors can change and affect the conditions under which businesses operate tremendously, and changes in legal factors can lead to stricter regulations which may also have cost implications, prohibit a firm's behaviour altogether, or change the requirements of products. Legal factors also often intersect with political factors, because most political decisions are used as a basis for legislative change. Each jurisdiction operates within a different legal framework in which an organisation has to traverse relative to each market in which it participates.

The introduction of the General Data Protection Regulation (GDPR) in the E.U. demonstrates a strategic impact of legal factors—GDPR legally mandated the handling and protection of individuals, both residents and citizens, that personally identifiable information (PII) about each resident or citizen was governed by specific regulations—in this case, GDPR. GDPR came into effective in 2018 and operationalized new rules for how an organization in the E.U. could do business and interact with its citizens and residents.The regulation introduced rigorous conditions for consent to collect data, provided rights for individuals to access and/or delete their data, mandated the assessment of data protection impact assessments, provided for notification of a breach to the eventual supervisory authority, and established penalties of up to four percent of total annual revenue or €20 million, whichever was higher. An organisation processing data on EU residents would be subject to the provisions of this regulation, even if that organisation was outside the EU.

The GDPR has established a new order for business, producing massive strategic implications on a global scale. Businesses would require an audit of data handling protocols, a reconfiguring of consent protocols, a sustainable paradigm for individuals to access their rights, increased security of users' data, employee training and education on compliance, and modification of business processes to protect privacy. The largest technology companies, Google, Facebook, and Amazon, spent significant time and costs on compliance in modifying existing platforms to adhere to GDPR standards. Smaller companies often wrestled the costs and complexity of implementation, or discontinued offering services to

EU customers while considering revenues versus costs operationally. This example illustrates how legal factors could impact market access and serve as an indefinite variable for contingencies between government regulations and no formal ramifications of competition.

However, beyond compliance costs, there could be strategic differentiation in aspects of compliance and privacy that distinguished one business operation to another, while other companies positioned their offerings as "privacy champions." For example, Apple emerged as "the privacy company" pre-emptively positioning privacy protection as a competitive differentiator in the marketplace with competing technology companies, and continued to gain market-share while users moved to the safer companies with GDPR compliance or companies that focused and prioritised data privacy.

Companies that were more privacy-minded in scope emerged as a considerable influence in the technology marketplace because consumers were becoming more educated and aware of the implications of GDPR. Law and consulting practices began to grow around assisting and advising companies to comply with GDPR. These examples demonstrate that other legal factors can promote variables and concepts that contradict an individual's perceptions of business operations. As exemplified by privacy legislation, the promise of companies being involved in a marketplace and the success of that company in that marketplace are complicated and can have indefinite measures based on legal parameters.

Environmental Factors as a part of external monitoring while seeming like extensions of change of society is be-

coming more of an indicator of strategic commitment and differentiation among non-governing public-facing firms, and the existence of climate change, pollution, and the pandemic of resource shortages and environmental rot and waste, will persist with continuing regulation, consumer awareness, and consumer expectations.

Environmental factors have implications for organisations, either with regulations to limit emissions and/or regulations to report on environmental stewardship. Physical risks, such as extreme weather patterns or climate-related environmental changes, such as coastline events. Organizational strategies based on transitioning to low-carbon economies likely require reductions of as a part of its carbon footprint, but other organizational opportunities associated with building green technologies, renewable energy as an example, as part of their supply change, sustainably minded designs or products, and circular economy.

The automotive industry value chain in response to environmental factors illustrates the potential implications of the totality of factors. For example, climate change, pollution, and urban air quality are policy pressures where travel and transportation are leading contributors to greenhouse gases or urban emissions. All, in part, of the body of environmental factors discussed herein, exist operating versed channels of presenting implications to both the manufacturers' and users' of the automotive industry. Similarly, governments have set aggressive productivity targets for manufacturing emissions. In the European Union, for example, modelled on fleet-average, it would require a manufacturer to collectively lower their greenhouse gases across the totality of their vehicles or be subject to fines.

Several countries also suggested that they may cease sales of new petrol/diesel vehicles in new sales by 2030, while cities in the developed world designed low emissions zones based on commingled issues to city infrastructure or in an effort to regulate emissions from vehicle travel.

As a result, the ramifications of environmental factors for manufacturers forced manufacturers to alter strategies at an organizational level to adapt to the world of change from regulators of policy. Volkswagen was forced to reinvent itself after a damaged reputation, both socially and economically, due to a diesel emissions scandal that harmed their reputation and commitment of over €70 billion toward electric vehicle development for up to dozens of vehicles. General Motors stated that they would phase out petrol/diesel in their workloads by 2035. Ford is heavily investing in low-emission technology as it shifts to the development of electricity. There is little vision left of traditional vehicle manufacturing in reaction to adapt to environmental pressures, and they recognise that environmental factors fundamentally impact the future of their industry that would all but eliminate product combustion engines, their primary tool for manufacturing for the last 100 years.

At the same time, environmental factors have created new opportunities for organisations to introduce electric vehicles and the infrastructure to support their implementation. Tesla is now established as a leader in EV development and production - in some cases, having market valuations above those of traditional manufacturers who produce many

more vehicles than Tesla. Battery manufacturers have begun investing in building sufficient capacity. Charging infrastructure providers have begun to develop charging station networks. Renewable energy solutions claim that wind and solar energy sources can be environmentally responsible sources of energy. This illustrates how environmental issues can cause market disruptions for established firms while simultaneously permitting opportunities that did not exist until the disruption occurred.

The effective use of the PESTLE analysis considers several aspects. First, firms must keep in consideration in using the PESTLE framework, there is no one size fits all framework, and the environmental issues faced in one industry, market, etc. are not the same for another, which is precisely why generic PESTLE is often of little value. For example, a pharmaceutical company faces different political and legal factors than a retailer. Likewise, an international business faces different political and legal factors for each geographic market. Second, PESTLE analysis needs to not only refer to the context as it exists today but should also consider what the future change may be by observing where it trend may emerge and what based on the analysis what changes do expect (if any) will occur in each relevant category of analysis.Those people who have studied PESTLE analysis in observing context change can appreciate what trends are changing direction and at what speed or to what extent. Third, it is important for organisations to appreciate the inter-relationships between PESTLE categories, as they often do not operate independently of each other. An environmental alteration may spur a political/government

response that changes the legal framework. Technological responses may generate societal changes. Economic conditions can reshape political response.

Fourth, PESTLE analysis needs to marry directly to strategic implications - that there are factors that need identification is not enough, it is important to consider what it means for opportunities, threats, and strategic positioning. The PESTLE factors should prompt consideration in the query of relevance to the business, impact on each, and possible strategic response. Fifth, it enriches the PESTLE analysis from the perspective of various groupings of people. People from different backgrounds notice different factors and form significance. Including people from generally similar functions and geographies provides a richer analysis. Sixth, it is necessary to constantly update PESTLE analysis, as macro environments are always shifting regularly. Annual strategy reviews should include a new PESTLE analysis that is not based on the past years' bootstrap PESTLE.

Porter's Five Forces model

Porter's Five Forces framework, devised by Michael Porter, a Harvard Business School Professor, is meant to analyse competitive forces that shape the attractiveness and profitability of an industry. While PESTLE examines the broader macro-environment affecting all businesses in a context, the Five Forces examines the competitive dynamics of an industry. The model posits five forces that impact competition and profitability: the threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services, and intensity of competitive rivalry

among existing firms. The collective strength of these forces determines the profit trajectory of an industry; industries where the forces are acting favourably offer better profit potential than industries in which the forces are acting unfavourably.

The threat of new entrants is the ease with which new entrants can enter an industry and the extent of barriers to entry that protect incumbents from new entrants. If barriers to entry are low, new entrants can easily enter the industry, creating greater competition and potentially lower profits for existing firms.

If barriers to entry are high, incumbents have a level of protection from new entrants and may potentially keep theirThere are multiple factors that determine the height of entry barriers: economies of scale that give existing capital-using firms cost advantages that entrants cannot replicate, capital costs of entry that set the price of entry high, access to distribution channels that incumbent firms might have control of brand loyalty and switching costs for customers, making it difficult for entrants to attract customers in competitive markets, proprietary information or technologies that competitors cannot replicate, regulatory requirements that create hurdles to entry, and recognition and expected retaliation from incumbent firms that deter entry.

Look at the commercial aircraft manufacturing industry, where Boeing and Airbus are the dominant firms in the industry in global markets. This industry has an extremely high entry cost, which explains why these two firms dominate the large commercial aircraft market. The capital costs to develop aircraft are unmatched — an aircraft typically

takes years and costs billions of pounds to develop, which requires a robust, long-term capital investment before any revenue materialises. The technical complexity of commercial aircraft requires multiple components to be validated and certified from objective sources to meet safety standards. Established firms now have decades of expertise built from years of production that new entrants cannot quickly replicate. The economies of scale for production and supply chains put Boeing and Airbus at great cost.

Distribution channels, or more specifically, their relationships with airlines who buy their aircraft, are well established and difficult for new entrants. Airlines, as conservative buyers in purchasing aircraft, prefer established manufacturers, and brand reputation and customer confidence are extremely important when products are loaded with hundreds of passengers. When considered together, these various barriers make it nearly impossible for new firms to enter the industry, which is why the industry has consolidated into just two dominant competitors, despite the large profits it can generate. For example, when China attempted to create a domestic competitor (COMAC), it required extensive and ongoing government funding along a decades-long development timeline, illustrating how high the barriers to entry are.

The bargaining power of suppliers analyzes the degree of leverage that suppliers have over firms in an industry. Powerful suppliers can coerce firms to pay higher input prices, take margins out of profitability, dictate terms, or provide lower-quality inputs, whereas weak suppliers have little or no influence. Several factors determine supplier

power: supplier concentration compared to the industry – a more concentrated group of suppliers than the industry they typically supply will have greater power; the availability of substitute products – the fewer substitutes available, the more power a supplier has; the costs of switching – when switching suppliers is expensive, time-consuming, or even impossible, the current suppliers usually have more power; the importance of that industry to the supplier – if a specific industry accounts for only a small percentage of suppliers' sales volume, they are less concerned with loyalty; the threat of forward integration – suppliers can gain power if they can threaten to become competitors by producing the same product; and product differentiation – if a supplier's goods are unique, they have more power.

The relationship between the pharmaceutical industry and its suppliers creates different supplier power levels. For standard basic chemical ingredients that depend on multiple suppliers, pharmaceutical companies have significant bargaining power; they can easily switch suppliers. Numerous suppliers and pharmaceutical companies are customers. However, when they purchase specialised compounds or equipment used for advanced technology, suppliers have more power. If only one or two suppliers offer a particular compound, if it is patented, critical to drug manufacturing, and the cost of changing suppliers requires additional regulatory revalidation, it gives suppliers a degree of leverage in obtaining more favourable terms.

The buyer's bargaining power examines how much power customers have over the companies in a particular industry. When buyers are powerful, they can pressure prices

down, demand higher quality or more services, leverage competitors, and reduce profitability for the industry in general. When buyers are weak, they accept the prices and conditions that sellers place on a table. Buyer power is based on several factors.

- Buyer concentration vis-à-vis seller concentration — when buyers are concentrated and sellers are fragmented, buyers have power.

Volume of purchases: Larger buyers buying in larger volumes create more buyer power.

- Product standardisation — when products are undifferentiated commodities, it is easy for buyers to switch; such switching increases buyer power.

- Switching costs — Buyer power increases when buyers can easily change suppliers with no cost to themselves.

- Buyer profitability — struggling buyers push especially hard to obtain favourable terms.

- Threat of backward integration — buyer power increases when significant threatened entry by buyers exists for a product type by buyers themselves.

Buyer information: More information that a buyer has enables better negotiation outcomes.

The grocery retail sector in the United Kingdom is an example of a sector characterised by compelling buyer power. This is a highly concentrated sector, with four main supermarkets — Tesco, Sainsbury's, Asda, and Morrisons — accounting for most grocery sales. These are powerful buyers negotiating with thousands of food sellers, many

of which are small companies highly reliant on sales to supermarkets and unable to sell to consumers through any other channel. Supermarkets rely on their power to negotiate low prices from suppliers and then expect suppliers to meet strict specifications, comply with delivery time requirements, contribute money for promotions, and offer favourable payment terms.

When a supermarket decides that it does not want to sell a supplier's product, the supplier has limited alternatives, as they find it difficult to reach consumers in an alternate channel because they lack a supermarket distribution scale in a highly concentrated grocery sector.

This power dynamic creates a positioning challenge from a strategy perspective that many smaller suppliers must overcome through lower quality, reduced service, or higher prices by accepting unfavourable terms to get shelf Smaller vendors are at greatest risk, as they sometimes operate on narrow margins under pressure from their customers. The say in supermarkets from their buyer power enables value extraction from the supply chain to support supermarket profitability, but at the same time squeezes suppliers' margins. Suppliers have looked to many avenues to mitigate supermarket power: building strong brands so that the consumer demands them to force the supermarket to stock them; establishing direct-to-consumer selling channels accessing their own website or running their own shop; supply discounters or independents to provide an alternative consumption option (aside from the major supermarkets), and/or consolidating and merging to gain their own size and bargaining power.

The threat of substitutes is whether a product or service

will meet customer needs with an alternative to buy the same thing but in a different manner. These substitutes limit the available profit in the industry as if prices go high, customers can move to complexity-relevant substitutes, and convergence will also limit price power. The threat of substitutes is informed by the availability of substitutes, the price/quality tradeoff of substitutes to/from other substitutes, customer factors of switching, and desire to substitute. The higher the price/quality of substitutes, the relative ease of switching, or substitution aligns with interests that are attractive to consumers, making the threat of substitutes more robust. In the railway context, there are substitute threats from various sectors. Distance travel, for instance, in air transportation (their can fly vs. train).

The competition depends on the various factors of relative journey time (although flying is quicker for long-distance travel, it depends on how long travelling to and waiting at the airport takes), relative prices (many airlines compete on price), comfort issues (a train provides more room to move around during the journey), and the environment (trains produce fewer emissions). When it comes to journeys of medium distance, the private car can substitute for the train; people can drive instead of taking the train.

Again, the competitive dynamics create trade-offs: when you drive, you have convenience at your destination at a time that is suited to you, but with the trade-off of no parking but with or having to take a personal laptop on the journey to work; otherwise, you spend your time doing nothing. An increasing substitution for business communication is through video conferencing—rather than travelling to meetings–where meeting participants connect

virtually. All of these substitution threats limit the potential profits that railways can earn and shape corporate strategies and practices. Railways cannot simply raise prices without pushing customers towards substitutes, and must provide differentiation in the areas that matter to customers, such as investing in high-speed rail for shorter journey times, investing in new rolling stock as a form of increased comfort, investing in connectivity (such as offering Wi-Fi and charging abilities), and investing in reducing emissions which matters to customers who are highly invested in sustainability. The COVID-19 pandemic has increased substitution threats from video conferencing as organisations have adapted to increasingly remote working, thereby reducing the demand to travel for business. Railways are forced to consider strategies to pursue leisure customers and rethink their value propositions.

Competitive rivalry among firms in an industry represents the level of competition and its impact on profitability. The more intense the rivalry, the more downward pressure on prices, upward pressure on costs (through marketing, innovation, and, therefore, service provision), and the more likely profitability in the industry will be reduced. By contrast, more moderate rivals allow firms to keep prices higher and thus have more profitable outcomes. Several industry factors lead to rivalry intensity, including a large number of competitors or a balance of competitors that leads to unstable competitive characteristics; an industry that is growing slowly, which leads firms to compete for market share rather than compound their growth alongside the industry; high fixed costs or high storage costs that lead

to pressure to maintain volume; lack of differentiation or low switching costs leading to price competition as the only means of competition; operating with capacity increases in larger increments leading to periods of overcapacity; competitors adopting different strategies leading to instability among competitors; the strategic stakes are high, leading to firms fighting for a position, and barriers to exit are high, fending off unprofitable firms from leaving the industry.

The airline industry exemplifies intense competitive rivalry. Airlines compete for business on popular routes, industry growth fluctuates with national and global economies, and airlines have enormous fixed costs (including aircraft, airport facilities, and employees) regardless of the number of passengers seated in seats. Air travel is largely undifferentiated for passengers in the short-haul sector, and their primary concerns are price and convenience from a set time schedule. The switching costs are low, and booking a flight with a new airline is relatively easy. The stakes of getting it right are high; if you have a large competitive stake to win on a flight route, you have the lowest price on that route and leverage that rigging to gain future sales. Barriers to exiting the industry are high—the cost of repurposing specialised assets (aircraft, airport slots) is high.

These factors (usually in combination) have created a highly brutal competitive rivalry with extreme price competition, fare wars, low/negative profit margins, and regular destruction of businesses through bankruptcy or administration. Airlines have tried to mitigate competitive rivalry or reduce threats by building loyalty with loyalty or frequent flyer schemes, using service quality as a means of differentia-

tion, creating alliances as a means of co-coordinating versus competing, focusing on specified air routes or customer segments, or simply merging for economies of scale. Despite these efforts, airline profitability is still lower than the barriers to entry, despite mitigating or reducing competitive rivalry in the airline industry.

Utilising Porter's Five Forces entails a process of systematically analysing each force's level of threat in the industry being analysed. This process consists of examining the characteristics of the industry, collecting data, examining trends related to the factors impacting each force, and determining whether each force is weak, moderate, or strong. The four forces combined give an indication of the attractiveness of the industry - industries in which most forces are weak have greater potential for profitability than those in which most forces are strong. However, the model does more than' assess the attractiveness of an industry'; it provides a framework for strategic consideration as to how to strategically position the business in the face of the forces present.

Organisations can use a five-force analysis to identify strategic options. If buyer power is strong, strategies might be to (a) differentiate their product so buyers cannot easily substitute for another, (b) increase buyer switching costs, (c) target buyers with less buyer power, or (d) expand to be less dependent on strong buyer power.

If supplier power is strong, strategies could involve developing alternative suppliers, backward integration to produce inputs on their own, purchasing with other buyers to form a coalition, or developing products that have alternative inputs. If substitute threats are strong, strategies

could include differentiating from substitutes, improving price performance over substitutes compared to substitutes, or creating switching costs to switch away from a substitute. If new entry threats are strong, strategies could include establishing entry barriers through scale, establishing strong (favourable) brands, controlling distribution, or aggressive retaliation to new entrants. If rivalry is a strong strategy, it could include differentiating sufficiently to avoid head-to-head competition, creating a focus on segments where rivalry is less intense, or creating switching costs to retain buyers.

Porter's Five Forces model should be revisited regularly as industry structures and forces change frequently. New technologies can lower entry barriers, create substitutes, or shift bargaining power. New regulations can change the competition framework. Consolidation can also change the concentration ratios, thereby affecting the balance of power in the industry. Broad economic conditions can increase or decrease rivalry. Because of the dynamic nature of the industry, there is a risk that a once favourable industry may become less attractive as forces increase. Conversely, favourable shifts may indicate strategic changes or opportunities to enter or expand an industry that was once unattractive.

Structure-Conduct-Performance Model

The structure-conduct-performance (SCP) model offers a conceptual scheme for identifying how industry structure shapes firm conduct, which ultimately determines performance outcomes. The model was introduced and

operationalised in industrial organisation economics. The key proposition of the original model is that the structure of industries will influence how firms conduct their business, which, in turn, determines performance outcomes such as profitability, efficiency, and innovation. There is a causal relationship within the model running from structure through conduct to performance, although more sophisticated forms of the SCP model recognise the possibility of feedback loops, where performance and conduct can shape and influence industry structure.

Industry structure can be considered as the largely stable characteristics of an industry that define its competitive environment. The main structural characteristics of an industry include the number and size distribution of firms (concentration), degree of product differentiation, barriers to entry and exit, fixed versus variable costs, level of vertical integration, and degrees of diversification. These structural characteristics typically define the competitive context in which firms compete. An industry that is highly concentrated, with relatively few large firms, will have quite different competitive dynamics from a fragmented industry composed of a large number of small firms.

An industry characterised by high levels of product differentiation permits entirely different forms of competition from a highly commoditised industry. It is also through the characteristics of the industry structure that barriers to entry are created, which, in turn, protects incumbent profits or facilitates firms to engage in a competitive manner, or vice versa.

Conduct is the strategic behaviour and decisions that firms make when operating within the industry structure.

Conduct refers to pricing strategy decisions, product development decisions, advertising and marketing strategy, research and development decisions, operational/ capacity decisions associated c with production, legal strategy, and the level of "colluding vs. competing." There is no doubt that industry structure shapes conduct, as conduct is constrained and enabled by structure. An industry that is concentrated is more likely to facilitate tacit or otherwise coordinated pricing decisions, whereas a fragmented industry will feature aggressive price competition, which might allow incumbent players to become more aggressive in setting prices with little fear of new entry. Differentiation within the product category enables firms to compete based on characteristics and brands rather than price. Performance captures the outputs arising from the conduct of firms in a structural context. Performance measures include levels of profitability, allocative efficiency (resources allocated optimally), productive efficiency (goods produced at least cost), levels of innovation, variety of products, and levels of quality. The S-C-P model suggests that industry structural characteristics influence conduct patterns that influence performance outcomes. In those industries where structures enable competitive behaviour, we are likely to see lower profitability, but greater levels of efficiency and consumer outcomes; conversely, in those industries where structures limit the capacity for competitive behaviour, we are likely to see higher levels of profitability, but potentially more inefficiencies and negative consumer outcomes.

As a case in point, consider a sector such as the UK supermarkets through the lens of the S-C-P framework. In terms of industry structure, the industry is characterised by

moderate levels of concentration, with four major chains as major players in the industry and a range of perhaps hundreds of small competitors (including discount chains, convenience stores, and specialists).

The barriers to entry are extremely high, although not insurmountable: the market may be in a position to enter at scale, but must make considerable capital investments to establish stores, logistics infrastructure, and relationships with suppliers; if entry is to be successful, the new entrant needs to establish a brand presence and customer base, even if nothing else; with a finite amount of prime property in which the new entrant can set up their presence, while formats such as discount stores or online only may have a much lower entry point. The industry does experience a degree of product differentiation through the establishment of store brands, private labels, and positioning on quality, although a considerable number of products may be characterised as commodities.

These structural characteristics will lead to particular conduct patterns.Moderate concentration allows for some oligopolistic interdependence—large chains observe competitors' moves and adapt to ensure a competitive equalizer, leading them to pursue similar promotional patterns, format innovations, or strategic initiatives. However, there was no stagnation in interdependent competition. Companies are actively engaged in competing on price through loyalty programs, promotional offers, or price-matching guarantees. They create a differential through their store brand or quality perceptions, shopping experience, convenience, or online capacity. Companies continually innovate in their formats (hypermarkets, convenience stores, and online

delivery), logistics systems, and supplier partnerships. They invest heavily in brand advertising to build and maintain their market positions.

This resulted in mixed performance outcomes. Profitability is moderate: profitability is better than in perfectly competitive markets but is limited by the intensity of rivalry. Their operating margins remain comparably thin, in single-digit percentages, demonstrating some market power derived from brand and scale, but significant competitive pressure. Efficiency is relatively high - competition sparks ongoing enhancements in logistics, inventory management, and operations. Innovation is considerable; this sector has led many retail innovations in the marketplace, such as loyalty programs, private labels, online shopping, and rapid delivery. Generally, consumer outcomes are also positive: prices are competitive by international standards, quality has improved, and variety has broadened. This performance can be explained by the industry's structure and features.

The pharmaceutical industry offers a contrasting example of a conventional structure-conduct-performance (SCP). The structure has a high concentration in niche therapeutic areas, along with elevated competition from generic competitors following patent expiry. Barriers to entry for competing with pharmaceutical firms are steep. The cost of drug development is a minimum of tens of millions to billions of dollars in cost and time (longer than a decade) to develop a new product or compound that can achieve regulatory approval.

Furthermore, regulatory processes are still consistent across jurisdictions for companies wishing to gain approval in competing markets, and can be uncertain, even for

globally established firms. The granting and protection offered by patents supports a short-term monopoly position for firms to successfully develop drugs under patents. The necessary expertise and relationship marks present a barrier to entry, and distribution channels require the development of preexisting relationships. Product differentiation is clear: patented drugs will have at least one unique product offering with no or limited substitutes, but may offer direct competition within therapeutic categories.

This structure has other significant impacts. Producing a patented drug will allow pharmaceutical companies to have a pricing strategy that is more aggressive, as outlined above, with elevated prices that maximise revenue before the market is entered by any generic, and margins will be reduced. Pharmaceutical companies spend significant amounts on research and development to find the industry's next blockbuster, which allows them to create revenue monopolies while their patents are active. In addition, pharmaceutical companies work hard to generate demand for newly developed drugs through marketing physicians, providing samples, and marketing directly to consumers. Furthermore, pharmaceutical companies employ strategies to manage their products during the lifecycle of the product, such as new formulations, combinations, and indications, to extend their use of patent pieces even a little longer. They focus on acquiring smaller biotech firms and some promising compounds rather than investing significant resources in development internally. When a patent expires, pharmaceutical companies try to transition patients to an alternative patented product before the full arrival of

generics.

The performance described showcases marked profitability during patent periods but underwhelming returns for drugs that fail through the development phase. On average, across outcomes and across the globe, the pharmaceutical industry ranks as one of the most profitable in world history. This profitability reflects the degree to which innovation earns monopoly rent on patented branded drugs. Innovation is significant; the industry allocates a large amount of resources to R&D which leads to genuinely novel therapeutics that improve health outcomes.

The notion of economic viability is raised with regard to efficiency in the use of resource allocation—critics suggest that marketing budget priorities are "excessive", that product development focuses more on profitable disease conditions and less on pressing medical needs, and that monopoly pricing incurs social costs.

Consumer health outcomes tend to be mixed—regardless, effective therapeutic medicines do tend to develop, at least, but with high pricing, sacrifice access to these therapeutic medicines, and add to healthcare costs to patients.

The SCP model is useful for illustrating how structural differences create different strategic environments and outcomes. The structure leads to different strategic outcomes for firms in the industry. Without the SCP and mental models of the structure generating the strategic outcome, the notion of evaluating strategy by structure leads to some possible strategic implications. First, firms should thoroughly analyse their industry structure to understand the potential competitive dynamics generated from it. Second,

firms should aim to construct their conduct to facilitate opportunities to the extent possible under structure and try to mitigate the challenge of structure to formulate conduct. Finally, firms should consider whether they have the ability to influence the structure itself, whether through lobbying, investment cyclic capital mergers, innovation, or another action that could possibly generate more favourable industry competition conditions.

A more sophisticated SCP perspective also recognises that causation is not merely a unidirectional model of the structures' actions and performance. A firm's behaviour can affect the industry structure—an incumbent's robust innovation approach or marketing spending can lead to higher barriers to entry and, hence, greater concentration. Strong performance can fund investments that change structure; highly profitable firms can acquire competitors, vertically integrate, or invest in R&D that changes product differentiation. Industry performance can draw regulatory focus; excessive rates of profitability may attract scrutiny or regulatory contemporaneously change the structure of the industry. Overall, these interrelated feedback loops suggest that structure, conduct, and performance produce a complex, dynamic system in which each influences the others over time.

Modern strategy scholars have noted that, under similar structural conditions pertaining to the overall industry, firm-level strategic choices and capabilities have significant effects on the performance of an individual firm. Not every firm in an industry earns the same performance benefit, even if they exist in the same structure. Some pharmaceutical firms have been able to consistently generated more

blockbuster drugs than others. Some retailers have higher margins than the industry average.

These differences in performance are due to differences in resources, capabilities, strategic choices made by the firm, and how well these choices are implemented. Although the SCP model describes industry-level averages, firm-specific variables are important to the performance benefits for each firm.

Several steps are required to effectively utilise the SCP model for strategy. First, we conduct a complete structural analysis of the industry. Specifically, we examine the concentration, barriers to entry, product differentiation, cost structure, and other structural features. Second, we examine the structure and determine how it impacts a typical firm in terms of conduct within the industry—the (or the types of) competitive conduct that the structure allows, propagates, or restricts. Third, examine the performance across the industry: do firms tend to be profitable, do they operate at peak efficiencies, and do they engage in any level of innovation? Fourth, consider how a firm's conduct corresponds with the behaviour of the rest of the industry, how its conduct differs from the rest of the industry, and whether the structure enhances or hinders the firm's strategic path. Fifth, consider how you may be able to change structure to your firms benefit from strategic actions such as mergers and acquisitions, innovations, regulatory efforts, or a combination of approaches or efforts to change a structure. Finally, while structure matters significantly, superior execution and/or distinctive capabilities can generate performance advantages, even in structurally daunting industries.

The SCP model can also be applied to policy analyses and regulatory scrutiny. If regulators are concerned about market outcomes, they might investigate whether an industry structure creates a performance outcome for society that is highly desirable or undesirable. For instance, excessive concentration, high barriers to entry, or low competition might provide poor consumer outcomes in a market, even when the furnish reports or firms engage with profit, which might be more justifying regulation to improve competition. Conversely, active competition that leads to low profitability may produce excellent consumer outcomes, suggesting an honest and fair market.

Thus, the SCP model helps regulators connect structural elements to eventual market outcomes, and can indicate whether regulatory steps make sense within the competition policy.

Integrating the Frameworks: A Comprehensive Approach

Although each of the analytical frameworks discussed in this chapter offers useful insights, a thorough environmental analysis from multiple perspectives is the most comprehensive. The PESTLE (political, economic, social, technological, legal, and environmental) analysis speaks to broader macro-environmental trends that affect all businesses. Porter's Five Forces framework emphasises the competitive forces present in specific industries.

The SCP model of industry analysis, which considers industry structure, informs us of how firm behaviour and consequences are reflected in firm behaviour. Finally,

stakeholder analysis maps the multifaceted interests that surround organisational decisions. When considered together, these frameworks offer complementary approaches to understanding the rich environment in which businesses reside.

A reverse methodological order of analysis begins with a PESTLE analysis of the broad context and captures the politics, economics, social, technological, and environmental trends that will shape the general business environment. The analysis locates the macro-environment in which a more specific analysis will take place. From the PESTLE analysis, an industry-specific analysis proceeds using Porter's five-forces model. The Five Forces analyse the competitive dynamics that are useful in determining the source of specific competitive advantage and profitability in the industry. The SCP model allows strategists to go beyond the conditions currently present in the industry and explain where the industry's structural characteristics drive the competitive behaviour and performance patterns seen in the market.

Stakeholder analysis complements the other frameworks by mapping strategic relationships that are either social or political for the most part, which are not fully captured in the other models. PESTLE analysis looks at the world in a more political or social way, but stakeholder analysis looks at specific individuals or groups who will support or oppose the outcome; in effect, it takes intention into account. Porter's Five Forces model looks at buyers and suppliers, which adds to the competitor force, but stakeholder analysis gets into the larger network of relationships that go beyond market transactions, which allows an analysis to better reflect both markets and non-market pressures that drive

strategy. Let us examine how the integration of these two frameworks may play a role at a renewable energy (RE) company. For instance, a PESTLE analysis would reveal important macro trends shaping the context: political pledges related to carbon targets, government financial incentives and policy support for renewables, the increasing economic competitiveness of wind and solar compared to fossil fuels, social pressures related to climate change, technological advances which have decreased the cost of renewable energy, regulatory structures requiring a percentage of energy to be renewable, and environmental pressures to further the energy transition. These external macro-factors would demonstrate that the overall context tends to support RE growth.

Now, if we turn the lens to Porter's Five Forces framework, we see how competitors act within the relentless boundaries of the business. The threat posed by new entrants fluctuates over time. The original high barriers to entry, based on both technology and capital costs, have lessened through the maturation of technology, but barriers still exist in terms of project development experience and access to the grid. The power of the supplier also varied by input; turbine and solar manufacturers had a great deal of power when the supply base was more limited, but more competition emerged, giving more power to buyers of those inputs. Additionally, the power of buyers varies significantly based on the market segment; large corporate buyers of RE through power purchase agreements have a fair amount of power, while residential customers in regulated markets have little to no effect. The threat of substitutes relates to alternate sources of energy, mainly natural gas, but also includes nuclear, as

well as other renewables competing for capital investment decisions. Finally, the intensity of rivalry also increases, with more developers competing for projects, sites, and offtake agreements.

The SCP model clarifies how the behaviour of firms is affected by the market structure of renewable energy. In markets with strong policy support and feed-in tariffs that guarantee above-market prices, firms invest heavily in expanding capacity while knowing that their returns are protected. In competitive auction markets, where projects bid against one another, firms focus heavily on finding ways to reduce costs and increase efficiency to provide winning bids. As the industry grows, increasing concentration through mergers and acquisitions reflects firms' desire to find the advantages of scale, financial strength, and diversification. Firm performance varies widely, with exemplary returns from early entrants in well-designed policy regimes and competitive pressure in maturing markets increasingly tapering returns to utility-like margins.

Stakeholder analysis maps the complex relationships of interest in renewable energy projects. Key stakeholders include government agencies providing permits and subsidies that are in the high-power, high-interest quadrant that requires the most attention. Local communities near project sites can be supportive (in terms of seeing the project as an economic benefit) or opposed (in terms of not wanting the visual impacts of the projects and/or impacts on their property values), necessitating attention to consultation and benefit sharing. Although environmental groups are likely to support renewable energy projects in general, they may

oppose specific projects that have the potential to affect sensitive habitats or bird migration routes that require impact mitigation.

Traditional energy companies have gone from being in opposition to investing significantly, as they have recognised the itability of energy transition. Financial institutions are also among a key group of stakeholders, and beyond simply permitting projects, they are necessary stakeholders as they provide project finance. Grid operators are also key stakeholders, as variable renewable generation must be effectively integrated into the grid.

This analysis can accommodate the understanding that, while macro forces favour the growth of renewable energy, competitive dynamics are increasing, and the industry's structure is transforming toward concentration and increasingly slim margins. Successful development requires sophisticated stakeholder management capable of negotiating opposition to development activities at a local level, while managing ongoing commitment to improving policy support. This synthesis provides some strategic implications: companies can benefit from favourable macro developments, but while first-mover advantages are declining, cost competitiveness will increasingly be important as subsidies come offline; competitive auctions pressure returns, scalability, and diversification in geography and technology reduces risk; and proactive stakeholder engagement will create a gap between successful developers and companies that experience project delays and cancellation.

Conclusion

The macro-environment affects organisational strategy

and performance through many inter-related forces. Political development influences regulatory regimes and market access, while economic conditions measure demand levels and cost structures. Social trends shape consumer and workforce preferences, and technological developments offer opportunities and threats. Legal arrangements limit behaviour and impose obligations. Environmental pressure creates a demand for sustainability. Competitive activities in industries shape the profit potential. Industry configurations shape firm behaviour. The interests and power of stakeholder participants shape the legitimacy of strategies as well as their ability to implement them. No firm exists in isolation from these environmental forces; for strategy to be successful, it must understand environmental forces, be aware of them, and respond accordingly.

The analytical frameworks considered in this chapter provide structured ways to make sense of environmental complexity. PESTLE analysis ensures that scanning is comprehensive and captures developments across multiple dimensions of the macro environment, which prevents organisations from failing to come to grips with key trends. Porter's Five Forces highlight the competitive forces that shape the attractiveness of an industry and the choice of strategic positioning. The structure-conduct-performance framework shows the mechanisms linking industry structure to firm behaviour and associated outcomes. Stakeholder analysis identifies the social and political landscape of strategic choices, defined as those who do the firm need support from, and who could be obstacles to, any changes.

These frameworks have common themes and provide complementary viewpoints. They all emphasise that the

environment is influential in determining strategic options and outcomes - strategy cannot be simply derived by assessing the organisation's internal strengths and weaknesses. They all argue that the environment should be assessed in a systematic fashion as opposed to ad hoc, based on the understanding of trends in instinct or incomplete information, which renders strategic blindness. They all observe that the environment is dynamic rather than static - the environment should be serviced in a continuous way with near-term updates following a periodic assessment as time goes on; everyone agrees that understanding the environment must inform behaviour – analysis is only valuable if it leads to an understanding of the strategy or strategies that inform behaviour. However, analysing the environment requires more than a mechanical approach to a prescribed framework. It requires judgement about the environmental factors that are most significant to specific organisations in their specific contexts. This means learning to separate signals from noise, which trends are actually significant in real time when the environmental conditions are constantly changing? This means anticipating what the current trends might mean for the future as well as speculating on how different environmental factors may interact and combine. It requires combining environmental analysis with its implications for strategy – being clear about not only what is going on in the environment, but also what it means for the organisation, and what sort of response is required.

The current business environment presents new analytical challenges for organisations, even a few years ago. Globalisation means that organisations are increasingly

facing environmental forces across different geographical contexts, each of which has varied political systems, economic conditions, social norms, and regulatory environments. Digital technologies are accelerating change and generating frequent disruptions across industries. We are confronting grand challenges, including climate change, changing demographics, and increased inequality, which create macro-environmental forces of historical significance. Stakeholder expectations are also increasing as social media promotes voices throughout society, which demands increased responsiveness and accountability from organisations. This renders careful, systematic environmental analysis potentially more important than it has ever been for organisations – organisations can no longer rely on their intuition or experience when they find themselves in environments characterised by turbulence, uncertainty, and rapid change.

However, an environmental analysis is likely to also present opportunities for organisations that are good at it, as businesses that see environmental changes before their competitors can achieve a better position by investing in capabilities that will have value in the changing environment. In addition, organisations that understand their stakeholder mapping can create coalitions to enhance the likelihood of success with their strategic intents and even neutralise an oppositional response to their strategic intents. Further, businesses that understand how the structure of an industry is changing can act in ways that shift their competitive behaviour to their benefit and advantage. Organisations that synthesise knowledge across different environmental

perspectives and readings (analytical frameworks) will have a more environmental perspective than organisations that only apply one perspective or analysis (approach). This is a stronger capacity for environmental intelligence, which can afford a competitive advantage.

As you continue to develop your capabilities in the assessment and analysis of the environment, keep in mind that these frameworks are tools to aid in the development and examination of readings from an environmental perspective, not guaranteeing equations for correct answers.

They help structure the thought or analysis, provide checks and balances for comprehensive environmental analysis, and generate some insights; however, these frameworks still provide judgement, creativity, and interpretation. For example, when using the frameworks, different observers will arrive at differing conclusions regardless of applying the same analytical framework based on how the observer applies the data to a situation in terms of what the observer assumes, interprets, or emphasises. This is not seen as a flaw or weakness, but it demonstrates the complexity of analysis in the context of the strategic environment. Your aim should be to use these frameworks to arrive at reasonable interpretations of the environment which account for uncertainty, concepts of multiple perspectives, and provide usable strategic insights.

The macro environment will continue to change in many ways, both predictable and surprising: political changes will endure as governments change and geopolitical tensions are up and down; economic cycles will bring booms and bust; social norms and demographics will change, developing new market segments and workforce issues; new technologies

will emerge that will change dramatically how and what businesses do and will create competition; legal frameworks will tighten and loosen as political priorities and pressures from the community are placed on the organisations; environmental challenges will increase and require companies to change business models; industry structures will continue to consolidate or fragment; and the power of stakeholders will shift as the relationships of organisations and societal expectations change. Through this change, the analytical frameworks in this chapter provide a stable and enduring framework to understand both the environmental forces and environmental implications of strategy.

By using, internalising, and integrating these frameworks in a meaningful way, you allow yourself to successfully understand the changing environment, identify strategic opportunities or threats, develop accurate strategic analysis of the environmental conditions, and help translate the developmental understanding of environments into implications for strategies that align organizational capabilities with the reality of the environment. It is this capability, the ability to comprehend complex dynamic environments, and then be able to transfer understanding about the environment into strategically usable and actionable strategic insight, which is considered one of the most shared recognised and sought after competencies of a business leader or strategic thinker.

As your studies or professional career expand or develop further, keep refining your environmental analysis abilities, your ability to develop analytics of the environment, as this multi-perspective analytical development is a journey rather than a destination. The environments in which organisations operate will continuously change, and it will

require learning, adapting, and reassessing the analytical method that assists in exploring and building an analysis in the environment. The frameworks will build the complexity of environmental readings and understanding in the environment with experience and context in professional careers either created or encountered.

Learning activities :

Activity 1: Critical Evaluation Task

Environmental analysis frameworks have become the foundation of strategic management education and practice; however, they warrant questioning their continuing relevance and applicability to the context of business continuing to evolve. For this task, you will write a critical essay (approximately 800 words) in response to the following question: 'Porter's Five Forces Framework was developed in 1979 to analyse traditional manufacturing and service industries. How effective is this framework now for analysing business in the context of digital platforms such as Uber, Airbnb, and TikTok in 2025?

In your essay, first, I explain, even briefly, the logic of Porter's Five Forces Framework and what is assumed to be taking place in the way industries operate and compete. Next, we reflect on what it is that is fundamentally different about digital platform businesses when considering the traditional industries that Porter analysed. For example, platform-based businesses may demonstrate network effects, whereby more people result in more value, operate multi-sided

'markets' by bringing consumers and suppliers (of services) together, pursue growth instead of profit in the early phase of the services offered, demonstrate near 0 marginal costs of serving additional consumers, and engage in types of competition through rivalry that is a 'winner takes all' that is not likely to exist in any long-term sustainable way in stable traditional industry structures of multiple firms able to profitably coexist. Consider each of the Five Forces in turn, and address the extent to which they apply to platform businesses and how they apply. For example, does the threat of new entrants apply in the same way when the initial platform can benefit from network effects creating natural barriers? Does supplier power work in the same way, considering that thousands of independent service or product providers are coordinated through the platform rather than the platform purchasing from suppliers? What does buyer power mean when the platform has millions of individual users rather than concentrated corporate buyers? How do substitutes pose a threat to platforms when they can create new needs or categories? Finally, what does competitive rivalry look like when competing for attention/engagement rather than traditional market share, or in a stable and predictable manner?

In your analysis, while making references to aspects of Porter's model that may still be illuminating in analysing platforms, consider ways in which limitations or blind spots may inhibit analysis of the platform in focus or the concept as a whole. Might the five-force framework require adjustment or extension for platform business modelling? Are other modelling frameworks best placed for the analysis

of platforms? Support your arguments with examples of real platform businesses, demonstrating aspects of their competitive dynamics that either confirm or diverge from Porter's analysis. End by providing an overall judgement: should strategists continue to use Five Forces in analysing platforms, use it with significant modifications, or stop using it completely in favour of alternative approaches? Throughout your essay, demonstrate an analytical position: provide balanced arguments of position together with counterarguments and avoid blanket assertions about differences in outcomes for schools of strategic thought presented by platform businesses and contexts. When undertaking what might seem like a simplistic exercise in application, your essay should demonstrate and articulate the knowledge that analysis using established frameworks may be both powerful and limiting when the novel business reality they are confronted with is not a direct replacement of the previous model.

The strongest essays are linked to other concepts from this chapter. For example, how PESTLE factors such as technology or regulation shape competition in platform contexts, as well as consideration of different stakes in a platform context.

You will be assessed for the sophistication of your critical analysis of the task at hand, the quality of the examples you present, and the depth of your argument to support your conclusions.

Your writing was also assessed for clarity.

Provides well-reasoned conclusions while not unreasonably oversimplifying.

3

Chapter 3

Analysing the Macro Environment and Business Strategy

Introduction

All businesses, regardless of whether they are small and local or large and multinational corporations, operate in a complex external environment that constantly influences (shapes) their opportunities and limitations. The macro environment refers to external factors (forces) which exist outside the direct control of an organisation, such as changes in the economy, new technologies, political changes, social trends, and environmental issues, which collectively shape and affect strategic decision-making. Understanding how to analyse and respond to these forces is a key first step in developing effective business strategies that generate long-term survival and performance.

This chapter examines the important connection between the macro environment and organisational strategy, while introducing some of the important tools and frameworks that business leaders use to navigate uncertainty and make strategic decisions. This chapter also explores how organisations tend to assess their external environment, assess their capabilities internally, and assess their position in their competitive market. You will develop the capacity to think analytically about why organisations may decide to engage in a particular strategy and how organisations manage to adapt to their environment (changing conditions).

Understanding how to analyse the external context is not simply an academic exercise but rather an imperative requirement for any business professional. You will be encouraged to use some tools in the chapter, such as strategic positioning matrices, SWOT analysis, and benchmarking indicators, which will serve as a learning appliance in providing you with the tools that can generate the analytical capability of strategic capabilities required in contemporary business environments.

Understanding the Macro Environment

The macro environment consists of the large external context in which companies or organisations operate. It is a combination of forces and factors that influence entire industries rather than individual companies. The macro environment is clearly distinguishable from the competitive environment, which includes direct competitors, suppliers,

and customers, where competitive aspects are at play. The macro environment is much broader, and along with other layers of context, includes societal, economic, and political factors that shape the business environment. Factors that emerge in the macro environment, while often occurring outside the reach of discernible influence by an organisation, often have a significant influence on the potential and limits of organizational strategies.

Consider how the COVID-19 pandemic shifted the macro environment of nearly every organisation across the globe. Retail organisations that had previously depended on the in-store experience as their primary approach for selling products received immediate orders to close their stores and quickly adjusted and developed their online selling products. Restaurants shifted to direct delivery and take-aways. Technology organisations experienced sharp increases in interest and orders for remote technology and videoconferencing. These shifts were not due to the competitive dynamics of individual industries changing but rather a shift in the macroenvironment that affected all organisations simultaneously. This example demonstrates the importance of understanding and analysing rational and irrational environmental contexts. Organisations that either forecasted or quickly adapted to the changing environment met with success, while organisations that remained static or continued to follow old practices faced severe challenges.

The macro environment generally includes several contextual factors. The economic environment includes factors such as interest rates, inflation, exchange rates, and rates of

economic growth, which all impact a consumer's power to spend and an organisation's operating costs. The political and legal environment includes items such as governmental policy and regulation, taxation, and political stability, which establishes guiding rules and sets the tone for organizational behaviour by defining the surroundings in which it must operate. The social and cultural environment relates to demographic shifts, changing lifestyle or social norms, individual and collective education levels, and evolving cultural values, which influence consumer and workforce preferences. The technological environment can include rates of innovation, automation, and digitalisation, and emerging technologies, which can create new possibilities while making existing possibilities obsolete. The environmental dimension relates to sustainability concerns, climate change, resource scarcity, and ecological impacts, which organisations must increasingly consider, as they impact both organizational business and consumer decision-making.

All of these dimensions create their own problems, and in most cases, they build interdependence with each other, with some more weight on one, more or less, from another. Both an economic downturn (economic environment) and loss of buying power (social environment) may limit things like production and the availability of goods and services provided by businesses to consumers.

When Netflix identified and understood the interdependence of increasing Internet speed (technological environment), shifting consumer preferences to on-demand content (social environment), and fiscal viability of streaming delivery (economic environment), it strategically positioned itself

to transform the entertainment industry. Understanding the environment in which a business operates, in many cases, requires not only an understanding and analysis of one individual factor but, more importantly, understanding the interconnections and implications of one factor on others and the factors' possibilities.

Strategic Positioning and Ansoff's Growth Vector Matrix

Strategic positioning refers to the intentional decisions organisations make to compete in and differentiate themselves from their competitors. This entails making decisions about the markets in which to operate, the products or services to offer, and the value to provide to customers.It is important to analyse both the external environment and internal capacities to achieve effective strategic positioning. The end goal of strategic positioning is to identify opportunities for an organisation to develop and sustain a competitive advantage. Ansoff's Growth Vector Matrix, proposed by Igor Ansoff in 1957, is a useful framework for analysing strategic positioning options. Ansoff's Growth Vector Matrix provides meaning and structure to the identification of growth strategies by cross-classifying them along two axes or dimensions: products available (existing to new) and market supply (existing to new).

This results in four (x4) distinct strategic options with various levels of risk and resource availability. Market penetration is the least risky growth strategy which seeks growth through sales growth of existing products within existing markets using the capabilities and knowledge that

the firm has to grow sales within the existing market share of the current territory.

To deliver growth through market penetration, the firm employs a variety of tactics, including competitive pricing, additional promotional tactics, enhanced distribution, or customer service, to attract customers from competitors or get current customers to buy more often. For example, Tesco operates a market penetration strategy through its Clubcard loyalty scheme, which seeks to build loyalty by offering discounts or added rewards for customers to buy more from existing customers. The supermarket also uses competitive pricing strategies, such as "Aldi Price Match", to ensure that they repeat customers who may otherwise shop in discount supermarkets. This strategy is reasonably low risk because the company is working within an existing, familiar product and market supply; however, it would be competing against other supermarkets that would be using similar strategies.

Market development involves taking existing products to new markets, which might be new geographical or customer segments or new applications of existing products. This is moderately risky, as the organisation has established products, so it understands the products but must learn about the new market which has customers with different preferences, competitive contexts, and distribution requirements. Innocent Drinks, a British smoothie company, is an example of market development when it expanded beyond the UK into new European markets such as France, Germany, and the Netherlands. The company used product formulations and brand values of using natural ingredients, sourced ethically, and utilised fun communication, but

had to adjust based on local taste profiles and distribution approaches.

Innocent Drinks learned about the significant differences in consumer attitudes toward healthy drinks in these new markets, which was important to ensure that market research could be applied to those markets and required adjusted, localised marketing. The fact that Innocent Drinks experienced success in some countries and progressed slower in others presents both business opportunities and challenges in market development strategy.

Product development focuses on new products for existing markets, capitalising on customer relationships and market knowledge, and innovating in product development; this strategy typically involves moderate to high-risk decision-making because product innovations are subject to much uncertainty–new products may not appeal, produce operational or technical challenges, or experience competition. A good example of a product development strategy in practice is when Apple innovates with existing technologies and markets. For example, the company created an entirely new product category when it launched the Apple Watch. Apple targeted an existing customer base of tech enthusiasts and consumers who were part of the Apple ecosystem. Apple leveraged what it knew about its customers in the areas of design, integration, and user experience while also taking a risk in an unknown category of product: wearable technology. The Apple Watch was initially met with scepticism, with people questioning why they would need a device to replace their watch; however, Apple's customer insight and brand equity helped establish the

Watch product in the marketplace. Overall, the Apple Watch case shows that product development strategies can be successful when companies combine consumer innovation in the market with the existing consumer market they are targeting.

Diversification is the riskiest growth strategy, as it involves developing new products for new markets simultaneously. Diversification takes companies into new territories on both axes of the Ansoff matrix, meaning that the company usually must learn new capabilities as well as penetrate a market that it is not fully informed about. However, diversification can lead to large rewards for organisations in defraying risks across large markets and products or new platforms for growth. Virgin Group, developed by Richard Branson, is one of the best examples of diversification, moving from music retail to the airline industry (Virgin Atlantic), to mobile telecommunications (Virgin Mobile), to banking (Virgin Money), to outer space tourism (Virgin Galactic).

At each of these points, Virgin Group entered an industry with a product line and service offerings of which it had no prior experience or understanding. Most of these ventures lost money, which emphasises the risk of potential diversification, but the few that have made money created a substantial amount of wealth and reduced Virgin's reliance on a given industry.

Virgin's strategy was built on its brand values which prompted a consistent level of service, innovation, and responsibility toward providers to emerge in each of its several markets, including new ones. In this instance, Virgin was able to reduce the diversification risk in its strategy by establishing and leveraging capabilities across

varying industries. The Ansoff matrix enables companies to maintain a critical gap in their strategic choice between risk and growth possibilities when making decisions. Market penetration will likely exhibit the least amount of risk, which equates to less growth potential in mature markets. Diversification will likely demonstrate the highest potential for transformation but also the highest risk of failure. Market and product development illustrate a mid-level risk for growth potential. In essence, decision-makers will employ the Ansoff Matrix to establish which growth strategy is appropriate for their firm, given its capabilities, resources, risk tolerance, and competitive position.

Organizational Audit and SWOT Analysis

When organisations engage in strategic options via frameworks such as Ansoff's Matrix, it is also necessary that they draw a systematic internal assessment of their capacity to execute the options they select. An organizational audit is a broader assessment of a firm's internal resources, capabilities, processes, and overall performance. A systematic process will enable auditing capacity to determine what the organisation does well, what it can do poorly, and how much it can use resources in the public domain. The audit represents tangible resources such as financial resources, facilities, infrastructure, and technological infrastructure, and those that take place without physical presence, which could be knowledge building, researcher capabilities, organizational capabilities, culture, and the construction of new modes or forms of value creation.

The value of an organisational audit becomes greater than

that of a resource list. It encompasses identifying those capabilities or activities that are distinctive and superior to the organisation to create a competitive advantage. A good example is a variation of the organizational audit for Toyota, which supports the Toyota Production System (TPS) as its distinctive capability. Therefore, the organizational audit point serves to consider those resources and capabilities that indicate superior quality and efficiency compared to rival firms. An example is Amazon, which the audit indicated three essential capabilities in creating strategic advantage that were not alone are part of its organizational culture: logistics infrastructure, its technology platform, and their ability to collect and analyse customer data. Awareness of distinctive capabilities aids the organisation in determining which option they would have an opportunity to pursue as a strategic option. SWOT analysis has become a commonly known approach to provide a synthesis between an external macro-environmental analysis and an internal organizational audit. SWOT represents Strengths, Weaknesses, Opportunities, and Threats; consequently, an organizational SWOT generally represents a valuable aggregated approach to catalogue strategic analysis in four areas of enquiry, relatively simply summarising the overall strategic condition of any firm.

Strengths represent positive internal attributes and resources that lead to competitive advantages, including robust brand equity, unique or proprietary technology, an adept and capable workforce, efficient operations, accessible capital and financial resources, and established and efficient distribution systems. Recognising strengths is beneficial

when organisations assess what internal factors can be leveraged to capitalise on opportunities or what strengths can be used to partially neutralise threats. Weaknesses are perceived characteristics, limitations, or internal performance factors where organisations exhibit inefficiencies or perform poorly compared to competing organisations.

Weaknesses may include antiquated or outdated technology, a weak or outdated brand presence, a lack of cash or financial resources, skill gaps, performance gaps and inefficient processes. Awareness of weaknesses is helpful in understanding what strategic options may be infeasible or unrealistic and assessment areas to put plans in place for the organisation where there is a need for improvement.

Opportunities constitute a favourable external condition or trend in the macro environment surrounding the organisation that the organisation may potentially exploit, sometimes providing the organisation with the opportunity to "win" and boost economic returns. Opportunities might include and be characterised as emerging markets, shifting customer preferences, emerging/new technology, regulatory updates or changes, or competitor weaknesses or flaws. Identifying opportunities is helpful in revealing potential growth areas or competitive advantages. Threats constitute an externalunfavourable condition or trend for the macro environment surrounding the organisation surrounding the organisation that could negatively affect its performance. Threats may include new competitors, changes or updates in regulatory affairs, economic downturns, technological disruptions, or shifts in customer preferences. Implementing threat assessments should ultimately inform and allow

for contingencies or mitigation and foresight regarding potential impacts on the organisation. Understanding the impact of threats and informing strategic responses.

The true value of SWOT analysis is realised not simply by listing factors in each corner or category of the framework but by analysing the relationships between various factors to arrive at strategic insights. A useful SWOT analysis considers how to use strengths to take advantage of opportunities, how weaknesses might block the organisation from taking advantage of opportunities, how to use strengths to mitigate threats, and which combinations of weaknesses and threats create the most significant strategic risks.

For example, Marks & Spencer (M&S), a British retailer, faced the problem of a declining market share in the early 2010s. A useful SWOT analysis could identify the following significant factors. Strengths include a strong brand heritage and reputation for quality food products, a substantial store network in top locations, and a loyal older customer base.

Weaknesses included an outdated store format, inconsistent quality of clothing ranges, a perception that it was unfashionable among younger consumers, and a limited online presence compared to its competitors. Opportunities included growth in demand for convenient food options, an increase in the number of people shopping online, consumer concerns about sustainability, which means that ethical consumerism may become more popular, and an opportunity to attract younger customers by offering food ranges for different dietary needs and packaging that was more

appealing. Threats included significant competition from supermarkets in relation to food (Tesco, Sainsbury's) and fast fashion competitors in clothing (Zara, H&M), changing consumer habits with people shifting to shops that are only online, rising costs of maintaining physical stores, and reputational damage from potential issues with their supply chains.

This type of SWOT analysis suggests several possible strategic implications. M&S should look to use its strengths associated with food quality (S) to service the opportunity around convenient food (O), and so pursued a strategy of increasing the number of 'Simply Food' convenience stores. The analysis suggests that M&S's weakness in online presence (W) limits its ability to capitalise on the online shopping opportunity (O), and so M&S responded with significant investment in digital capability and partnerships with digital platforms. The combination of weak fashion appeal (W) and threats from fast fashion competitors (T) means that M&S would likely need to make substantial changes to their product offering and marketing strategy in relation to their clothing business, which they attempted to achieve through a variety of rebranding efforts in subsequent years. The combination of sustainability as a strength (which M&S would call their Plan A sustainability programme) and as an opportunity suggests that they may be able to focus on it as a strategic differentiator.

The utility of SWOT analysis depends on the quality of the underlying organisational audit and environmental scanning. Any superficial SWOT analysis that simply lists

the obvious individual factors will provide limited, if any, strategic takeaways. A useful SWOT analysis requires an honest appraisal of the organisation's true competencies in comparison to competitors, a careful audit of which individual factors matter most for success in delivering a strong strategic outcome, and a creative ability to think about how factors interact to create strategic options or strategic necessity.

Indicators for Benchmarking

Structured benchmarking refers to an organisation examining its performance, processes, or practices against those of leading or best-practice organisations or industries to reveal performance gaps and improvement opportunities. This view emphasises the importance of being able to understanding that an organisation can -and should–learn from other organisations performing well in specific areas. The person or organisation that is doing well could be a competitor in your field, a leader in a specific area or industry, or even a completely different sector that has achieved excellence in a specific process.

The notion of benchmarking was popularised based on lessons learned from the Xerox Corporation in the 1970s and 80s. After experiencing significant competition from Japanese copier manufacturers that had better quality and lower prices, Xerox started deeply examining the products, manufacturing processes, and business methods of its competitors.

In doing so, Xerox learned that its competitors had significantly lower manufacturing costs, a much quicker product cycle, and a disproportionately better rate of quality defects. This benchmarking study showed Xerox that there was not, as they had believed, an unfair competitive advantage or other temporary conditions that created problems with the product performance. Instead, Xerox had systemic and substantive gaps in terms of efficiency and quality. Using this learning, Xerox was able to take action to improve efficiency and quality, understanding that they would put in place systemic improvement processes based on benchmarking that allowed them to regain product performance and market position.

Benchmarking indicators can be described as specific benchmarks of an organisation's ability to compare performance over organisations or measure performance over time. Benchmarking indicators are critically important to be developed and chosen to best represent the organisation's strategically important and relevant performance dimensions and not simply what might be easier to measure. Great benchmarking indicators account for strategic initiatives, best represent significant and relevant issues in a benchmarking comparison, and drive improvement action.

Additionally, an organisation should consider the types of benchmarking it engages in, as there are varied types benchmarking that have different strategic intent.Internal benchmarking is the process of comparing performance from one internal unit, department, or location against another unit, department, or location to assess service performance. Internal benchmarking is useful for large organisations that operate multiple units that conduct sim-

ilar functions. For example, a retail chain will conduct internal benchmarking using metrics such as sales per square foot, customer satisfaction scores, and inventory turnover across stores to determine the best-performing stores and identify potential stores that are lagging. Internal benchmarking can provide valuable performance insights for an organisation while potentially avoiding data access and comparability issues of external benchmarking. The limitation of internal benchmarking is its ability to fail in keeping the entire organisation from inefficiency based on even the entire internal organisation's poor relative external worth. Competitive benchmarking is a direct comparison of an organisation's performance to that of key competitors on strategically relevant metrics. Competitive benchmarking sheds light on the quality of an organisation's products and services in direct relation to its competitors. Airlines use competitive benchmarking to develop metrics such as on-time performance, baggage handling accuracy, customer satisfaction scores, and revenue per passenger.

Airlines use competitive benchmarking to inform decisions regarding service enhancements, new investments in operational efficiency, and relative competitive standing. The main disadvantage of competitive benchmarking is the lack of access to credible competitor information, as significant operational measures are proprietary. Functional benchmarking analyses one or a few specific business functions or processes against an organisation that is recognised to perform well in those areas, regardless of the industry. The functional benchmarking context allows organisations to understand that many innovative efforts and performances come from outside one's own industry,

which can be replicated across functional areas in any organisation. When the National Health Service (NHS) wanted to enhance patient flow and minimise waiting lists in hospitals, certain trusts used Formula 1 pit crews as a benchmark to imagine the continued process of a pit crew's procedure because they both involve coordinated teams that achieve patient flow within a time-critical procedure, and both activities are executed in high-pressure situations. The NHS adopted and adapted practices such as the ordered positioning of equipment, promptness of choreographed team movements, and use of a structured debriefing procedure after the completion of the procedure. The different industry benchmarking ultimately led to new insights that would have never occurred if benchmarking had only been related to other hospitals.

Generic or best-in-class benchmarking seeks organisations that show the highest levels of performance in specific areas and learn from the best, regardless of the sector or jurisdiction. This benchmarking seeks the highest standards but may be constrained by context. When Disney theme parks benchmark in customer service, they look to not only other entertainment venues such as sporting events, but also luxury hotels, exclusive retailers, and high-end dining establishments–any organisation renowned for an excellent customer experience.

Effective benchmarking should begin with selecting indicators that represent strategic priorities. Financial indicators, such as revenue growth, profit, return on investment, and cost rationales, are important indicators of economic performance but do not adequately reflect the operational or qualitative factors driving financial performance. Op-

erational indicators, such as production efficiency, defect rate, lead time, and capacity utilisation, illustrate how well an organisation's core processes are executed. Customer indicators, such as customer satisfaction scores, net promoter scores (NPS), retention rates, and customer lifetime value, assess the degree to which an organisation satisfies its customers' known needs.

Likewise, innovation indicators, such as new product introduction rates, research and development investment levels, and time to market, assess an organisation's capacity to change and innovate.

Now, consider how easyJet, a budget airline, uses these benchmarking indicators. The airline keeps a close eye on how many hours a plane is in use (the percentage of time the aircraft spends flying revenue-generating flights while it is not on the ground). This indicator is benchmarked against competitors such as Ryanair and traditional, full-service carriers. The higher the utilisation, the more effectively the airline uses an expensive capital asset, and therefore, its contribution to easyJet's low-cost strategy. easyJet also benchmarks its on-time performance not only against competitors but also against the industry's on-time rate because reliability matters for customer satisfaction and costs. Another benchmark indicator is the load factor, which is the number of seats in the aircraft filled with paying passengers compared to the total capacity of the cabin.

The load factor quantifies both pricing and demand. Finally, CASK—cost per available seat kilometre —directly measures easyJet's operational efficiency against its competitors. CASK helps easyJet determine whether it continues to have a competitive cost structure by benchmarking

its operational performance against its competitors. By tracking these indicators against competitors and industry averages, easyJet identifies performance gaps, confirms the strategic choices it has made, and identifies targeted growth opportunities across the business in the areas that matter most to its competitive strategy.

The strategic value in benchmarking is not limited to identifying performance gaps; it also tests assumptions regarding how high or low performance should be. Organisations may learn that what they consider reasonable performance is simply a long way from best practice. In addition to assessing performance gaps, benchmarking helps organisations prioritise where to focus improvement efforts by strategically quantifying gaps and their significance. In summary, benchmark data provide CONSTRUCTIVE evidence to help make strategic decisions or secure resources for initiatives to improve.

However, there are risks associated with benchmarking. There is a risk of an organisation focusing on an indicator because it is easy to measure, while complications associated with gauging the development of something strategically important render the performance number defective.

Sometimes, benchmarking causes organisations to blindly copy competitors, assuming that the competitor is executing a competitive strategy, instead of establishing differentiated strategies that add value. Most seriously, issues of data quality and comparability can mar the validity of the benchmark, particularly when the organisation being benchmarked has a different business model, geographic market, or accounting method. In benchmarking, you learn what is not what should be—it identifies the current best practice without

any anticipation of an innovation that possibly redefines the standard.

Integrating Analytical Frameworks for Strategic Decision-Making

The frameworks discussed in this chapter–macroenviro nmental analysis, Ansoff's Matrix, SWOT analysis, and benchmarking-are put to life because they are not separate frameworks but forms of an integrated analytical framework for strategic decision-making.Thus, strategy development is contingent upon progressing knowledge and insight from various analytical angles to develop a view that wholes on the state of affairs under study, as well as on other options available. The process generally begins with scanning the environment to identify the most significant trends, opportunities, and threats for the industry. The macroenvironmental analysis will feed into the SWOT analysis because it helps to identify opportunities and threats that are particular to an organisation.

In parallel, outlet/organizational audits and benchmarking develop internal insights regarding strengths and weaknesses of the organisation. The SWOT framework provides internal and external considerations to develop a holistic view of the strategic situation. Strategic positioning frameworks (e.g. Ansoff's Matrix) can assess certain strategic options by examining how growth strategies align with identified opportunities and available organizational capabilities. The metrics provided by the benchmarking indicators could thereafter be utilised to assess the performance metrics

established in monitoring the performance of the adopted strategy and the extent to which it stimulated performance.

Consider how this integration might work for the John Lewis Partnership (an employee-owned British retailer) navigating retail environment changes in the 2020s. Environmental scanning identifies multiple macro-environmental trends: the accelerated transition to online commerce (technological and social environment), economic instability impacting consumer spending (economic environment), the increasing focus of consumers on sustainability and ethical commerce (social environment), and evolving regulations around data privacy and employment practices (political/legal environment). Environmental exposures that create opportunities for John Lewis (an expanding online market) and differentiate them (an ethical business model) also expose them to threats (declining physical retail and cost increases from economic uncertainty).

An organizational audit of John Lewis identifies key organizational strengths, including a well-respected local and national brand for quality and service, relatively substantial property holdings in prime retail areas, significant cash reserves from years of profitable trading in the institution, and an authentic employee ownership model that creates alignment with social trends–an ethical purpose for business. Weaknesses include a higher cost base compared with competitors due to the employee partnership model (creating costs and less flexibility), limited international reach, historically under-investment in technology and digital capabilities compared with pure online competitors,

and an ongoing reliance and exposure to the department store format of retailing that is facing a structural decline in the market. Benchmarking analysis against competitors indicates that John Lewis has retained positive customer satisfaction scores; however, it has limited growth in online sales compared to pure-play online competitors, such as Amazon, and lower profit margins than fast fashion retailing competitors, partly due to its higher cost base.

The conclusions from the SWOT ESF analysis may highlight how John's ownership model and ethical recognition (strengths) could be leveraged as differentials within a market segment where customers increasingly value sustainability and corporate social responsibility (opportunity). Nevertheless, the analysis reveals that limited capabilities in relation to digital adoption (weakness) create barriers to taking advantage of the shift to online shopping (opportunity) and puts it further into competition with retailers who promote online shopping (threat). Simultaneously, the combination of high costs (weakness) and economic uncertainty (threat) creates significant financial challenges.

In assessing strategic choices using Ansoff's Matrix, John Lewis may consider market penetration strategies such as enhancing customer loyalty programmes and competitive pricing in its core department store market; however, the market is, by definition, in a declining sector limits growth. In product development, identifying exclusive brands or moving into new product categories, such as financial services, utilising existing customer relationships, could be difficult. Market development options may involve international product sales or targeting new customer groups; however, these may require significant invest-

ment. Diversifying into a new market, such as build-to-rent housing (an idea that has apparently been tested by John Lewis), seems a higher-risk option which potentially exploits property assets into a growing format, but nevertheless leads John Lewis into an unfamiliar market space.

The analysis of the external environment in this integrated manner leads to strategic options for balancing opportunities (with threats) and strengths (with weaknesses) and, consequently, strategic decisions. John Lewis allegedly has adopted a strategy that combines a product development strategy (building up online product range and exclusive brands), market development (going into a new rental housing business) and business model innovation (reducing physical stores and going online). Benchmarking indicators of online sales growth, customer satisfaction, and operational cost benefits when making decisions may assist in reviewing whether the desired outcomes were obtained by the best strategic decision.

This aspect signals how the analytical frameworks drawn in this chapter inform strategy, since these work together to do so. An environmental analysis identifies areas where change is happening; a SWOT analysis considers what that change means to the specific organisation; strategic positioning frameworks evaluate the options of available strategic choices; and benchmarking the fourth perspective (empirically) allows implementation and review. No single framework can provide a full range of possible determinations in decision-making; however, the frameworks collectively serve as the analytical foundations to support any strategic decision. Conclusion The connection between the macro-environment and business strategy is one of the

central tensions in management literature.

Organisational activity does not occur in a vacuum; it is always located within a complex external context which creates opportunities to seize and threats to manage. There is a successful reliance not only on understanding these external pressures but also on understanding internal capabilities and, ultimately, making deliberate and strategic decisions about where and how to compete. The frameworks considered in this chapter provide a means to carry out this type of strategic analysis. Macro-environmental scanning enables organisations to identify significant trends and discontinuities that will change the face of the competitive environment. Strategic positioning frameworks (e.g. Ansoff's Growth Vector Matrix) allows one to structure the evaluation of strategic options and present the risk-return trade-offs associated with various growth strategies. SWOT analysis synthesises a number of external and internal factors to express strategic implications and priorities. Benchmarking allows organisations to objectively evaluate their performance relative to others, learn from others' best practices, and monitor strategic progress.

While all of these frameworks are useful tools for strategic thinking, they do not replace it. Strategic management is about more than the mechanical implementation of analytical techniques. It requires judgment as to which external variables matter, creativity to identify a limited but viable range of strategic options, ongoing realism about organisational capabilities, and the courage to choose a strategic option (even when it can be costly). The frameworks support structures and help build discipline for strategic analysis; however, wisdom is linked to understanding both their

purpose and limitations.

As you build your capabilities in strategic management, seek to practice these frameworks with real organisations and situations. Consider how successful organisations have assessed their environments, made strategic positioning decisions, conducted capabilities audits, and benchmarked their performance. Beyond considering successful organisational activity, we seek to analyse strategic failures and consider the role of misreading the external environment, overestimating internal capabilities, or pursuing the wrong strategic option in the poor performance of a given organisation.

As you engage in the deliberate practice of the frameworks outlined in this chapter, they will not simply serve as theoretical concepts but will be valuable tools for managing the complex relationship between the organisation and its environment.

The macro-environment will continue to morph due to technological innovation, changing social norms, political transitions, economic fluctuations, and environmental pressures. By thoroughly and systematically analysing these forces, engaging in an honest assessment of the capabilities of the organisation, making strategic choices that consider all of the above, and changing in response, adaptively position the organisation for sustainable success. The analytical capacities that you can develop through the study of this chapter will provide the foundation for this necessary strategic work.

Learning Activities

Activity 1: Strategic Positioning Analysis Using Ansoff's Matrix.

Choose a popular organisation in your local area or one you know about. This could be a supermarket chain, a group of restaurants, a fast-food outlet, or a retail store. Investigate the organisation and its strategic decisions in the last three years using its website and news, its annual report (if it has one), and its social media presence. Calculate or determine a couple of recent strategic moves made by the organisation. These can include launching new products in new markets, opening new locations, or introducing new services. Next, using the Ansoff Growth Vector Matrix, allocate these initiatives into one of the following four areas: market penetration, market development, product development, or diversification. For each strategic initiative, write a paragraph explaining why you categorised it into the particular category (note this is a strategic classification). In addition, what macro-environment raises questions about their strategy, and what are the risks and opportunities presented to the organisation within that strategic initiative? Finally, we considered whether the strategies they selected matched their apparent strengths and opportunities in the environment. Next, whether you thought these strategic decisions were warranted for the organisation, and offer one alternative strategic move that could have been selected from Ansoff's matrix and why your proposed strategic choice may have offered advantages or risks to the organisation.

Activity 2: Comprehensive SWOT Analysis and Benchmarking Exercise.

Working as an individual or in small groups, complete a comprehensive SWOT analysis on an organisation of your choice from any sector that would interest you - sporting goods, retail/hospitality, technology, healthcare, or the education sector. Begin by researching the organisation using as many sources as possible, including their corporate website, news articles, various industry reports, as well as customer review websites and social media discussions on or about the firm to gain as much information about the actual organisation as well as to understand its external competitive space. Next, compile your SWOT analysis with at least five meaningful points in each category. Note, for your strengths and weaknesses, work to ensure that they are truthful internal strengths or weaknesses and not vague statements; for your opportunities and threats, we are working to ensure that they represent specific situations you could see our macro-environmental analysis driving your determination. After completing your SWOT analysis, identify three key benchmarking indicators that would be best positioned strategically to assess the organisation's performance. Customer satisfaction, market share, profit margins, employee retention, operational efficiencies, and other relevant categories are likely to be relevant. For each benchmarking indicator, explain why an organisation showing improvement in the benchmarking will likely enhance its strategic position, who it might want to benchmark against which might be a major competitor, or could be firms or organisations not in their sector we may also

want to consider. Finally, in each updating benchmarking explanation, provide a deliberation of where you might find theoretical support for understanding the best-in-class standards for the benchmarking indicator. Do your best to summarise your SWOT and benchmarking findings, as well as an accompanying strategic recommendation for about a 300-word requirement for recommendation for one major strategic alternative that should be considered. Here, it is important to show how it builds on the organisation's strength to leverage an opportunity, minimise a weakness, and consider risks as threats. Finally, how the current state of strategic implementation or position is related to previous benchmarking indicators.

4

Chapter 4

Evaluating The Organisational Internal Environment and Capabilities

Introduction

Every successful organisation has distinguished characteristics that create unique capabilities to compete and survive in a given market. Although external factors such as the economy or industry pressures can be identified as determining factors, and yes, some externally defined influences are important, it is usually what is transpiring internally (the resources, capabilities, and strategic choices) that determines future organisational effectiveness. This chapter discusses how organisations assess their internal environment and capabilities and offers analytical tools to help understand why some companies consistently perform better than others in the industry. This chapter uses aspects

of strategic capabilities and the resource-based view of strategy to explain the value both create for the organisation and for sustainable competitive advantage. Examples that are informal and embedded case studies will be provided so that you may exercise your internal assessment to assess the strengths that allow organisations to achieve their strategic objectives.

Understanding the Organisational Internal Environment.

The internal environment of an organisation includes everything that exists within its boundaries. Unlike external factors that organisations must respond to (e.g. government regulations or customer tastes), organisations have the latitude to manage, cultivate, and exploit internal factors to create value. Consider the internal environment as a multilayered ecosystem, where resources, processes, people, and systems exist as complex interdependent dimensions in the higher construct of organisations delivering a product or service to customers. The internal environment includes tangible components, such as financial resources, physical buildings, equipment, and technology infrastructure. The internal environment of a manufacturing organisation may include its factory buildings, production machines, inventory management systems, and cash balances. The description of the internal environment considers assets that are not necessarily tangible. For example, an organisation's brand or reputation, employee skills and/or expertise, organisational culture, management practices, and connection to suppliers are included in the definition of the internal environment.

The idea behind these assets and processes is that they can sometimes be more valuable than tangible resources because they are considerably more difficult, if not impossible, for competitors to replicate, if they require time to build.

Consider Toyota, an automotive manufacturer. Many companies manufacture cars today that share production facilities (factories) and have access to similar raw materials. However, Toyota's internal environment contributes to its strong performance compared to its competitors. The company developed the Toyota Production System, a complex approach to manufacturing that emphasises continuous improvement, waste elimination, and employee empowerment—an internally developed capability born from Toyota's organizational culture, employee training systems, and overarching management approach or philosophy. The consideration of competitive benchmarking to improve the Toyota Production System has been studied and attempted to be duplicated by other manufacturers for many decades; however, the vast majority of its competitors are unable to replicate the same results as Toyota. This is partly because the successful Toyota Production System is deeply integrated within the internal environment of the organisation —how its employees think, interact, and make decisions every day.

The internal environment also includes the organizational structure of the company, how different departments, workgroups, and teams are organized, and how authority and accountability are structured. Some organisations operate using hierarchical structures with well-defined lines of authority and responsibility, while others emphasise flatter,

more collaborative structures. Organizational structure significantly influences decision-making, information flow, and the agility of an organisation to adapt to changing situations.

For instance, technology organisations such as Google have been known within their industry to have relatively flat organizational structures, which, if effective and nurturing, encourage innovation, fast decisions, and product development, which is strongly needed in the technology industry.

Another key component of the internal environment is organizational culture, which embodies the values, beliefs, and expectations that drive behaviour within the organisation. Organizational culture drives everything from the way employees behave with customers to how they would approach problem-solving or innovation. A culture of experimentation and error acceptance will produce different outcomes compared to one that punishes error and values conformity. An example is Netflix. Netflix had to transition from a model of renting DVDs to one of streaming movies; it is their culture of disruptive innovation to remain relevant in the extreme and high-speed streaming competition that produced their continued success as the leader in streaming movies and television—that was an internal environmental factor responsible for strategic transformation.

Organizational financial conditions are another important internal environmental factor. An important element associated with financial condition is the financial health of the organisation, where its financial condition drives its capability to invest in new opportunities, survive eco-

nomic downturns, and engage in longer-term strategic initiatives. Organisations with strong balance sheets and positive cash flows are endowed with strategic choices that their financially constrained competitors typically cannot access. However, having financial strength does not simply mean that an organisation has money; rather, financial condition is an indicator of how well the organisation has internal processes in place to generate revenue (top line), how it controls costs, and how it allocates capital.

Strategic Capabilities: The Basis of Competitive Performance

Strategic capabilities are the activities and processes by which an organisation deploys its resources to achieve objectives and create value for stakeholders. These capabilities define what an organisation can do effectively and, more importantly, better than its competitors. Discussing strategic capabilities means moving from just listing an organisation's resources to how those resources are configured, combined, and coordinated towards the actual or intended outcome of any strategy. There are different levels of strategic capabilities to consider in an organisation. The lowest level is threshold capabilities, which are the minimum capabilities required to compete in a market. These capabilities must be possessed by every competitor in the market to be considered a viable player in the industry.

For example, any airline must have threshold capabilities in aircraft maintenance, flight operations, customer service, and compliance with regulations. Without these threshold

capabilities, an organisation cannot operate in the industry. However, threshold capabilities do not create a competitive advantage because, by definition, every competitor possesses them. Beyond-threshold capabilities are distinctive. Distinctive capabilities create a difference or competitive advantage for an organisation over its competitors. A distinctive capability enables an organisation to outperform its rivals by creating superior value for customers, greater operational efficiencies, or both. Distinctive capabilities are often complex in the sense that they results from bringing together several resources and activities in a coordinated fashion that are difficult for competitors to imitate. For example, Amazon is known for its logistics and distribution that are unique and hard for competition to compete with. Logistics and distribution include transport, technology systems, algorithms, warehouses, logistics partner relations, and a customer obsession culture that dovetails sufficiently.

Take Zara, the Spanish fashion retailer owned by Inditex, which has developed distinct capabilities for rapid fashion design and distribution that can shift designs from concept to store within two weeks while this can take months for traditional retailers. Distinct capabilities can be achieved from a combination of several elements: designers who work closely with store managers to identify fashion trends, flexible manufacturing relationships to quickly produce small quantities, information systems to adjustively track sales as they occur, and a distribution network that can ship products around the world with astonishing speed. Competitors can study Zara's actions, but building a similar capability requires changing multiple aspects all at once, which has proven to be an impossible strategy for many

competitors. This distinctive capability allows Zara to react faster to fashion trends than its competitors, reduce inventory risk, and develop scarcity and urgency factors to bring customers back to stores.

Strategic capabilities also include dynamic capabilities, which are the ability to adapt, integrate, and reconfigure internal and external resources to varying degrees to suit a rapidly changing environment. A static capability becomes stagnant over time, especially as the business environment becomes volatile. Dynamic capabilities integrate environmental sensing, recognising new opportunities, and adjusting as those opportunities arise in a continuously flexible adapting dynamic.

A company like Apple is a sound example of realising strong dynamic capabilities across technology, having transitioned several times from personal computers to music play devices, to smartphones, and then to services. This capability to continually advance and evolve is a capability in itself.

It is essential to clarify the relationship between resources and capabilities, since students and many professionals regularly confuse the two terms. Referring to resources usually refers to all the assets of an organisation: its people, money, equipment (machines), brands, and knowledge. Capabilities describe what an organisation can do with resources or simply how the organisation can smoothly deploy all or some of those resources to create value. A restaurant can have excellent ingredients (as resources), but if it lacks the capability to effectively prepare those ingredients to delight customers with a meal, the restaurant will be doomed. A talented chef (chief resource and chief

capability) can take quite humble ingredients and turn them into fine victuals. Thus, "strategic capabilities" can be understood as the coordination and deployment of resources available to the organisation.

Key Components of Strategic Capabilities

Strategic capabilities comprise various fundamental components that act in concert to influence organisational performance. By understanding these components, we can examine what allows some organisations to outperform their contemporaries. The first aspect is resources. Resources can be classified into several categories. Tangible resources refer to an organisation's tangible assets at a point in time, such as buildings, equipment, land, and financial capital. These resources are easier to identify and measure because they are recorded on a balance sheet and have recognisable market values. Intangible resources include an organisation's non-physical assets, such as its brand, patents, and trademarks, the knowledge it has held over time, and the goodwill it has developed with current and past customers. Although they are conceptual and harder to measure, intangible resources are often more effective at providing a sustainable source of competitive advantage because they are not easily duplicated or for sale on the market.

Human resources are a special type of resource category that includes employees' skills, knowledge, experience, motivation, and relationships. Human resources are unique in that they actively deploy and combine other resources to create value. The second component is competency. Com-

petencies are the skills and abilities that allow groups and organisations to perform certain activities. Competencies can exist at the individual, group, or organisational level. Individual competencies refer to something an individual employee possesses, for example, their ability to perform software programming, financial analysis, or manage customer relationships. An organisation's competency is its collective learning across the organisation to coordinate different parts and activities. For example, a successful new product launch is a competency that requires research and development activities, manufacturing, marketing, and distribution. The organisation is a system of all the competencies that build the capacity to do something which no one individual could do. For example, Pfizer, a pharmaceutical company, successfully developed and distributed vaccines for COVID-19 in record time during the worldwide pandemic. This was an extraordinary accomplishment that required several competencies to come together: scientific research competencies were needed to create the technology for the vaccine, regulatory competencies were needed to navigate the approvals in dozens of countries, manufacturing competencies were needed to produce billions of doses, and distribution competencies were needed to maintain the cold chain.

While Pfizer owned significant scientific capabilities and had many seasoned researchers, it was the organisation's competency to coordinate all these complicated activities that made it successful overall. This example speaks to the notion that competencies are more than just the individual resources that a firm owns; they represent the ability to orchestrate several capabilities into an effective end toward

a common purpose.

The third component of the theory is linkages and relationships with internal and external parties to the organisation. Linkages are an internal characterisation that describes how well departments, functions, or people come together. For example, product development and marketing may partner and collaborate on certain aspects of products that better meet customer requirements. However, if product development and marketing cannot effectively communicate product priorities, the benefits of these competencies may not result in a successful product launch. Linkages can also refer to external relationships with suppliers, customers, distributors, or competitors that provide strategic capabilities. A long-standing relationship with a supplier may allow an organisation to procure inputs at favourable prices or collaboratively innovate a product or technology. Similarly, long-standing relationships with customers may surface to the level of strategic capability that provides intel on the market or customer loyalty that allows avoidance of competitors altogether.

An example of the importance of external relationships as strategic capabilities is Nike, which possesses a limited number of manufacturing facilities and outsources most of its manufacturing to a global network of contract manufacturers. However, Nike has developed advanced capabilities in managing supplier relationships, coordinating between countries of production, ensuring quality, and addressing ethical issues related to working conditions. With these relationship management capabilities, Nike can devote resources to product design, marketing, and branding, where it has distinctive capabilities, while lever-

aging its partners' manufacturing capabilities. Within this framework, supplier relationships form the foundation for strategic capabilities in managing supplier relationships that competitors cannot easily replicate, built over years of collaboration and adaptation.

The next component is an organisation's culture and values, which determine how resources are allocated and how people interact with one another. Culture is a key influence on decision-making patterns, risk-taking willingness to take risks, innovation orientation, and customer focus.

Some organisations are more likely to have a culture that values experimentation, which provides tolerance for various forms of failure and fosters innovation, while others are more operationally excellent and consistent in building capabilities in efficiency and quality control. There is nothing inherently superior to an organisation's culture; however, culture should align with the organisation's strategic goals and competitive needs. Southwest Airlines has developed a culture that emphasises employee empowerment, fun, and customer service, leading to an industry-leading example of customer satisfaction and employee engagement. This culture is, in and of itself, a strategic capability that informs how the organisation competes, not with premium pricing or route options, but with friendly, reliable service at a low cost.

The fifth component is systems and processes, or the established routines and procedures through which work is accomplished. Effective processes are a vehicle for organisations to produce work consistently, efficiently, and

without sacrificing quality. Processes capture organizational learning and enable organisations to perform complex activities reliably. Process capabilities can be especially important for competitive advantages in industries where operational excellence is a competitive advantage. As an example of the importance of process capabilities in industries with operational excellence as a competitive advantage, McDonald's success and consistency rely heavily on the many layers of processes behind the scenes that yield food of consistent quality and service speed, applicable at thousands of locations around the globe. In this case, the documented training and operations manuals serve as strategic capabilities enabling the company to maintain prescribed quality and enter geographic territories globally and easily share responsibilities with franchise operators.

Resource-based Strategy

This represents a radical departure from the way we have understood competitive advantage and success in strategy: the resource-based view emphasises that internecine capabilities and resources are, for the most part, the aspects influencing the strategic choice and its execution. This perspective took shape in the 1980s and the 1990s, as researchers began to notice that firms within the same industry faced with identical external pressures achieved drastically different performance levels. They assumed that these performance differences arise from the dissimilar internal resources and capabilities.

The heart of the resource-based theory is a very simple con-

cept: the possession and effective application of resources and capabilities that are valuable, rare, inimitable, and non-substitutable, leading to sustainable competitive advantage. Each of these characteristics needs to be explained, and they are commonly known by VRIN or VRIO terms; "Organized to capture value" adds further depth to the concept.

A resource or capability is a source of value when the organisation it belongs to can use it to exploit opportunities or neutralise threats in its environment to increase efficiency or effectiveness. The creation of value is thus the basic requirement among them; all resources that do not contribute to value will not have a competitive advantage, whatever their other features might be. For example, an organisation will have a customer database that is of great value only when it uses it to understand the needs of its customers better, customise its offerings accordingly, or improve its service. At the end of the day, the database itself is just data—the value lies in how it is used. Through its loyalty program and mobile app, Starbucks has collected extensive data and, importantly, that data is valuable because it enables targeted marketing, improves inventory management, and helps managers make decisions regarding new store locations and new products.

A rare resource or capability is possessed by few competing organisations. Rarity is how competitive advantage is generated because it allows an organisation to do something that competitors are unable to do. However, rarity alone is insufficient. The resource must also be valuable; possessing a rare resource that has no value provides no advantage

to the organisation. For example, a manufacturer that produces a unique product that no one wants would have a rare resource, but it would not be valuable. Competitive advantage occurs when a resource is both valuable and rare. Battery technology and electric vehicle manufacturing were rare capabilities in the automotive industry when Tesla launched the company, providing Tesla with a strong competitive advantage over general manufacturers who were behind in developing electric vehicle technology.

A resource or capability is inimitable (difficult to imitate) when it cannot be easily imitated or copied by competing organisations. Inimitability is important to achieve sustainable competitive advantage because any competitive advantage based upon an easily imitated resource or capability will disappear as competitors imitate what has been successful. Many factors contribute to the inimitability characteristics. Unique historical conditions sometimes provide a firm with a resource that a competitor may not easily duplicate. Coca-Cola has been developing its brand for over 100 years using a predictable marketing strategy and distributing its products worldwide. There are not enough resources to reproduce a similar successful cola company starting today in the same way.

The causal ambiguity created in relation to the combination of various resources which create value can make imitation difficult. Although competitors can observe that Coca-Cola is successful in general, they simply cannot figure out exactly what elements drive that success or the cocktail of resources which enable that competitive advantage to be

copied by the competitors. Complications which emerge from social complexities also create inimitability. Some capabilities arise from socially complex relationships, trust, and organisational culture or reputation that develop over time as a result of interaction with countless exchanges. For example, the collaborative culture at Pixar Animation Studios has produced a continuous string of successful films. A collaborative culture is not simply created; it is produced by the unique way the company recruits talent, structures the nature of projects, encourages collaboration, and interacts with challenges strategically. Competitors cannot simply replicate the culture or purchase it by observation; it must be built over time as a continuous response to leadership and organisational development.

In addition, a resource or capability is non-substitutable when competitors are unable to find alternative resources or capabilities which allow them to achieve the same strategic benefits or results. Ultimately, if a resource is valuable, rare, and inimitable, a competitor can always negate the sustainable advantage by successfully using different resources/capabilities to achieve the same goal or strategic objective. Brand reputation is an example of a product that can be imitated. Competitors may not be able to achieve the same brand reputation; however, they could have a different strategic approach, such as low prices or superior technology, to draw customers to their brand. To achieve a truly sustainable advantage in a niche, resources and/or capabilities must not only be difficult to imitate by competitors but also non-substitutable by them.

Applying the resource-based view to a well-known company would be IKEA, the Swedish retailer. IKEA possesses a unique business model that combines the functionality of several resources and capabilities that the retailer has built over time, efficiency in flat-pack furniture that reduces both shipping and storage costs, and supplier relationships that enhance this cost advantage. They have strategically built larger-format stores on inexpensive suburban land and developed a unique customer experience where customers select, transport, and assemble their own products. Each of these components enhances the value associated with cost savings. These components also take time to develop, resulting in a unique and rare combination of value in the retail space.

With cost efficiencies, it is also difficult to replicate or imitate, as the organisation would be replicating multiple levels of their operations in relation to simultaneous implementation, and each level would require a certain level of labour to implement. Finally, it is difficult to habitually provide substitutes to the same type of comparable products, as a consumer could simply buy from a more traditional provider of furniture; however, they would not be able to readily achieve the same price point unless they engaged in a completely different operating process to the fully conventional process of furniture production. In summary, the combination of the enduring outcome types identified here, aside from material costs, is where IKEA has gained a potential competitive advantage in the retail service sector for decades.

Strategic Implications of the Resource-Based View

The resource-based view has significant implications for strategic management. First, it implies that organisations should direct their gaze inward to identify, develop, and exploit distinctive resources and capabilities rather than focusing exclusively on external positioning within their industry. Strategic processes should include an assessment of internal strengths and weaknesses, giving particular attention to which capabilities currently provide or would provide a competitive advantage.

Second, the resource-based view suggests that competitive advantage can be more sustainable when leveraged from intangible resources and complex capabilities rather than tangible ones. Physical resources are often purchasable by competitors, whereas capabilities built up over time through learning and practice are much less easily acquired. This adds new meaning to the fact that organisations are placing increasing importance on employee development, knowledge management, and innovation capabilities as organizational priorities. In the case of Microsoft paying $26.2 billion to acquire LinkedIn, it was not just investing in technology and physical resources; it was also investing in the network of professional relationships it had built on the platform, including the user data and established position in the professional networking space that would be difficult, take a lot of time, and require investment to replicate.

Third, the resource-based view perspective is that development resources and capabilities should be seen as ongoing

strategic activities. An organisation must actively seek to invest in extending the life of its resources and capabilities so that they do not become irrelevant in their industry or matched by a competitor.3M was born through innovation and has sustained a competitive advantage in part because of continuous investment in its research and development capabilities, as well as an innovation-oriented culture. 3M is famous for allowing its researchers to spend 15% of their time working on research projects of their own design, which has led to dramatically innovative products, such as Post-it Notes. This distinct organisational feature signifies the realisation that an organisation needs to nurture its innovation capabilities and that innovation capabilities are a strategic resource that needs to be nurtured through proper organisational practices.

Fourth, the resource-based view suggests that decisions about which markets to enter, which products to develop, or which customers to serve should come from an organisation's distinct capabilities. A company should not enter any market that looks attractive, but rather consider new opportunities and pursue opportunities based on its organisational capabilities and take advantage of its distinct capabilities. These capability-driven strategies for organisational decision-making explain why companies would decline opportunities that looked attractive but did not fit their categories of distinctive competence, while simultaneously pursuing opportunities that were not as obvious based0 on their capabilities.

An example of Amazon's strategy is capability-driven expansion. After establishing a dominant market presence in online retail, it developed unequivocal capabilities in data centre operation, software, and operationally running under cloud computing infrastructure at scale. These capabilities were developed to support their online retail sales and have value, relevance, and applicability for other organisations. Amazon recognised the development of marketable capabilities in the cloud computing market and pursued an additional line of business, Amazon Web Services (AWS), that capitalised and expanded on their capabilities and became a successful global business-to-business cloud computing enterprise. The development and pursuit of AWS was a strategic business move by Amazon and responsible learning and leveraging of an internal capability, as opposed to pursuing an attractive external opportunity.

The resource-based view also informs decisions on how to obtain or develop the required capabilities. Successful organisations acquire the required capabilities through a merger or acquisition, a strategic alliance, and internal development. Each of these three resource-acquiring strategies has unique advantages and prohibitive limitations. Mergers and acquisitions provide speed in obtaining the required capabilities; however, becoming or integrating the acquired organisation into the business, along with its capabilities, is sometimes difficult and time-consuming. If resource acquisition through mergers and acquisitions is a strategy, acknowledging and considering the risk time may be viewed within the organisation and management leadership as unattractive. Strategic alliances provide access

to and participation in a partner's developed capabilities, while both parties manage the risk and costs.

However, effective coordination and interaction between the factors of partner interests with inherently capable limitations may prove cumbersome and sometimes conflict with the partner's interests. The option of the organisation to internally develop capabilities or establish new capabilities specific to its organisational strategy and purpose ultimately provides control for the organisation; however, it takes time to (re) develop capability, all capabilities cannot be grown internally within the organisation, and all organizational development may not become effective over time.

Each of the three categories in the resource-based view ultimately depends on a combination of various interacting priority factors, such as the urgency of the required capability, availability of the resource satisfying the required capability for the organisation's strategy and product, and accessing an organisation's other sources of capability in considering resource acquisition. Each category exists based on its priority.

Undertaking an Internal Capability Analysis

While understanding the frameworks is helpful, their application requires a structured process. Organisations perform an internal capability analysis to discover their strengths and weaknesses, assess their current competitive position, and ultimately help with strategic decisions. They will use

various analytical techniques to do this.A capability audit systematically lists and evaluates the resources and capabilities of an organisation in various functions. This might mean identifying resources in categories of physical, financial, human, intellectual, and reputational and rating the quality, quantity, and strategic importance of that resource. The audit evaluates capabilities in areas such as innovation, operations management, marketing effectiveness, customer service, and supply chain management. For example, the audit evaluates a capability relative to competitors and labels it as a strength, weakness, or neutral.

Value chain analysis, developed by Michael Porter, is designed to assess how an organisation's activities create value. The value chain divides an organisation's operating functions into primary activities (those directly responsible for creating and delivering the product or service) and support activities (those that support the completion of primary activities). Primary activities often include inbound logistics, operations, outbound logistics, marketing and sales, and service. Support functions typically include procurement, technological development, human resource management, and firm infrastructure. By reviewing each function, the organisation will identify which functions create the most value, understand where their costs are incurred, and how the functions connect with each other. This analysis will help organisations understand the capabilities that are most important to their competitive advantage.

In the case of Ryanair, which is Europe's largest low-cost airline, value chain analysis shows how the company's

activities interrelate to achieve a low-cost strategy. The airline deliberately selects all activities in a value chain to reduce costs in its operations: having a single type of aircraft (Boeing 737) reduces the costs of maintenance and training; operating from secondary airports reduces landing fees; minimising turnaround time maximises the aircraft usage; charging passengers for extras generates incremental revenue; and a no-frills service model reduces the stress on cabin crew.

Each activity contributes to a reduction in costs, but the power comes from the ways in which each activity leverages other activities, resulting in a tightly coupled system that competitors cannot replicate in parts.

Benchmarking is the evaluation of an organisation's performance, practices, and capabilities against those of competitors or best-in-class organisations. Benchmarking highlights performance gaps and identifies opportunities for improvement in the process. Benchmarking may be competitive (comparing direct competitors), functional (comparing similar functions in different industries), or internal (comparing one unit to another unit in the same organisation). Benchmarking does not expect the replication of competitors but is used to evaluate differences in performance and identify practices to emulate or adapt. An example of this may be hospitals that benchmark patient wait times, infection rates, or patient satisfaction to evaluate or learn from other hospitals how to improve weaknesses or identify practices of higher-performing hospitals.

The existing framework for SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) remains a simple but effective means of summarising internal capabilities

(strengths and weaknesses) and external factors (opportunities and threats). This may seem straightforward; however, SWOT analysis is meaningful when due diligence is placed on the assessment. Strengths and weaknesses should be framed regarding competitors and their contributions to competitive advantages. Not all positives are regarded as strategic strengths, and not all negatives are significant weaknesses. A SWOT analysis should primarily focus on factors that materially impact strategic performance or an option for performance.

Core competence analysis, proposed by Prahalad and Hamel, is a perspective on finding only a few core capabilities that cause competitive advantages to accrue to the organisation for multiple products or markets. Core competencies have three characteristics: access to multiple markets, importance to customer benefits, and difficulty for competitors to imitate. For example, traditionally, Sony had core competencies in miniaturisation and portable electronics, which caused it to gain a competitive advantage for products ranging from Walkman to PlayStation to cameras. Identifying core competencies enables an organisation to focus on capability development. Core competencies also help make judgments on decisions related to diversification and product development.

Developing and Upholding Strategic Capabilities

It is one thing to recognise the significance of unique capabilities, and another to develop and uphold them. To develop strategic capabilities, there needs to be investment over time, experience must be accrued over time, and learning

within the organisation must be managed appropriately. Capability building is often a path-dependent process. This implies that current capabilities constrain and enable the development of future capabilities. It is generally easier for an organisation to build capabilities that are related to and build off current capabilities. These path dependencies help explain why organisations often find it challenging to build capabilities in areas that are relatively distant from their existing areas of expertise. For example, Nokia had a great deal of strength around mobile phones and hardware, yet it could not develop the capabilities to build software and manage an ecosystem to compete in the era of smartphones and ultimately lost ground to Apple and Samsung.

Organisational learning is at the core of capability development. Learning occurs at multiple levels: individual, group, and organizational. At the unmistakable individual level, people learn as they develop new knowledge and skills through training, experience, and practice. Group learning occurs when workgroups develop a common understanding and work coordination. At the organizational level, learning occurs when knowledge becomes "hard-wired" in organisational routines and systems, is embedded in organisational culture, and the acquisition of knowledge continues regardless of turnover (i.e. some employees leave or join the organisation). High-performing organisations also have processes or systems in place that facilitate capturing and sharing learning and convert individual knowledge into organisational knowledge; while these organisations continue to learn, they improve practices and processes.

An example of learning by organisations can be seen in Honda. When they entered the automotive sector in the

1960s as a perceived motorcycle manufacturer with no automotive development capacity, the existing automotive manufacturers did not take them seriously. However, Honda was able to learn from making motorcycles to establish their automotive capacity with their engines and small cars. Honda then slowly built other capacities, but in a systematic way, such as quality control, making their manufacturing processes more efficient and product development. Each capacity was additive to the previous one and cumulatively used the capacity of the previous capability.

Today, Honda is considered a very strong actor in the automotive sector, again with unique capabilities in power-trains, including fuel-efficient engines and hybrid systems. Dynamic capabilities merit unique consideration in the current dynamic environment. We define operational capabilities as articulating how effectively an organisation leverages its current capability, whereas tactical capabilities articulate how effectively an organisation can respond to its environment. Tactical capabilities are developed by the organisation positioning itself for flexibility, having developed broad knowledge bases, as well as an organisation-wide culture of experimenting and constantly scanning the environment. Organisations with developed tactical capabilities habitually scan for new opportunities, experiment with new ideas, and sometimes reconfigure resources and processes if warranted and appropriate. Another important consideration for the capability building process is leadership.

Leaders prioritise and must engage and curate a high-level vision for the capacities they would like to see developed, provide the means to appropriate resources to build capacity

(sometimes meaning sacrificing and/or not meeting a short-term profit objective to achieve a longer-term appropriate level of capacity), and create an environment, in their organizational culture, for experimenting and continuous improvement, knowing that the capacities they are curating should and can align with their organisation's strategic direction. A case example would be a remark that Satya Nadella made to Microsoft employees when he became the CEO that Microsoft would build stronger capacity in the cloud, and he would have to work to change the inward-focused competitive organizational culture to one that elevated collaboration and focused on customer needs as potentially the most important (organizational) values. Microsoft leaders, with continuously reinvested resources and engaging organizational culture, curated their capacity and found themselves back in the position of leadership in their sector.

Organisations also need to guard against capability rigidities— established capabilities become barriers to adaptability. Capabilities that have been developed and optimised may become liabilities during changing conditions. For example, Kodak's deep capabilities in film chemistry and manufacturing became obsolete when photography moved to digital photography. Kodak's deep investment in film manufacturing capabilities which benefitted the company at one time, also hindered its ability to fully embrace the new state of digital photography and contributed to its eventual bankruptcy. Kodak is a relevant example, simply to consider the continuous assessment of whether capabilities are still relevant while being willing to develop new capabilities and adapt to new situations.

Connecting Internal Capacities to Competitive Benefit

Understanding internal capacities is important because they represent the source of competitive benefits —the ability to consistently outperform competitors over time. However, having strong capacity does not guarantee competitive benefits. The organisation must link capacities to market opportunities and configure them to provide value that is recognised and rewarded by customers.

A competitive benefit will ultimately be displayed in one of two ways: increased value to customers (which might lead to premium pricing or higher market share) or the same value at a lower cost (which leads to higher profit margin or competitive pricing). Distinctive capacities enable both outcomes by allowing organisations to perform activities that competitors cannot provide or perform activities that are equivalent to those of competitors more efficiently.

Apple demonstrated how distinctive capacities create competitive benefits. Apple's capacities in industrial design, user interface development, ecosystem creation (linking hardware, software, and services), and brand management combine to deliver products that customers see as better and are willing to pay more for. These capacities are strongly linked; having a better design would be of less consequence without an intuitive user interface, and the ecosystem would matter far less without beautifully designed hardware. These capacities reinforce each other to create an integrated system, leading to a significant competitive benefit, as indicated by Apple's market capitalisation and profit margin

which exceed industry averages. A competitive advantage based on an organisation's capabilities is more sustainable when those capabilities are distinctive to the organisation and cannot be traded or transferred. Capabilities that are highly embedded in the organisational culture, require long periods of development and learning, or are based on tacit knowledge (knowledge that is difficult to articulate or codify) are particularly defensible. This illustrates why professional service organisations (e.g. consulting firms) such as McKinsey or Goldman Sachs) can lose individual employees to competitors yet still maintain their capacity for distinctive client solutions, relationships, and professional development, which persists for generations.

However, organisations must also understand that a capability holds value only as long as it serves a meaningful customer need and environmental demand. Customers develop new preferences, their needs shift, new technologies emerge, and competitive behaviour changes. Capabilities that can demonstrate value today may not be valuable tomorrow. Therefore, capability evaluation must be ongoing, and organisations must be willing to develop new capabilities and/or fundamentally change their existing capabilities when the strategic need arises.

Challenges with Capability-Based Strategy

While the resource-based view is helpful to the thinking process, capability-based strategy implementation presents associated challenges. First, identifying the actual capabilities that provide a competitive advantage is difficult. Organ-

isations typically overestimate their capabilities or struggle to understand which capabilities drive their superior performance. Managers have a natural bias toward believing that their organisations possess superior capabilities or have capabilities that are maintained within the organisation that distinguishes the organisation from others within the sector.

Second, measuring capabilities, especially intangible ones, is difficult. Unlike financial and physical resources, some capabilities, such as the degree of innovation capability, degree of collaborative culture, or degree of customer relationship management, cannot be represented in a measurable or quantifiable level of amount. This can complicate strategic decision-making and create difficulties in evaluating the effectiveness of capability development initiatives.

Third, the resource-based view may lead to an ongoing bias for not changing any capabilities, and this could hinder some organisations from focusing too much on utilising existing capabilities without focusing enough on developing new capabilities. There are several instances where it makes sound sense to leverage capabilities existing in the organisation, but the organisation must also recognise when the environment necessitates a new capability or when an existing capability is becoming obsolete.

Fourth, creating capabilities necessitates a long-term, sustained commitment of time and resources, and creating distinctive capabilities interacts with short-run financial performance. Creating distinctive capabilities will likely necessitate investments over several years, and returns

may not be experienced until later in the investment horizon. Compounding the organisation's dilemma, it is also likely foreign to the organisation and potentially not easy to explain to the organisation's manager why developing an outcome with substantial investments serves as the foundation for forty quarterly . They may feel that they are maintaining institutional stability and optimising their competitive advantage over competing organisations.

Conclusion

Assessing an organisation's internal environment and capabilities is a fundamental aspect of strategic management and competitive success. External factors are important; however, the factors that provide an organisation the potential to create new value, cultivate distinctiveness from competitors, and, ultimately, sustain competitive advantage, rest with the organisation's internal resources, capabilities, and competencies. The resource-based approach to strategy asserts that competitive advantage comes from possessing and utilising valuable, rare, inimitable, and non-substitutable resources and capabilities. Strategic capabilities are associated with several components, such as tangible and intangible resources, individual and organizational competencies, internal and external relationships, organisational behaviours and values, and the systems and processes built within the organisation. These components often work in complex interrelated ways to reflect what the organisation is uniquely positioned to do. The capabilities that possess the greatest capability are those in which organisations organise multiple resources, actions, and

outcomes into complex systems that are not readily imitable by competing organisations.

Effective organisations rigorously analyse their internal capabilities to recognise distinctive capabilities, gauge their sustainability, and shape strategic decisions regarding resource allocation, capability development, and competitive positioning. They appreciate that the process of developing and sustaining strategic capabilities is ongoing and requires continued investment, organizational learning, and adaptive leadership. They understand that capabilities must continuously respond to the changing environment and will embrace developing new capabilities or modifying existing capabilities when the strategic situation warrants them.

As you continue your business strategy studies, keep in mind that assessing internal capabilities is not simply a thought experiment. It is an essential exercise for any organisation that wants to understand its competitive position, recognise the sources of advantage, and determine the means to achieve sustained success. The skill of evaluating internal capabilities and relating them to competitive advantage will be invaluable on a career path in strategic planning, operations management, consulting, and entrepreneurial endeavours, regardless of the path you take. The most successful organisations objectively evaluate their internal capabilities, invest in developing their distinctive competencies, and leverage their strengths to drive value for customers and stakeholders.

Learning Activities:

Activity 1: Audit of Internal Capabilities and VRIN Framework

Identify an organisation you are familiar with either personally (an employer, a brand you prefer, a local business) or one that you can gain sufficient external knowledge about online. Complete as thorough an internal capability audit as you are able with your chosen organisation. Identify every resource of the organisation across all categories (e.g. physical, financial, human, intellectual, and reputational resources). For example, if I were reflecting on a restaurant, I would identify the following types of resources: chef skills, kitchen equipment, recipes, supply chain contacts, and brand recognition. After determining the resources in all categories, examine how the organisation combines those resources to create capabilities. For example, regarding the restaurant, how does the restaurant combine the chefs skills and equipment together into the preparation of food, then combine the preparation of food and the serving staff as a capability to serve food to customers? After mapping resources and capabilities, conduct a VRIN evaluation of the capabilities you identified to determine whether it can provide competitive advantage.

First, ask yourself if the organization genuinely derives value from each capability by determining if it allows the organization to take advantage of opportunities or diminish threats. Next, we evaluate whether it is rare by considering how many other competitors and organisations can achieve

similar capabilities. In addition, assess if it is imitable by thinking about how easy would it would be for competitors to imitate the use of this capability and the aspects, including factors such as historical development, social complexity, or causal ambiguity, that make imitation less likely. After this, consider whether it is non-substitutable and whether competitors could achieve a similar outcome through particular alternative means. Finally, complete your analysis by identifying the two or three capabilities that you feel have the most strength in contributing to competitive advantage and include your rationale for identifying your selected capabilities. Your analysis should be presented in the form of a written report that is approximately 1000 words, including organisation introduction, resource/state capability analysis, and VRIN evaluation of at least three key capabilities, and conclusion of the organisation based and analysed sources of competitive advantage.

Activity 2: Value Chain Analysis and Strategic Recommendation

Either alone or in small groups, select a company that is widely known in your industry of interest, which could be in any industry that interests you, such as retail, technology, hospitality, or manufacturing. You are then going to conduct a value chain analysis, which will require consideration and breakdown of the organisation's operations into primary activities, including inbound logistics for receiving and storing input, operations related to transforming input into product or service, outbound logistics pertaining to shipping finished products, marketing and sales activities

that lead to customer retention, and after-sales activities which involve general customer relationship maintenance. Furthermore, you will complete a breakdown of support activities which include procurement processes completed in support of operations, research and development and innovation processes, human resource management practices, organizational infrastructure such as management systems, and organizational structure. For each activity in each category, using references such as company reports, articles, customer reviews, or industry analysis, you should consider how they performed compared to competitors. More specifically, we identified where there was the most customer value and where there were costs. Upon completion of the analysis, please identify two or three strengths (areas of distinctive capabilities) which contributed positively to creating a competitive advantage and identify two or three weaknesses (areas where capabilities were weak compared to the competitors). Upon analysis, you should combine your primary and support activity findings to make strategic recommendations on how the organisation could improve (or build) capabilities to enhance its competitive position.

The recommendations could be in the form of building new capabilities, improving coordination, leveraging existing capabilities, or partnerships or acquisition to fortify the shortcomings. Present and evaluate your findings in value chain analysis and strategic recommendations in the form of a ten-slide presentation and/or a written report of approximately 1200 words, illustrating a value chain visual diagram, evaluations of each major activity, identification of strengths and weaknesses, and detailed strategies (in detail)

of how the organisation could establish a better competitive advantage from being more capable of activities.

5

Chapter 5

Evaluating an Organisation's Internal Environment and Capabilities

Introduction

It is important to be mindful of what is taking place internally in the organisation in addition to an analysis of external market forces. Although the macro environment provides insights into potential opportunities and threats in the broader environment, an organisation's internal environment reveals its distinctive strengths, weaknesses, and competitive advantages. In this chapter, we concentrate on how businesses assess their internal capabilities to know what they do well, what they need to improve their operations, and where to develop capabilities that create value for customers. We will discuss three key analytical tools that can be used: benchmarking and value

chain analysis, cost-benefit analysis, and holistic internal analysis frameworks. These tools assist managers in making informed and strategic decisions regarding where to direct resource investments, which capabilities to develop, and how to build sustainable competitive advantages. These concepts provide a methodical approach to examining the internal workings of an organisation, whether it is a small local business or a large multinational corporation.

Understanding Strategic Capabilities

Before exploring specific analytic tools, we should define strategic capabilities. Strategic capabilities refer to the resources and competencies of an organisation that allow it to exist and flourish. They encompass both what an organisation has (resources) and what it can accomplish (competencies). Resources consist of physical resources, such as buildings and equipment; financial resources, such as cash and credit; human resources, such as skilled employees; and intangible resources, such as brands and intellectual property. Competencies refers to how well an organisation puts its resources to use.Take Apple, for instance. Although Apple has its share of designers, engineers, and manufacturing facilities, it is only when the company combines all three that it yields the distinct capability to develop creative, sophisticated, and user-friendly products that customers enjoy.

Strategic capabilities are especially necessary when they are rare, valuable, difficult to imitate, and well organised

within the company. For example, Coca-Cola has a special formula for its drinks, which constitutes a rare and strategic resource. Because this is a resource that competitors cannot easily imitate, Coca-Cola garners a long-term sustainable competitive advantage. Similarly, Amazon has developed strategic capabilities in logistics and data analytics, making it possible for the organisation to deliver products faster than most competitors and recommend items more accurately than its competition.

Benchmarking Strategic Capabilities

Benchmarking is the practice of comparing an organisation's processes, practices, and performance metrics against industry leaders or best-in-class organisations. In other words, it is like holding a mirror up to your organisation while standing next to the best performers in your industry. Therefore, benchmarking is not about replicating what others do; it is about studying performance gaps and best practices and being both realistic with the improvements while also being ambitious in setting targets.

Organisations can implement several forms of benchmarking. Internal benchmarking takes place within organisations. For example, in retail, a retail chain might benchmark sales performance and customer satisfaction scores of stores that are part of the same retail chain in order to determine the locations that are achieving sales and customer satisfaction while also uncovering viable reasons for achieving better results from specific locations.This ensures the transferability of best practices across the organisation. Competitive

benchmarking focuses specifically on competitors by examining how they manage similar functions.

For example, in a hotel chain, one might investigate the check-in processes, quality standards for cleaning rooms, or details about loyalty programs to see where they are behind known competitors. From there, they can identify areas for improvement. Functional benchmarking examines similar functions that occur in other industries. For example, a hospital might review how Disney manages waiting lines at their theme parks with the intention of providing better service with wait times for patients, even though healthcare and hospitality are two distinct industries. Strategic benchmarking studies the ways in which organisations with successful performance contend with and develop their strategic models vis-à-vis their competitors. It studies innovation in business models rather than specific changes in business processes.

The benchmarking process typically follows a systematic process with several identifiable steps. First, organisations must determine the focus of what to benchmark when selecting critical processes or capabilities that have a significant performance impact. For example, in a manufacturing company, they might benchmark production efficiency, quality control, or purchasing and supply chain management systems. Second, they must determine whether the benchmarking partner is a friend or foe. In this step, organisations identify higher-performing companies regarded as excellent, specifically for the focused benchmark. Third, organisations engage in a data collection process, including surveys, site

visits, and interviews with the organisation being assessed.

Fourth, an analysis is conducted by the organisation to determine the gaps between organizational performance and the benchmark, not just how the performance differs, but also why the performance differs. Finally, the organisation begins to implement improvements based on learning and ongoing monitoring measures.For example, British grocer Tesco, when expanding into the United States, extensively benchmarked US grocery retailers Walmart and Whole Foods, among others, and when reviewing the experience, conducted site visits, observed customers shopping, their store formats, product inventory, pricing strategies, and how they provided customer service. They benchmarked dozens of stores, observed and interviewed customers, and asked questions about how they valued shopping in America. Their biggest learning was that American values for convenience when grocery shopping differed from British shoppers, which ultimately led to a fresh and easy format with smaller stores and prepared meals in trays. The overall expansion failed as they entered the market just prior to the 2008 global financial crisis, but they had developed a lot of learning from the benchmarking process, which helped determine the store format, product assortment, store design, and overall operational procedures that were used.

Benchmarking provides several benefits. First, it provides relevant evidence to show, rather than simply assuming or guessing, the performance gaps that need improvement. It enables a much more accurate decision-making process

when a realistic target can be set compared to the benchmarked organisation. It encourages learning from the best, while at the same time reducing the hazards of the not-invented-here syndrome, when an organisation resists practices that have been developed elsewhere. However, there are constraints when considering the implementation of benchmarking. First, benchmarking can be time-consuming and costly when conducting detailed studies of competitors. In addition, organisations are often reluctant to share detailed information about their practices. Finally, whether the practice worked for one organisation, it is not a guarantee it will work for the benchmarked organisation because of culture, organizational resources, and environmental market conditions. Finally, there can be a tendency to blindly copy recognised best practices without the organizational context or consideration of the practices that led to the previous organisation's outcome.

Value Chain Analysis

Value chain analysis is a comprehensive approach conceived by Michael Porter which decomposes an organisation's activities into strategically relevant units that map directly to value created and costs incurred. To visualise the concept, consider a business as a chain, with every link reflecting an activity that indicates the value added to the final product or service. Some links add greater value than others, and some links incur more expenses to maintain. By closely reviewing each link of the value-adding chain, management team members can become aware of which activities result in competitive advantages and which activities might warrant

outsourcing or elimination.

The value chain identifies two categories of organizational activities: (1) primary activities and (2) support activities. Primary activities are directly related to the creation, sale, and delivery of products to customers. Primary activities consist of inbound logistics (which includes the receipt, storage, and distribution of inputs), operations (which entails the transformation of inputs into finalised products), outbound logistics (which includes the collection, storage, and distribution of the "finished" products to customers), marketing and sales (the activities that convince the customer to buy the product), and service (the activities that maintain or enhance the value of the product after purchase). Support activities create efficiency for primary activities to do their work. Support activities consist of procurement (which includes the purchase of the "inputs" needed), technology development (the activities to support productive products and processes), human resource management (recruitment, selection, training, and development), and firm infrastructure (the general management/planning, finance, and quality systems of the organisation).

In order to examine how value chain analysis "works" in practice consider the fashion retailer Zara, owned by Inditex.Within Zara's inbound logistics, the retailer keeps close relationships with fabric suppliers that are located primarily in Spain, Portugal, and Turkey to provide Zara's customers with very quick access to materials. Zara's logistical operations are defined as revolutionary to the fashion industry—Zara does not rely completely on outsourcing

all manufacturing capacity to low-cost countries that are distant from the market. Instead, Zara keeps approximately 50 percent of its production in nearby countries (Spain, Portugal, and Turkey). Although factory operations in a neighbouring country may seem more expensive, they enable incredible speed and flexibility in production and distribution logistics. In terms of outbound logistics, Zara delivers inventories to stores worldwide twice a week. Each of their streamlined distribution centres is capable of processing and shipping an order within eight hours. This makes distribution centres important to Zara's inbound and outbound logistics operations. Unlike many fashion retailers, Zara spends very little on traditional advertising in the marketing and sales areas of the value chain. Instead, prime store locations in metropolitan cities and the frequent arrival of new inventory create excitement among customers. Customers accept Zara's service policies, such as easy returns, and then utilise customer feedback opportunities to relay product preferences to the design team.

Zara's support activities incorporate a similar value chain logic. In the procurement or purchasing activity, Zara buys fabric in advance but waits to dye the fabric until it can pass through customisations of on-trend designs. In the development of technology activity, Zara utilises very detailed, sophisticated, and innovative information and technology material systems which connect stores directly to design teams and transmit real-time sales data that indicate the success rate of new designs and customer feedback communities. Zara's human resource and management

activities are focused on training store managers to be market researchers—acting to observe and report back on customer preferences. Finally, firm/human infrastructure activity is centred on rapid decision-making. The design, production, and distribution teams that design fashion, create product configurations, and distribute products to stores are located within the same building which generates no time delays in discussions, designed items, or shipping inventory.

With such a value chain in place, Zara has developed a remarkable competitive advantage. Traditional fashion retailers take, on average, six to nine months from designing fashion to seeing it on the sales floor; Zara takes two to four weeks. Zara can spot a trend, design new product, manufacture it, and have it delivered and on the sales floor before the traditional retailer has even delivered their fashion containers to stores. This ability to expedite fashion introduced massive risk to Zara in terms of the cost of fashion (very few garments are not sold before they become outdated) and a high sense of scarcity, which encourages customers to visit stores repeatedly and less likely incur waiting for sales.

Conducting a value chain analysis offers organisations several important advantages. First, it reveals how activities create competitive advantages and what segment of the activity is truly distinguishable. Second, it identifies cost drivers; in other words, it helps understand where the best capital is located and how it is spent. Third, it reveals linkages between activities (i.e. how performing one activity exceptionally well reduces the cost or increases

the value of associating an activity, such as marketing efforts which connect supplier relationships to customers). Finally, assessing the value chain will indicate strategic options for managing activities internally versus possible outsourcing and future improvement opportunities and areas of capital investment.

An example of a value chain is that of Dell Computer in its innovative changes to the personal computer industry. Traditionally, personal computer manufacturers knew who they were designing for and produced products in a similar manner. IBM and Compaq designed computers, manufactured their components, and assembled them to finish the computers. They were then delivered for sale through retailer distribution to shoppers as traditional customers. Dell completely reconfigured the value chain by eliminating the retailer and created a "direct to customer" distribution option. In terms of wearable technologies and inbound logistics, Dell Computer maintained firm partnerships with suppliers of components but only received parts from suppliers as they came in the order when someone purchased a computer, thus minimising their inventory costs.

As a result, Dell's operations became assembled-on-demand instead of build-to-stock (where inventories are moved to warehouses). Outbound logistics were also completely recreated, moving computers directly and faster to the customer rather than to retailers (after the products were bought by retailers to sell at regular markup prices). In marketing, the client also returned to using catalogues rather than retailers to market their computers. The marketing technique progressed to selling computers through media

and the Internet with no retailer or wholesaler mark-up. The value-chain difference is next, for there is a distinction in how Dell delivered lower costs (by optimally minimising the use of component parts manufacturing to waiting even further to have inventory costs from retailers), providing client customisation (clients had the perfect access to input exactly what they wanted into manufacturing), and finally, better customer information through the direct responsibilities in market research.

Cost-Benefit Analysis

A cost-benefit analysis is a structured method for estimating and comparing the costs and benefits of a decision, project, or investment. It provides rationale for answering the basic business question, "Is this worth doing?" Although the concept is straightforward— comparing what you are spending with what you are getting—the entire process of cost-benefit analysis requires rigor in evaluating all relevant features, measuring appropriately, and evaluating both tangible and intangible aspects realistically.

The first step is to define the decision or project being evaluated as clearly as possible. For example, a manufacturing company may consider whether to purchase automated production equipment. They must describe exactly what equipment will be bought, what it will replace, if the change in production will occur, and the time period that is being evaluated. The next step is to list the costs associated with (impacted by) the decision. Costs can include direct costs (those that can be directly attributed to the decision,

such as the purchase price of the equipment), indirect costs (overhead-type items that are impacted by the decision, such as the expected increase in the electricity bill), opportunity costs (loss of the benefit from some alternative, inherent in the decision to consider this alternative), and intangible costs (difficult-to-evaluate items such as employee stress created during the transition and the level of anxiety that is created by adapting the production process).

The process of identifying benefits requires similar diligence. Benefits include some sort of direct profit (e.g. projected revenue from additional production capacity), reduced cost (e.g. lower labour costs), some sort of competitive advantage (e.g. increased quality leading to improved standing in the marketplace), and intangible benefit (e.g. employee morale/satisfaction with safer working conditions).In the case of automated equipment, advantages would include savings in labour costs (because fewer workers are required), lower error rates that reduce wastage, increased production rates which result in further sales, and potentially enhanced worker safety from automating hazardous labour.

Once you identify costs and benefits, the next step is to measure or quantify the costs and benefits in financial terms whenever possible. Measuring monetary terms is often straightforward for tangible costs, such as costs of equipment purchased or savings in labour costs; however, assessing the financial value of intangible benefits (i.e. improved employee morale, environmental benefits, etc.) is more difficult. In such cases, analysts typically look for proxy measures or substitutes for the missing data. For example, the increased benefit and value of employee morale might

be identified by measuring the savings from reductions in recruitment and training costs associated with lower employee turnover. In a cost-benefit analysis, it is important to consider the time value of money, which states that money today (or the present time) is worth more than the same amount of money if received in the future because it can be invested and generate students.

The time value of money principles indicate that future costs and benefits must be discounted to an equivalent present value (in monetary terms) using an appropriate illustration discount rate in the cost-benefit analysis approach. This would allow for a "fair" comparison of the costs and benefits related to different time periods.

We explore how the supermarket chain Tesco constructed a cost-benefit analysis when deciding to implement their Clubcard loyalty program in 1995, which became one of the most successful customer data exercises in retail history. The implementation and costs of running the program were considerable, including direct costs for technology infrastructure for tracking purchases, producing plastic cards for millions of customers, paying for postage and printing for mailing organised vouchers four times each year, and longer customer checkout time. Indirect costs include the costs of training people to shop in the new system, as well as new information technology support costs. There were also opportunity costs—the investment capital that may have gone into store refurbishments or acquisitions.

However, the benefits turned out to be transformational. Direct financial benefits included increased retention of customers who were Clubcard members (they shopped more often), increased average basket values (the targeted

promotions encouraged specific purchases), and reduced waste in advertising costs (the personalised offers produced much fewer purchases than mass marketing). The strategic benefit was unprecedented insights into customers' shopping behaviours – Tesco now knew exactly what individual customers purchased, when they purchased, and how often they purchased. The information provided insights into shopping patterns, seasonal preferences, and purchase decisions in other specific product categories which informed everything from the layouts of its stores to new product development. An additional intangible benefit was strengthened competitive positioning: Clubcard helped Tesco to overtake Sainsbury's as the leading supermarket in the UK by providing switching costs (the customers did not want to give up points earned) and emotional connection (the personalised tailoring provided a feeling of ushering a connection).

Tesco committed to a detailed analysis which quantified these costs/benefits over a five-year timeframe, converting future costs/benefits into present value costs/benefits. The calculations demonstrated that, notwithstanding substantial upfront costs, the program should produce positive returns to Tesco in approximately 16 months which would continue to accelerate as the customer database matured. The analytical results were accurate.

The Tesco Clubcard became the base of its strategy, and a clear demonstration of the systematic cost-benefit analysis justified a significant strategic investment.

Cost-benefit analysis offers advantages in strategic decision-making. It encourages disciplined thinking and requires

the systematic identification of all consequences. It adds quantifiable values, moving the decision-making processes to something less subjective and more objective. It improves communication, allowing various stakeholders to understand why decisions are made. It creates accountability and establishes benchmarks for measuring actual results. However, the cost-benefit analysis approach has several important limitations. The subjective and potentially misleading nature of intangible factors is part of this process. Cost-benefit analyses are as good as the assumptions underlying the projected future conditions. Cost-benefit analyses can lead to short-term thinking if analysts apply high rates of discounting, which diminishes long-term benefits. There is the possibility of 'analysis paralysis' if analysts spend so much time on cost-benefit analysis that the opportunity has passed.

Internal Analysis Frameworks

Benchmarking and value chain analysis are two techniques used to assess internal situations; however, conducting an internal analysis usually requires implementing a broader framework that can take a holistic view of the organisation. In general, frameworks enable managers to systematically examine all dimensions of an organisation's internal environment to gain an understanding of its general strategic position.The resource-based view is a fundamental approach to internal analysis that suggests that achieving a competitive advantage comes primarily from an organisation's unique internal resources and capabilities rather than from its internal position in attractive or selected markets.

This perspective asks the question: What do we have (i.e. resources or capabilities) that competitors cannot easily copy? Resources can be classified as either tangible (physical and financial resources that someone can actually see and measure) or intangible (intellectual property, brand, reputation, and organisation culture). Capabilities refer to how organisations use their resources. For example, a restaurant may have tangible resources (physical assets, such as kitchen equipment and location), intangible resources (services, such as chefs and reputation), and capabilities (operations, such as creating new dishes, customer experiences, and training) that would be difficult for others to replicate.

The VRIO framework provides a systematic approach for analysing whether the resources and capabilities of an organisation will lead to achieving and experiencing competitive advantage. VRIO stands for Value, Rarity, Imitability, and Organisation. The first question to address is whether the resource/capability is valuable: does it help the organisation exploit opportunities and neutralise technical threats? If it is not valuable, it provides a competitive disadvantage. The second question is whether the resource/capability is rare: Do few competitors have the same knowledge or resource? If the resource/capability is valuable but not rare, then it provides competitive parity. The third question is whether the resource/capability is costly to imitate - would a competitor find it expensive or difficult to gather the resources? If the resource/capability is valuable, rare and not easy to copy, then that resource will provide temporary competitive advantage. Fourth, is the organization organized to exploit it; do systems, processes and management enable

the resource to be used effectively? Sustained competitive advantage comes only from resources and capabilities that are valuable, rare, costly to imitate, and organized.

Consider Southwest Airlines, which has had positive profits over the years in an industry where most airlines have struggled. One resource is a standardised fleet of Boeing 737 aircraft (tangible), and the second is a strong organizational culture that values employee satisfaction and customer service (intangible). Some capabilities are rapid gate turnaround (putting planes back in the air quickly), point-to-point routing that avoids congested hub airports, and high employee productivity.

If we apply VRIO analysis, are these capabilities valuable? Research shows that rapid turnaround means the planes will fly more hours per day, generating more revenue; point-to-point routing reduces delays; and engaged employees will provide better service and lower costs. Are any of these capabilities rare? The culture of Southwest Airlines is rare, as most airline workforces do not operate with this type of labour relations. While Southwest's operational model may not be completely rare, it is less common than the traditional hub-and-spoke systems. Are these capabilities expensive to imitate? Yes, this is very difficult as culture takes decades to build; additionally, any competitor with a hub-and-spoke infrastructure and a multitude of aircraft types could not switch to the Southwest Airlines model without abandoning all former investments. Finally, is the Southwest organized to exploit its capabilities? Yes, there are aspects of hiring, training, compensation, and disaster procedures that reinforce the capabilities of the

fire department. The outcome is a sustainable competitive advantage, often shown by decades of positive profitability.

The McKinsey 7S Framework is another internal organizational analysis tool that considers seven interdependent elements that must be aligned for an organisation to be functioning and effective. The framework separates elements into "hard" elements that are relatively simple to define and manage, and "soft" elements that are more intangible and perhaps culturally dependent. Hard elements include strategy (the plan for distributing resources in support of objectives), structure (the way the organisation is designed—divisions, departments, hierarchy, etc.), and systems (the procedures, processes, and routines that define the way work is achieved). Soft elements include shared values (the beliefs and attitudes that influence behaviour), style (the leader's approach to leadership and culture of the organisation), staff (the human resource capabilities and capacity for development), and skills (the organisation's distinctive competencies).

The framework argues that all seven elements must be aligned and reinforced. Changes to one element will require a change in other elements to achieve alignment. For instance, if a company changes its strategy to emphasise innovation, it is likely that they will also need to change their structure (perhaps developing cross-functional teams), systems (perhaps developing processes for idea generation and testing), skills (original capabilities that foster innovation), staff (hiring or developing innovative thinkers), style (the leader must permit risk-taking rather than punish failure), and be guided by shared values that foster change and creativity.

Starbucks provides an excellent example of the clarity of the 7S alignment. For example, Starbucks' strategy concentrates on providing a "third place" between home and work, where customers can enjoy premium coffee in a comfortable environment. Its structure has an appropriate blend of company-owned stores and licenced locations, enabling quality control and expansion. Systems include providing a rigorous barista training program, procedures for quality control, and mechanisms toShared values emphasise fundamental corporate responsibility to stakeholders, sustaining the environment, and treating employees (called "partners") with respect and dignity. The style within these values is evidenced in participative leadership, with Howard Schultz, the founder, modelling these values through decisions such as providing healthcare benefits to part-time workers. Policies to support staff include comprehensive training and development, educational benefits, including tuition reimbursement, and stock options that create an ownership mindset among partners. Skills include coffee knowledge, building relationships with customers, and providing consistent experiences across thousands of plug-ins. This interrelatedness among all seven elements provides a coherent identity that competitors will struggle to copy.

SWOT analysis is often used for strategic analysis at a high level, but it is particularly applicable and enhances internal assessment when used specifically for strengths and weaknesses. Strengths are used to describe an organisation's internal capabilities and resources that promote competitive advantage, and weaknesses are also internal, but identify the limitations preventing us from performing at the desired level of excellence. An internal SWOT analysis

requires honesty and assessment of each functional area of the organisation—operations, marketing, finance, human resources, technology, and management— based on the evidence of their current capabilities, skills, or resources against the evidence of their function.

When conducting an internal analysis of the organisation, the financial resources (profitability, cash flow, and access to any capital resource), physical resources (location, facilities, condition, and capacity of equipment), human resources (skills, knowledge, motivation, and retention rates), intellectual property (patents, trademarks, proprietary knowledge), brand and reputation (perception of customers towards the brand, customer media, industry awards), organisational culture (values, norms, and levels of employee engagement), innovation capability (research and development efficiencies, new product success), operational efficiency (productivity metrics, quality levels, and waste reduction metrics), customer relationships with the organisation (customer satisfaction scores, customer loyalty ratios, and customer lifetime value), and finally the quality of management (the quality of the leader, strategic thinking, and decision-making) should be assessed.

British retailer John Lewis Partnership reflects the importance of conducting a robust internal analysis. Their ownership model is a unique structure that encourages employee ownership through partners. This presents the strength of an engaged workforce, which produces exceptional levels of customer service based on partners being financially rewarded when customers are satisfied. This embedded culture of quality and service excellence is prevalent through-

out the organisation and broadly replicable by competitors. However, the ownership model also has its weaknesses. Even a significant decision would take time to make, as it required partner consultation. Similarly, profit sharing restricts investment decisions, such as increasing staffing levels during difficult financial times. Importantly, being a partnership means that they cannot raise external capital or debt by selling shares. Due to the tough retail environment in recent years, limited financial flexibility has constrained them in making internal investment decisions, such as expedient investment in digital transformation, compared to competitors with external capital.

Internal analysis can also be used to assess core competencies or bundles of skills and underlying technologies that provide customer value which the organisation can leverage as a competitive position. Typically, core competencies span more than one aspect of a business, are difficult for competitors to achieve quickly, and give them access to the rest of the market. Honda is an example of a company where engines/powertrains are their core competency, and they leverage this to gain access to market advantages in automobiles, motorcycles, lawn equipment, and marine products. This core competency and market presence were built over decades using investments in engineering and organisational knowledge that competitors could not readily replicate.

Integrating Internal Analysis Tools

An effective internal analysis rarely involves only one tool.

Organisations are likely to have many different perspectives to build a complete picture. For instance, you could find that your competitors have better customer satisfaction scores from your benchmarking; if you are going to increase scores, you perform a value chain analysis to see which activities are contributing to customer experience and to identify areas for development. A VRIO analysis may reveal that your employee expertise is a rare and valuable resource, and you may wish to conduct a cost-benefit analysis to determine whether you should invest more in training. The 7S framework might indicate a misalignment between your strategy and structure and help you decide on organizational redesign.

For example, consider how the Japanese car manufacturer Toyota uses all these tools together. It conducts benchmarking analyses against competitors globally to stay informed about the best practices in quality, efficiency, and innovation. Value chain analysis underpins the Toyota Production System methodology that Toyota is known for – the analysis of every activity to eliminate waste and optimise flow. The fact that they have 'kaizen' as a concept – continuous improvement – effectively institutionalises internal analysis as an ongoing process among all employees at every level, continually scrutinising processes and injecting improvements. A VRIO analysis would lead to the conclusion that evaluating the competitive advantage lies not necessarily with techniques (in isolation) but fundamentally with a manufacturing system and culture of quality. Finally, the 7S framework ensures that both strategies and structures, systems, and soft elements demonstrate alignment around values associated with quality and efficiency. Cost-benefit

analysis is a key tool for assessing the trade-offs between developing a new plant or investing in new technologies, for example, in market opportunities.

Using all of these theories and frameworks in an integrated way has helped Toyota become one of the most successful car manufacturers in the world.In 2009-2010, internal analytical capacities were used to respond to the serious quality issues associated with unintended acceleration, which the organisation was experiencing.

They developed benchmarks that showed that their recall measures were much longer than those of most manufacturers. They also used value chain analysis to identify gaps in communication between engineering and quality control. The VRIO analysis showed that quality was a good resource worth protecting through action. The cost-benefit analysis justified investing in relatively substantial additional costs in quality checks, even though they were relatively expensive in the short term. Ultimately, a series of aggressive changes occurred that restored customer trust and ensured real commitment to a culture of quality.

Practical application and implications for strategy

Internal analysis should not be a random academic activity. Internal analysis can be a critical plank of management processes used for multiple decisions of various magnitudes. Leading organisations conduct a formal internal analysis each year for strategic decision-making but also ensure that there is an ongoing cycle of informal internal analysis through management meetings, performance dashboards, and discussions based on employee recommendations.

The implications of this strategy are substantial. First, internal analysis will be critical to determining which resources are best allocated. Knowing which capabilities are valuable will determine which resource investments are a priority. For example, if value chain analysis shows that product design is a key differentiator and that manufacturing is almost identical to competitors, it would make sense to invest in design talent and tools and consider outsourcing manufacturing. Second, the internal analysis informs the strategy to pursue. Knowing "what" is the unique competent capability of the organisation creates clarity for understanding what market opportunities to pursue and which customer needs are interesting to pursue. Third, internal analysis uncovers strategic gaps in the literature. Gaps exist where the organisation does not have suitable capabilities for a strategy aligned with the mission of the business. The analysis reveals strategic opportunities to build, borrow, or buy capabilities.

Internal analysis also has implications for organizational development. The advantage of demonstrating weaknesses in targeted areas is that it provides clarity and focus on targeted improvement efforts.

For example, if an organisation benchmarks performance in customer service relative to its competition, and its value chain shows that high turnover in service representatives is causing weak customer service performance, then the organisation must focus on the care and feeding of its human resource practices involving compensation, training, and career path for service personnel. In fact, the analysis can even justify a social cost-benefit analysis for hiring potentially lower-cost service personnel to reduce turnover

in hopes of generating better long-term customer service.

Even small organisations without significant analytical capacities have valid insights from previous analyses. For example, a small restaurant cannot afford to conduct an expensive, high-end benchmarking study but can at least see what a successful competitor does and view their processes, practices, and actions. Value chain analysis sounds more intellectual, but a restaurant can at least "walk" through a value chain and begin to consider what activities create customer value and what adds cost without much value. Even positions that are committed to the architectural thinking of SWOT analysis can provide a focused strategy for implementation. Even with basic informal internal analysis, there is no way it is better than relying on gut instinct or what other big names in various industries are currently generating the news.

Challenges and Limitations

Internal analysis can generate valuable insights, but a handful (or more) of limitations may reduce the usefulness of the analysis. First, internal bias can make it difficult to achieve objectivity. People who work in an organisation often have an unrealistic view of its internal capabilities, making it difficult to see what it should realistically be able to achieve. They may view the organisation as either too positive (they perceive themselves as better than they are) or too negative (they do not recognise their strengths). Second, we run the risk of ultimately analysing to paralysis in which the organisation never actually makes a decision or improves

anything Will be. The analysis allows for action to occur and does not take the place of action.

Third, if capabilities are not tangible, they are much more difficult to measure. How do you objectively measure an organisation's culture, brand equity, or employee morale? These are frequently the primary factors in determining the competitive advantage of an organisation but are notoriously difficult to measure. Organisations are working hard to develop proxy measures (e.g. employee engagement surveys, brand awareness, customer sentiment, etc.). It is important to recognise that while proxy measures provide some sort of measure, they are proxies for measuring the underlying construct rather than a perfect measurement of the construct.

Fourth, cause-and-effect measurements can often be difficult. Organisations are complex systems with many overlapping factors that affect performance. For example, strong (or poor) financial performance could be attributed to several reasons, including but not limited to an outstanding strategy, operational plans that were or were not implemented well, market conditions that were presented, and a competitor making poor decisions. Internal analysis is helpful, but in the end, there is no way to measure the cause and effect of each and every thing mentioned above.

Fifth, capabilities change over time. Any capability that may be a strong point today may not be tomorrow based on changes in technology and the market. Internal analysis is inherently a snapshot in time and does not inherently consider the need for updates to action, and Nokia's manufacturing expertise and distribution partnerships were real strengths in the mobile phone industry until smartphones shifted the

competitive playing field, where software capabilities and app ecosystems became more important than manufacturing efficiency. Nokia's inability to adjust to this change quickly was disastrous for its prospects.

Conclusion

The internal environment and capabilities of an organisation represent an important foundation for developing a good strategy. External analysis indicates opportunities and threats in the external environment, while internal analysis specifies the strengths and weaknesses of the organisation–whether it can take advantage of opportunities and defend itself against threats.

The applications discussed in this chapter include benchmarking to establish relative performance, value chain analysis to clarify how activities create value, cost-benefit analysis to review decisions rigorously, and frameworks for thorough internal assessments to review all levels of the organisation to understand capability. These applications provide managers with systematic approaches to understand what their organisation does well and what needs to be improved.

These applications work best in combination, with each providing an additional viewpoint. It highlights performance gaps in a benchmarking analysis; value chain analysis determines the extreme level of the gap and ground for improvement; VRIO analysis illustrates which capabilities contribute most to competitive advantage; the 7S frame-

work ensures that the elements in the organisation align with strategy; and lastly, cost-benefit analysis for sound decisions associated with investment going forward which may address weaknesses or strengthen existing competitive advantage. As organisations periodically and frankly assess their internal environment, they will have the ability to make better decisions on strategic internal issues, allocate resources more effectively, and ultimately develop sustainable competitive advantages which derive from genuinely distinctive capabilities rather than imagination.The examples previously discussed in this chapter, from Zara's supply chain change in fashion to Southwest Airlines' operating model supporting the culture, to Tesco with a loyalty programme, to Toyota's integrated system of quality, demonstrate that having an internal foundation is part of the strategic success that they claimed to have accomplished. These organisations did not get there by chance or luck.

They systematically assessed their internal capabilities, understood the source of competitive advantage, aligned their resources and activities to the strategy, and continuously improved through lessons learned and the internal assessment done before. As you develop your business studies and work experience, you will find that building capability development skills will be useful whether you are assessing an organisation's capability as a potential employer or partner or as an advisor/consultant supporting the strategic decision. The framework and concepts introduced in this chapter represent a stepping stone for future research.

Learning Activities:

Activity 1: Value Chain Analysis Case Study Exercise

Purpose: This activity will support you in practising value chain analysis within a realistic business scenario to generate strategic recommendations based on your evaluation of the internal capabilities outlined in this case study..

The Case Study

FreshBite is a mid-sized sandwich and salad chain with 25 locations in the UK. They pride themselves on using locally sourced, organic ingredients and preparing everything fresh each day. FreshBite struggles to compete with larger chains such as Pret A Manger. However, they face several obstacles in their operations. Fresh ingredients are delivered daily from local farms, but deliveries are sometimes late, which can cause delays in the morning. All food preparation is done at the location by trained kitchen staff. FreshBite has a limited menu that changes seasonally based on the local availability of ingredients and not on the preferences of customers. The company has a very limited presence on social media (for example, Instagram and Facebook) and does not have a mobile app or online ordering. Their friendly staff will take the time to explain the local availability of food to any interested customer. The selling prices of their food are approximately 15–20% higher than those of major competitors. The company has a high level of relationships built within the farming community local to their locations, but FreshBite reports a level of food waste higher than the industry average, due to having to throw out food that has not sold that day to maintain freshness.

Your Assignment

Part A: Map the Value Chain (20m)

Create a value chain for FreshBite with a diagram identifying the two categories of primary and support, and then begin to identify the primary general activities (inbound logistics, operations, outbound logistics, marketing and sales, service) and one set of support activities (procurement, technology development, human resource management, or firm infrastructure). Then, under each activity, identify one precise strength from the scenario, along with one precise weakness from the scenario.Part B: Strategic Analysis (15 minutes)

Respond to the following questions: What are two of the value-adding activities and why? What are the two most prominent cost-adding activities, and are they justified? Please identify two linkages between activities to indicate how one activity is affected by another one

Part C: Recommendations (15 minutes)

We recommend two potential strategies for FreshBite. For each letter, we mention which component of the value chain it addresses, how it strengthens its competitive position within the value chain, and the challenge it presents for implementation.

Assessment Criteria

Your responses will be assessed based on the completeness

of the value chain mapping and analysis, depth of analysis, quality of the discussed strategic reasoning, and practical feasibility of the discussed recommendations.

Activity 2: Integrated Internal Analysis Workshop

Objective

This activity will allow you to practice using a number of internal analysis tools in combination to assess your strategic options and enable you to make recommendations.

Scenario

TechLearn is an educational technology company which has developed online learning platforms for 300 schools and universities across Europe. Founded eight years ago by two former teachers, the company has grown to employ approximately 150 people and is facing some critical decisions regarding its strategic direction. The leadership team is considering three options. Option A: Invest £2 million in technology capable of AI-based personalised learning. Option B: Expand into North America with increased sales and marketing. Option C: Develop a direct-to-consumer product for individual learners (currently, the services offered are merely through institutions).A vailable Resources: A total of £3 million cash reserves, owned learning software (which is well known but not on the leading edge), customer detail usage information, a small skilled product development team consisting of 15 people who are working hard, established connections with

300 established customer accounts, and a solid branding reputation only in the UK education market.

Performance Measures:

Retention of customers was 92% (the average in the industry is 85%)

Revenue uplift of 15% (the average in the industry is 22%)

Employee Satisfaction = 78% (the average in the industry is 71%)

Time to deliver product development = 8 months (industry average in 5 to six months)

Time to respond to customer support calls = 4 hours (industry average 2 to 3 hours)

Profit margin = 12% (the average in the industry is 18%.)

Task to be completed:

Part A: VRIO Analysis (15 minutes)

Make a table for the VRIO evaluation of either three resources or capabilities at TechLearn. You will need to decide if each is Valuable, Rare, Costly to Imitate, and if Organisation within TechLearn leverages it. Determining whether the resource or capability leads to competitive disadvantage, parity, temporary competitive advantage,

or sustained competitive advantage. For the resources or components of TechLearn, the following were chosen: Customer Relationships and 92% retention, owned software platform, customer usage data, product development team, cash reserves, and reputation of the brand.

Part B: Cost Benefits Analysis (20 minutes)

Choose one of the options (A, B, or C) and identify the three major costs and three major benefits of that strategic move. You must ensure that your costs and benefits include both tangible and intangible factors. Make a quick table to summarise and then write a short recommendation (150 words) about whether TechLearn should pursue this course of action.

Part C: Benchmarking and Integration (15 minutes)

Based on the measures of the metrics table, we chose the two most significant performance gaps. For one of the gaps, recommend a specific company or industry in which TechLearn should benchmark. You will also want to tell someone in TechLearn your practical recommendation on the specific practice in that company or industry that they should study. Write a practical recommendation (200 words) in total indicating what strategic option TechLearn should pursue and how it uses the strengths from your analysis in Part A and what includes the weaknesses from Part B.

Assessment Criteria:

Your submission will be assessed in part on the accuracy in applying the VRIO framework, the level of logic in your cost-benefit analysis, the appropriateness of benchmarking choice, the degree of integration you are able to do from the analysis in both A and B to your recommendation in C, and the overall quality of strategic rationale in everything you submit.

Groups Work Option:

This is an excellent activity to complete in a group of to 3-4 people. Each person can evaluate and respond to different options in Part B and then share and reach a consensus in Part C for a recommendation.

Approximate Timing: At the completion of these activities, Activity 1 will take approximately 50 minutes, and Activity 2 will take approximately 50 minutes. Both activities can be completed individually or in smaller groups, depending on which you think could lead to greater learning.

6

Chapter 6

Evaluating an Organisation's Internal Environment and Capabilities

Introduction

Every successful business must understand not only the world outside but also what is happening behind its walls. External examination of factors such as market changes, technological changes, and economic conditions helps an organisation contextualise opportunities and threats in the business environment. However, examining internal capabilities shows what an organisation can actually do and is good at doing, but what it cannot do or the issues it faces. This chapter provides an overview of the essential tools and frameworks businesses rely on to systematically assess their internal environment and capabilities. We explore

how external analysis complements internal assessment through SWOT analysis, shaped by PESTLE and McKinsey's 7S model in terms of how organisations evaluate internal alignment, and finally how organisations capture their real competitive advantage through VRIO and/or VRIN. Along the way, we will highlight several real-world examples, including Starbucks, Apple, Toyota, and Amazon, to demonstrate that these concepts are present in practice and to ensure that even if you have never studied business-related disciplines before, you will be able to understand and apply these critical strategic tools.

What are strategic capabilities: the basis of internal assessment

Before we can assess an organisation's internal environment, we first need to consider what we mean by strategic capabilities and why this access is essential to successful business outcomes. In simple terms, think of strategic capabilities as everything an organisation has and all the things it knows to perform, which permits them to compete within their chosen markets. Strategic capabilities are not simply physical resources such as buildings or equipment; they also include employee skills, a brand's reputation, process efficiencies, and historical knowledge derived from operating over time. This idea can also be appreciated through an example. Consider two coffee shops on the same street. They are in the same location and have coffee machines, tables, chairs, and employees. Basically, coffee shops look almost identical to the average observer. However, at one coffee shop, there are consistently long

queues of loyal customers, while the other shop is less likely to attract intending customers. The strategic advantages lie with the coffee shop that has a line of customers. Continuing with the example, this coffee shop has fantastic baristas with tailored skills that remember customer names and outgoing orders, creating a warm atmosphere that makes it challenging for customers to have a similar experience at the second shop. Perhaps the first coffee shop has also developed a secret recipe for its signature drink that its customers have become attached to. They have developed a substantial level of reputation within the local community, to the point that they have become the automatic choice for locals looking for coffee. In these instances, we used real examples, which were created from resources such as employee skills and recipes, and these resources, which are referred to as strategic capabilities, create a competitive advantage.

Strategic capabilities include two basic components that fit within each other: resources and competence. Resources refer to what an organisation has, whereas competencies refer to what an organisation can do. Resources consist of tangible "stuff" (all physical resources), such as buildings, machinery, equipment, technology infrastructure, financial capital, and inventory. For example, Starbucks owns thousands of locations worldwide, has state-of-the-art coffee roasting machinery, and possesses significant financial resources to invest in its company. These tangible resources provide a physical base for the business. Resources also include intangible "stuff" (all non-physical resources). These resources include brand reputation, patents, trademarks, intellectual

property, customer connections and organizational culture. Starbucks has a globally recognised brand, a protected recipe, and a reputation for reliability and responsible ethical sourcing which has great value; it is not physical stuff you can touch, but it has significant value. Competence, on the other hand, refers to the activities, processes, and ways of working which enable an organisation to use its resources to create value for customers. Competences pose the question: What can we do well? For instance, Starbucks has competencies in site selection; it knows how to find locations that will create foot traffic and profitability. Starbucks has competencies in employee training; thus, it will provide "the Starbucks experience" similarly across the world in thousands of locations.

Starbucks has competencies in supply chain management; therefore, it can ethically source beans and deliver them fresh from around the world to its stores. The interaction between resources and competencies creates a strategic capability. If you have resources but lack the competence to use them, your products/services will add little value. However, if you have competencies but no resources to use them, what can you accomplish?

To help distinguish the difference, a good example of strategic capability is Apple Inc. Apple has a huge amount of tangible resources, including manufacturing locations, retail locations, cash, and technology infrastructure. Apple also possesses a great amount of intangible resources, including iconic brands, patents, intellectual property rights, and a strong customer base. However, more importantly, Apple

possesses competencies. Competences include the design of products that incorporate hardware and software seamlessly, design of intuitive user interfaces that require little user learning, design of ecosystems where devices will easily work together, and marketing products as a lifestyle rather than a technology. These competencies allow Apple to apply its resources in ways that create unique value which competitors cannot easily replicate.

For example, when Apple is 'selling' its new iPhone, it is not just selling a piece of hardware. It leverages its competency (knowledge, skills, and know-how) to design and develop a product and experience that a market is willing to pay a premium price for. Accepting and acknowledging the difference between resources and competencies enables a more comprehensive understanding of the internal view. This is because we must consider what an organisation has (resources) as well as the knowledge and competence of what they can do with what they have (competencies).

Connecting External and Internal Analysis: Through SWOT (Underpinned by PESTLE)

A basic tenet of strategic management is that an internal analysis should not be conducted in isolation from an external analysis. The external environment ultimately determines which internal capabilities are worth having and which are worthless. Through SWOT analysis (underpinned by PESTLE analysis), the external environment can be connected to internal capabilities, providing a logical matrix from the macro-environment to the organisational strategy. Let us discuss these models in a structured format. PESTLE

is a framework for considering six categories of macro-environmental factors that may impact all organisations operating in a particular sector or location. PESTLE is an acronym for Political, Economic, Social, Technological, Legal, and Environmental factors. Political factors are related to government policy, political conditions, and relationships between countries. This can include tax policies, government stability, regulations, and trade restrictions.

For example, the UK government's sugar tax on soft drinks was a political factor that affected beverage companies 'sales. Economic factors are those that are considered when analysing a macroeconomic environment. These may include interest rates, inflation, exchange rates, economic growth rates, unemployment levels, and disposable income levels. In general, during a recession, consumers spend less on luxuries, which affects certain businesses more than others. The leisure and hospitality industries are examples of sectors that are hit harder than others during an economic downturn. The social factors used in this form of analysis are those concerned with demographics, culture, lifestyle patterns and trends, population growth rates, age distribution, and social preferences that are evolving over time.

For example, growing consumer consciousness about health is a social trend that creates opportunities for fitness businesses and healthy food companies while posing a threat to fast-food chains. Technological factors consider innovation, the impact of automation, research and development activities, technological infrastructure, and the rate of change. For example, the proliferation of

high-speed Internet and smartphones has generated huge opportunities for e-commerce businesses in the context of traditional brick-and-mortar retailers. Legal factors include employment legislation, health and safety legislation, consumer protection legislation, data protection/the data privacy debate, and specific industry regulations. For example, the introduction of the General Data Protection Regulation (GDPR) in Europe required all businesses that utilise customer data to virtually rethink their approach to data management. Environmental factors include climate change, weather patterns, environmental legislation, sustainability considerations, and pollution. An example of an environmental factor is the increasing consideration of plastic pollution, which has forced packaging companies to innovate biodegradable alternatives.

In contrast, we have a SWOT analysis which looks at four variables: Strengths, Weaknesses, Opportunities, and Threats. Strengths are positive internal characteristics, capacities, and resources that provide an organisation with an advantageous position. Weaknesses are negative internal characteristics, limitations, and resource gaps that place the organisation at a disadvantage. Opportunities are external positive conditions or trends that provide the organisation with an opportunity to take advantage of. Threats are negative external conditions or trends that can adversely affect an organisation. The key point is that PESTLE analysis helps provide the raw material for the opportunities and threats identified in the SWOT analysis. Any PESTLE factor can be framed as either an opportunity or a threat,

depending on the organisation's perspective and capacity.

Let us work through this integration of concepts using Starbucks as a more developed case study. When Starbucks conducts its PESTLE analysis, it has many factors to consider with all six of PESTLE's factors. In the political dimension, Starbucks must factor in fair trade and government-imposed policies related to sourcing practices in coffee-producing countries. Fair trade has become a big matter for politicians in Western societies who have supported ethical sourcing in countries that produce coffee, thus creating political pressure for Starbucks to show responsible sourcing practices. This political factor presents both an opportunity and a constraint. In terms of economic factors, Starbucks must consider economic recessions, which may cause customers to seek alternatives to premium coffee in the form of lower-quality coffee. Inflation and increased minimum wage legislation in various markets present pressure from increasing labour costs. The economic conditions in various markets affect Starbucks expansion plans and pricing strategy. In terms of social factors, Starbucks must consider the retirement of the Baby Boomer generation, the influence of changing family patterns, and lower birth rates, all of which can change the demographics of its customer base. Changing work styles, specifically the massive increase in remote work, changes when and where people buy coffee. The existence of more health-conscious customers may lead to seeking alternatives to full-fat milk and lower-calorie beverages.

From a technological perspective, payment technology gives

Starbucks an opportunity to offer more convenient and faster service to its customers through the mobile app, as well as advances in agricultural technology that affect the coffee bean supply and quality.

Legal factors involve health organisations passing laws and policies related to caffeine consumption, as well as the various licencing laws that differ from market to market or country to country. In terms of environmental factors, natural disasters in the coffee markets of Brazil, Colombia, and Vietnam will negatively affect their supply chains. Environmental factors also include packaging and waste regulations, which force Starbucks to rethink their cup and waste management strategies. We can now convert the PESTLE factors into SWOT opportunities and threats: Political pressure for fair trade is an opportunity for Starbucks to use its ethical sourcing credentials as a point of difference in marketing to consumers who are socially responsible. The economic recession is a threat as cost-conscious consumers trade down to lower-cost alternatives, for example, McDonald's coffee or home brewing coffee.

Rising labour costs are a threat to margins that must be offset through greater operational efficiency or a price increase. The demographic trend is a bit of a mixed bag, with retiring baby boomers reducing the workforce and shrinking the labour market. However, remote workers provide an opportunity for Starbucks to position itself as the 'third place' by offering its retail space to remote working professionals. Finally, the trend of mobile payment technology is an obvious opportunity for brands to provide

more customer convenience while also gathering valuable insights into purchase behaviour.

Natural disasters affecting coffee supply chains present a considerable threat that may require Starbucks to diversify its supply channels. Environmental regulations on packaging are both a threat (cost of compliance) and an opportunity (to differentiate themselves as industry leaders in sustainability). Finally, Starbucks assesses its internal strengths and weaknesses. Strengths include global brand recognition, company scale contributing to purchasing power with suppliers, regional real estate holdings with established store locations in prime locations, supply chain/quality control systems, mobile app and loyalty program technology, and the organizational culture of customer service. Weaknesses include premium pricing, which may make Starbucks vulnerable during an economic downturn, sourcing needs from specific regions that may be vulnerable to supply disruption, and high operational costs associated with company-owned stores rather than franchising. Perceptions in the marketplace may also suggest that Starbucks is an American corporation and not a local business model.

The last step of the analysis is to combine the external environmental opportunities and threats and the internal strengths and weaknesses to inform the strategic position. Starbucks can leverage its brand name (strength) to take advantage of fair trade coffee consumption (opportunity) and position itself as an industry leader in fair trade coffee.

Starbucks' sophisticated supply chain (strength) will help them mitigate the threat of supply disruptions from natural disasters, as the brand can quickly adjust sourcing based on the supply chain. Starbucks' mobile app (strength) will also capitalise on the opportunity that changes in work patterns will present for remote workers to place an order ahead of time and avoid waiting time. Premium pricing (weakness) will increase vulnerability to the economic recession threat; therefore, Starbucks will need to consider developing a value product line or consider how it will justify its prices based on product quality. The high operational cost (weakness) will further compound the threat of rising minimum wage legislation (threat), forcing Starbucks to consider more investments in automation or to consider improving operational efficiency. This integrated SWOT-PESTLE analysis is an example of how external environmental scanning connects systematically to internal capability assessment to use information to strategically inform decision-making; thus, strategy is grounded in both external market conditions and internal organizational capacities.

Let us consider another example to illustrate this concept. Let us consider a hypothetical small business owner, "Amber", who wants to sell umbrellas. Amber is a former product designer who noticed that high-quality umbrellas can be very expensive and that cheap umbrellas break easily in the wind. She believes that it could be successful to sell well-designed, long-lasting umbrellas at reasonable prices. Amber began her internal analysis by identifying her strengths and weaknesses. Two strengths are her strong background

in product design and her ability to apply her expertise to create a distinctive, functional design that is clearly different from the generic designs of many competitors. She also plans to manufacture umbrellas domestically, which will ideally appeal to customers who value that and will allow her a greater opportunity to maintain quality control over the product. She aims to provide good value with her pricing, positioning the umbrellas at reasonable prices to represent good overall value (positioned between cheap low-quality umbrellas and expensive high-priced umbrellas).

Two weaknesses emerge from her internal analysis: while there are many potential competitors, she will be entering a notably competitive umbrella market with many established brands. She is also aware that domestic manufacturing is relatively more expensive than manufacturing in countries where wages are much lower, which puts pressure on profit margins. She also has a newer business and therefore does not have much money available for marketing or building a brand, making visibility difficult to achieve. Amber then conducts a PESTLE analysis to identify the opportunities and threats that likely exist externally. Politically, she has identified a potential opportunity in that the incoming government has announced tax breaks for small businesses, which will likely reduce her taxes during the critical years of establishing her business. The economic segment of the analysis indicates that the high value of her national currency makes umbrellas sourced from outside the country relatively more expensive, making it an opportunity for the prices of domestically produced umbrellas to be more price-

competitive. However, the downside of this rising national currency value is that the cost of sourcing materials will rise, increasing her costs and representing an economic threat. For the social section, Amber was unable to identify any current social trends impacting umbrella demand, although general trends towards seeking outdoor recreation could lead to an increase in demand. In the technological portion of the analysis, new automated manufacturing technology has become available and could likely decrease production costs, representing an opportunity for improved efficiency and mitigating the cost disadvantage of domestic use. No apparent technological threats were noted in this analysis. For the legal dimension, there are currently no legal opportunities for umbrellas specifically at present.

However, the proposed minimum wage legislation represents a threat due to its escalation of labour costs of production into higher wages for workers. For the environmental dimension, the rise in temperature averages and changing weather patterns may lead consumers to prefer using lightweight umbrellas to protect themselves from the sun rather than wearing raincoats to keep warm, expanding the market beyond just rainy days and demonstrating an environmental opportunity. No environmental threats were noted in the analysis. In the conclusion of her analysis, Amber sees that her design expertise leveraged by an opportunity of higher prices for imports and a currency advantage creates a favourable overall market position. Government tax breaks offset the weakness of a limit on financial resources (economic). Investing in new manufacturing technology (technological) may also mitigate

the weakness of cost disadvantage (economic).

Nevertheless, rising minimum wage (legal threat) costs, combined with expensive imported materials (economic threat), create a challenge to maintain a profitable cost structure, and careful management of ever-rising costs will be critical and require close attention. The potential opportunity of expanding umbrella use (environmental) beyond rainy days can also leverage her strength of unique designs (strength) by marketing the unique designs as umbrellas for protection from both rain and sun. The completed integrated PESTLE and SWOT analysis provided Amber with a clear strategic picture to inform her decisions about proceeding with the business, as potentially outlined in her business plan, and/or the positioning of the business.

McKinsey's 7S Model: Understanding the Internal Alignment

While a SWOT analysis supported by PESTLE provides the link between external environment and internal capability, it does not provide a structured framework for looking inside the internal organisation and ensuring that the internal elements work together in a coherent style. This is exactly where McKinsey's 7S model becomes useful. The model was developed by consultants at McKinsey & Company, one of the leading management consulting firms in the world. McKinsey consultants who worked for many corporations have developed their models based on the premise that organizational effectiveness relies on multiple interdependent factors or elements working in harmony rather than

any one factor. The premise of the 7S model is that one cannot change or improve an organisation by looking at one factor, for example, strategy or structure, separately from the others. All seven factors must be considered together and aligned for the organisation to work effectively. The seven factors are Strategy, Structure, Systems, Shared values, Skills, Style, and Staff. All of these factors begin with the letter S, which is a simple way to remember this model. The model differentiates these seven factors into two categories: hard and soft elements. Hard elements are easier to define, identify, and influence directly because they are concrete, tangible, and documented. The hard elements are Strategy, Structure and Systems. Soft elements are more difficult to describe in exact terms because they are intangible, influenced by organizational culture, and are ever-evolving. Soft elements include shared values, skills, styles, and staff. Although hard elements are comparatively simple to modify on paper, soft elements are believed to have a more significant impact on organizational effectiveness, as they drive people's actions and work.

We will now examine each element to explore the extent of the parts involved. Strategy examines how an organisation plans to achieve competitive advantage and its goals. Strategy tackles questions such as: What markets do we compete in? How do we differentiate ourselves from our competitors? What are our priorities for the next several years? What strategies should we employ to grow the business? A clearly articulated strategy can offer an organisation a true north and help all employees understand where the organisation is headed and how we arrived at

certain decisions. Structure refers to how an organisation is organized and divided. Structure entails reporting relationships and hierarchies, divisions, departments, and the organizational chart. The structure indicates who reports to whom, how authority operates, how decisions are made, and how different parts of the organisation coordinate.

Structure can be hierarchical with management layers, or flat with limited layers with wide spans of control. Structure is similarly constructed by function, where all people with similar expertise are aligned by product line, by a particular geographic region, or specific customer segment. Systems refer to all formal and informal procedures, processes, and routines that define how work is done in an organisation. Systems cover IT systems and software applications, financial systems and budgeting processes, performance and performance appraisal systems, communication system, quality system, and hiring and onboarding system to name a few. Systems serve as the operations by which the organization functions daily and can either facilitate or inhibit efficiency and effectiveness. Shared Values, situated at the centre of the model, capture the fundamental beliefs, purpose, and principles that characterise the culture and direct behaviour across the enterprise.

Shared Values serve to answer questions such as the following: What is it that we believe in? What is our purpose beyond making profits? When faced with difficult choices, what principles guide us? What behaviours do we value and reward Shared Values are sometimes referred to as an organisation's mission, vision, or core values. They take centre stage in the model because they shape all the other elements and serve as the cultural 'glue' that holds the organisation

together. Skills reflect the actual capabilities, competencies, and areas of excellence of the organisation and its staff. Skills do not reflect the abilities of individual staff members but instead reflect the organizational capabilities that have been built through experience, training, and practice. Skills serve to answer questions such as: What do we do very well? What skills set us apart from our competitors? What expertise has been developed over time?

Organisations are a culmination of people over time, and as such, develop certain skills in areas that are deemed strategically important to them. This may be in areas such as innovation, customer service, operational excellence, or specific technical expertise. Style is the leadership style, management philosophy, and working style of the leaders; how they interact with people; whether the culture is formal or informal; how decisions are cascaded; whether it is collaborative or hierarchical; and what their general approach to conflict management is. This is the cultural indicator of "how we do things around here" and can have a significant impact on employee experience and motivation. Staff elements examine the human resource aspect of the organisation — how people are attracted, developed, motivated, rewarded, and retained. The staff dimension examines the number and type of employees needed, how to attract them and the criteria for the same, how they are trained and developed, how they have career pathways, what is the organisation's compensation and benefits philosophy, and what incentives they have to perform.

The staff element ensures that the organisation has the right people with the right skills in the right position.

To examine the 7S Model in practice, we focus on Toyota, the famous Japanese automobile manufacturer known for its operational excellence and quality. Toyota's strategy has focused on providing a reliable, fuel-efficient vehicle at a reasonable price while developing technology to support hybrid vehicles such as the Prius. Their strategy promotes a long-term view (as opposed to maximising short-term profit) which is focused on continuous improvement and customer satisfaction.

Toyota's structure is relatively flat compared to most automotive organisations, and authority relative to decision-making is pushed down to the worker and the front-line team. This flat structure facilitates cross-functional work among engineering, manufacturing, and quality, as opposed to rigid functional departments. This structure enables flexibility to be responsive and supports rapid problem solving as well as continuous improvement. Toyota's systems consist of the highly regarded Toyota Production System, including just-in-time manufacturing, where parts arrive at just the right time to minimise the costs of holding inventory, and jidoka, meaning automation with a human touch, meaning any worker can stop the production line if they think it is producing a quality problem. Furthermore, Toyota has built quality control at every step, supplier systems which treat suppliers as partners, and employee suggestion systems to encourage creativity and innovation to bubble up from the bottom. These Systems support their strategy of producing quality and efficient vehicles. The Shared Values of Toyota may be summed up as The Toyota Way which emphasises continuous improvement (kaizen), respect for people, long-

term thinking, and going to the actual location (genchi genbutsu). These Shared Values are deeply embedded in the organisation and shape every decision from the factory floor to the executive office. The shared belief that every employee can contribute to improvement creates a strong culture of empowerment and engagement within the organisation.

Toyota's skills are world-class in areas such as manufacturing efficiency, quality management, continuous improvement, lean production techniques, and more recently, hybrid and electric vehicles. These Skills have been built over decades and represent capabilities that are extremely difficult for competitors to replicate. Toyota's style is collaborative and consensus-based and reflects broader cultural norms in Japan. Decisions are made through consultation and consensus building, as opposed to vertically directed decision-making.

Leaders in the Toyota organisation are expected to spend time on the factory floor to observe and build relationships with workers, which also encourages the values of respect and continuous improvement. Finally, Toyota's staff approach includes long-term employment, extensive training for employees, internal promotion, and developing loyalty in employees. Toyota makes considerable investments in the development of its employees by not only teaching them the specific work they do, but also teaching them how to problem-solve generally, and thereby the underlying principles of the Toyota Production System. This approach to staff develops organizational skills but also reinforces culturally Shared Values.

Interestingly, Toyota's seven elements are aligned and mu-

tually reinforcing. A strategy for producing quality and efficient vehicles is supported by a structure that allows for rapid problem resolution, systems that emphasise quality and efficiency, shared values that emphasise continuous improvement, skills in lean production, a collaborative style of leadership, and staffing practices that develop capable and committed employees. These elements provide coherence and effectiveness to organisations. If there is a misalignment of one of the elements, it will affect the other elements. As an example of misalignment, consider that Toyota wanted to change its strategy to compete with Ferrari and Porsche and began producing luxury performance vehicles. This change in strategy would create internal misalignments.

The current structure is optimised for efficient mass production and is not conducive to promoting the bespoke, low-volume production of luxury performance vehicles. Systems that emphasise standardisation and efficiency would likely counter customer expectations regarding the customisation and craftsmanship of luxury vehicles. The shared values that prioritise continuous improvement and efficiency are unlikely to resonate with the artisanal excellence and exclusivity agreed upon in the luxury segment. Lean production skills for operational efficiency are useful but are not the most critical skills required to develop luxury cars, which require high-performance engineering and craftsmanship with luxury materials. Collaborative, consensus-driven management and organizational styles can slow strategic and visionary decision-making, which is often associated with luxury brands. Additionally, the staffing practices that emphasize long-term employment and stability would likely not attract the different talent profile, including higher

performance engineers and marketers focused on luxury brands, who may be more mobile occupations.

This theoretical example shows how changing the strategy without addressing the other six elements of the framework results in organizational incoherence and challenges with implementation. Using the 7S Framework also includes a rigorous process. First, be clear on what the current or desired strategy is to clarify where the organisation wants to go. Second, consider each of the seven elements one at a time, documenting the current state: What is our structure? What are our primary systems? What are our shared values and skills? What is our leadership style? How do we manage staff? Third, misalignments are discovered by comparing elements to each other and to strategic intent. Ask questions such as: Does the structure support the strategy? Do these systems reinforce shared values? Do the skills align with the strategy? Does the leadership style match our values Fourth, prioritize the misalignments which create the biggest issues or barriers to moving along the strategic pathway. Clearly, not all misalignments are equal in importance, and this helps to emphasise a few of the larger gaps. Fifth, develop action plans to address and consider the misalignments identified as priority areas. Actions might include clarifying or renewing the organisation's strategy, restructuring, introducing new processes and systems, articulating and communicating values with clarity, investing in training to develop skills, coaching leaders to adjust their style, and changing recruitment and development for staff. Finally, action plans should be implemented, and put in place ownership, timelines, resources, and continued

communication should be established.

Let us consider Amazon as another example of 7S alignment. Amazon's strategy centres around customer obsession—offering the most selection at the best prices and in the most convenient way, as well as expanding rapidly into new markets and services. It focuses on long-term initiatives that will generate growth and value for shareholders rather than near-term profitability and products. Amazon supports experimentation, and although the strategy aims for long-term growth, it is supported daily by numerous rapid experiments. The Structure of Amazon is generally organized into small, autonomous teams, often referred to as two-pizza teams, because they should be small enough to be fed by two pizzas. This covers a lot and to the point that all of these teams can design, make, and market new products and quickly make changes to others. This structure allows for speed to come with both greater decision-making and innovation. It allows for a wider spread structure to as the strategy is driven by continuous expansion, such as Prime or entry into cloud computing while maintaining experimentation.

Amazon's systems are quite advanced—the algorithms driving recommendations and pricing, warehouses, and fulfilment systems are almost completely automated, with an incredible volume of data analysts and testing, and even systems set up for experimentation and testing new features. These systems enable Amazon to provide the desired customer experience and operational efficacy necessary for its strategy. Amazon's Shared Values articulate customer obsession, ownership and long-term thinking, innovation,

continuous improvement, operational excellence, and high performance. These are well-established values, exhibited regularly, and drive behaviour across Amazon. Amazon's skills are those that make this all happen—world-class logistics and fulfilment capabilities, e-commerce and cloud computing technology capabilities, data analyst and machine learning capabilities, and soon a greater variety of skills across retail, entertainment, and technology services. Amazon's style tends to be demanding and data driven. Expectations for performance are high, and extensive metrics are used to guide decision-making. Decisions are often made by challenging ideas and constructively disagreeing.

Leadership style also often requires ownership and accountability. Amazon's staff approach is to find talented people who have ambition for the company than simply themselves and to have them 'slingshot' themselves into a position of authority or responsibility and 'do what you do best and do the best you can'. Amazon is also usually happier to experience a higher philosophical turnover of employees than more traditional organisations for greater productivity levels. People gravitate toward organisations that require the above. Throughout, we see this alignment; the customers' "first" obsession and ever-expanding strategy is supported by the structure that promotes rapid innovation, supported by the systems that support operational excellence and advanced data, with shared values that place customers first and have high expectations for their employees, skills that drive both the technologies related to operational excellence and logistics, and a demanding style of leadership that drives expected performance and accountability. Increasingly diverse approaches to staffing attract people with

both ambition and competence. Again, we can see the overall alignment towards and across the seven elements because this alignment contributes to Amazon's growth and dominance.

Evaluating Strategic Capabilities through VRIO/VRIN Frameworks

Although the 7S model assesses the degree of alignment in an organisation, it does not address the types of organizational resources and capabilities that create sustainable competitive advantages. The VRIO and VRIN frameworks respond to this question by providing a systematic means of assessing whether particular organizational resources and capabilities can create sustained competitive advantages. Both frameworks are derived from the resource-based view of strategy (RBV), a theoretical perspective first described by Professor Jay Barney from Ohio State University. The RBV contends that possessing superior resources and capabilities rather than merely choosing attractive industries or favourable market positions creates competitive advantages. The resource-based view of strategy critiques the traditional logic of strategy, that success comes from external positioning, and instead emphasises that what matters is what the firm possesses and how effectively it can deploy those valuable resources.

The VRIN framework, introduced by Barney in 1991, established that for a resource to create a sustained competitive advantage, all four criteria of VRIN must be simultaneously

present (that is, Valuable, Rare, Imperfectly Imitable, and Non-Substitutable). In 1995, Barney updated this model to the VRIO framework, merging imperfectly imitable and non-substitutable into a single category and adding a fourth element to examine organizational support. The VRIO framework asks four sequential questions of the resource: 1. Is the resource Valuable? 2. Is it Rare? 3. Is it difficult to Imitate? 4. Is the organisation properly organised to exploit it?Today, VRIO is viewed as a more thorough and operational framework because it clearly stipulates that even valuable, rare, and inimitable resources do not create an advantage without the organisation having the structures, processes, and culture to exploit them.

We now explore each VRIO criterion in greater detail. First, the terminology value asks whether a resource helps the organisation exploit opportunities or alleviate threats in the environment and whether the resource adds value for customers or improves the efficiency of the organisation. A resource is judged valuable if it helps improve the competitive position of the organisation in some form. To assess value, one can interrogate the usage of the resource, such as whether this resource helps serve customers better. Does it help lower costs? Does it respond to market opportunities? Does it help us respond to competitive threats? If a resource only helps improve efficiency, then it is not valuable strategically, irrespective of the price paid for it or how impressive it might appear. For example, having a large office building in a costly city centre may seem like a valuable resource to an organisation; however, if employees are remote and all customer interactions occur

online, the large office building is no longer valuable and may be a liability. In contrast, having a database on customer preferences and purchase history is a valuable resource for a firm not only because it allows for marketing customised and individual products to increase customer satisfaction, but also to increase sales in the process. Conversely, if a resource is not valuable, it represents a competitive disadvantage as the firm has invested in a resource that does not help performance. The next course of action should be to reconsider the resource to find ways to generate value from it or sell it to generate cash flow for more valuable investments. If a resource is valuable, the analysis moves to the second criterion.

The second criterion, rarity, examines the scarcity of a resource among existing and potential competitors. Even if a resource is considered valuable, if each competitor has access to the same resource, then there is no competitive advantage because everyone has the same access to the resource. Rarity is not evaluated in absolute terms; rather, it is evaluated relative to the competitive environment. A resource can be rare in one sense but common to the industry, or vice versa. For example, employees with university degrees may be considered rare in the general population or common in professional service firms. In this case, if most firms in the industry employ similarly qualified staff, they cannot provide a competitive advantage in that industry. To evaluate rarity, we need to ask ourselves 1) do our competitors possess this resource? 2) Is it easily dispersed (meaning that other competitors could acquire this resource)? and 3) how many firms have this resource? If most competitors possess a resource or can easily acquire

it, the resource cannot be considered rare.

For example, customer service training is valuable because it is a way to enhance customer experience, but it is a resource which is not rare in the industry, since any competitor can develop and provide similar training to their employees, regardless of the type of service; in this case, an organisation is placed in competitive parity similarly to the previous example, it has a useful resource, but one that is common and therefore puts all competitors on equal standing. When a resource is valuable but not rare, the organisation needs to consider options to differentiate further or accept that having this resource provides necessary but not sufficient conditions for success.

If a resource is rare and valuable, then we can take the analysis to the final criterion – imitatability.

The third criterion, imitatability, focuses on whether a resource can be easily copied or substituted by competitors. Even if a resource is currently valuable and rare, if it can be quickly duplicated by competitors, any advantage obtained will last only for a short time. The question of interest is whether competitors can access or create this resource. How difficult, time-consuming, or expensive would it be for competitors to obtain or create the resource? There are three primary reasons why a resource can be difficult to imitate, which creates barriers to competitive advantage. The first reason for the difficulty in imitation is the unique historical conditions. At times, an organisation obtains a resource because of specific historical conditions and circumstances that occurred in the past and cannot be duplicated. For example, Coca-Cola established its brand and market posi-

tion during a unique point in history, which featured little competition and a booming economy in the United States. A new soft drink company today could not capitalise on the same historical conditions, regardless of available resources, that allowed Coca-Cola to establish its brand and become endorsed by American culture. The specific conditions, circumstances, and timing of history that allowed Coca-Cola's brand to become established cannot be replicated, making it difficult to imitate their brand. The second reason for the difficulty in imitation is causal ambiguity, which indicates that even if competitors may see that a resource creates an advantage for an organisation, they cannot tell exactly what features of the resource are causing the advantage they are observing and how the features of the resource are interacting.

For example, competitors notice that Apple consistently produces very successful products, but despite a thorough analysis, they cannot figure out exactly what combination of design philosophy, engineering skill, marketing approach, company culture, and leadership leads to that success. Because it is ambiguous which causal relationships matter most and how they interrelate, competitors do not and cannot easily recreate the capability—even if they set out to try. The third consideration is the social complexity. Certain resources are embedded in a complex social context (e.g. social relationships, organizational culture, reputation, and interpersonal relationships) that cannot be copied by merely copying the procedures or purchasing the equipment. For instance, Pixar Animation Studios has a collaborative culture in which directors, animators, and other technicians work

closely to produce award-winning films.

Even if competitors successfully hire a few of Pixar's employees away from the company, the chances of duplicating the specific relationships, trust, communication patterns, and shared creative values of Pixar's company culture that support collaboration are unlikely. Social complexity creates barriers to imitation. If a resource is valuable and rare but easy to imitate, it does not lead to a sustainable competitive advantage. The organisation can take advantage of this in the short term, but the competition will soon calculate ways to catch up, and the temporary advantage will be erased. In this scenario, the organization should leverage their short-term advantage as fast as they are able, while also planning for the time when it is no longer useful and work to develop a sustainable advantage.If the resource meets all three criteria of being Valuable, Rare, and Imperfectly Imitable, the analysis moves to evaluate the final criterion.

The fourth criterion of an organisation considers whether the organisation has management systems, processes, structure, culture, and coordination mechanisms to capture and exploit the value of the resource. This is an important and sometimes neglected consideration in the literature. An organisation may have a valuable, rare, and imperfectly imitable resource, but without an organizational infrastructure that can effectively exploit the resource, the resource fails to create a competitive advantage. To assess organisation, consider the following: Do we have management systems to coordinate the way we will utilise the resource? Do we have an organizational structure

to deploy it? Do we have processes in place to utilise it effectively? Is our culture supportive of this resource? Are accountability and budgets and resources assigned appropriately? For example, an organisation may hire brilliant data scientists with rare machine learning skills, creating a valuable and rare human resource. However, if the organisation has structured the data scientists so that they are removed from the business decision-makers in the organisation, has no organizational processes for taking the analytics and translating it into actions for the business, the corporate climate has disregard for decisions based on analytics, and there is no accountability or an identified party responsible for taking actions on the insights gained from analyses, then the data science capability goes unused as a competitive advantage and is just a potential capability. The organizational infrastructure needed to leverage these resources is missing.

Organizational components include a formal reporting structure from the resource into the decision-makers of the organisation, management control systems to determine whether the resource is being used and the performance associated with its use, coordination mechanisms which allow personnel to leverage a resource in collaboration with other skill sets, budgeting systems to secure a resource where it can appropriately leverage performance, a strategy and strategic processes to associate the resource with the strategy, and a culture of the organisation that values and is supportive of the resource.

Ideally, all elements should be connected to one another

to optimise their use. In a practical scenario, all four elements may not exist in an organisational context, and the missing aspect to be developed may be the creation of an organisational infrastructure to support the resource, redefining and reframing processes, assigning a budget to the resource, or instilling a culture that can exploit the opportunity. If all four criteria are fulfilled, then the resource can be considered the root of sustained competitive advantage. This is the desired end result of the strategic management of organisational resources. VRIO can be presented in a decision tree structure. If a resource is not valuable, it results in a competitive disadvantage for the firm. If it is not rare, even when valuable, it results in competitive parity. If it is valuable and rare but can be easily imitated, it results in temporary competitive advantage. If it is valuable, rare, and imperfectly imitable, but the organisation is not organised to exploit the opportunity, it is an untapped competitive advantage. If it is valuable, rare, imperfectly imitable, and the organisation is organised to exploit the opportunity, it results in a sustained competitive advantage. The following steps must be followed in a systematic process of applying the VRIO framework. The first step is to develop a comprehensive list of all resources within an organisation. The list of resources to be inventorized must be exhaustive. It should encompass all types of tangible resources (facilities, equipment, technology, financial resources, etc.), all intangible resources (brands, reputation, patents, business relationships, organisational culture, etc.), and human resources (skills, knowledge, and expertise of employees).

The second step involves evaluating each resource. This is done by going through the VRIO sequence and asking

each question in a systematic order. One should not skip questions in the sequence, as each question is dependent on the answer to the previous question. If the answer to any of the four questions is negative, then it cannot provide a sustained competitive advantage, regardless of the answers to the following questions.

The third step is to classify the resources based on the analysis results. Resources can be classified into five categories based on their competitive impact: competitive disadvantage, competitive parity, temporary competitive advantage, unused competitive advantage, and sustained competitive advantage. This classification provides a clear picture of an organisation's resource portfolio. The fourth step is to make strategic decisions. Resources that provide a sustained competitive advantage must be guarded, invested in, and used to the maximum as the key foundation of the organisation's competitive strategy. Resources that provide a temporary advantage should be used to the fullest and exploited before competitors can imitate them, while the organisation also develops more sustainable resources and capabilities. Resources that provide competitive parity must be maintained at a level that is sufficient to be competitive but is not a source of competitive advantage. Resources that lead to competitive disadvantages must be improved or discarded. Resources with unused competitive advantages must be used to their full potential; however, this may require the organisation to develop itself in some way to exploit them. The final step involves periodic analysis. This is because the environment is dynamic, and this analysis is time-bound. Resources that were once valuable may no

longer be so because competitors will catch up and turn them into common capabilities, and some resources that were not valuable before may become valuable because the market has changed.

Let us examine several resources within Apple to see how the VRIO analysis is applied in practice. We used Apple's brand as an example. Apple is one of the most recognised and valuable brands worldwide. Is it valuable? Yes, it is valuable because the brand allows Apple to charge premium prices (consumers are willing to pay a premium for Apple products over functionally similar products from other companies), and the brand creates loyalty among customers (marketing costs for new products are lower because existing customers are more likely to purchase again) as well as distribution channels and partnership opportunities (retailers are more eager to work with a prestigious brand). Therefore, the Apple brand is valuable to consumers. Is it rare? Yes, the Apple brand is rare in this dataset. While many companies have recognisable brands, very few have brands that are as prestigious, have as strong emotional associations, and can charge as large a premium as the Apple brand. In fact, among technology companies, the strength of Apple's brand is even rarer. Therefore, the Apple brand is rare in the literature. Is it imperfectly imitable? Yes, the Apple brand is imperfectly imitable for several reasons.

First, the brand has been built up over decades and is the result of unique historical conditions that cannot be reproduced (the founding by Steve Jobs, the near-bankruptcy and the subsequent recovery, and the introduction of revolu-

tionary products such as the iMac, iPod, iPhone, and iPad). Second, it is subject to causal ambiguity because it is the outcome of complex interactions between product quality, design, marketing, customer experience, and other cultural factors, the precise contributions of which are difficult to pinpoint. Third, brand is socially complex because it is embedded in customer relationships, cultural associations, and collective perceptions and cannot be easily controlled or replicated. Therefore, the Apple brand is imperfectly imitable. Is the organisation established? Yes, Apple has the necessary organizational structure and infrastructure to leverage its brand. For example, it has a marketing department which can help maintain brand consistency, stores that provide branded customer experience, product design standards that ensure all products visually communicate the brand promise, a legal team that can protect the brand's trademarks, and executive leadership which makes decisions with the brand's value in mind. Therefore, Apple is organized to exploit resources. Because the Apple brand has all four VRIO attributes, the resource provides the firm with a sustained competitive advantage and is a strategic asset.

Let's turn to Apple's cash reserves. Is it a resource? Apple's cash reserves are a type of financial resource. Is it valuable? Yes, financial resources allow Apple to fund R&D, acquire other companies and technologies, survive economic downturns, return value to shareholders, and make long-term strategic investments without being overly constrained by short-term cash-flow considerations. Therefore, cash is valuable to consumers. Is it rare? However, the situation

is less clear. On the one hand, Apple's financial position is enviable even by the standards of other large technology companies. However, most of Apple's competitors, such as Microsoft, Alphabet, and Amazon, also have significant financial resources. In addition, companies that need capital can usually access it by raising debt or equity in capital markets. Financial resources are somewhat rare but not especially so at the level of competition that Apple is in. Since the resource is valuable but not rare, and financial resources are not hard to accumulate or access for large profitable companies, Apple's financial resources provide competitive parity or, at most, a temporary competitive advantage. Financial resources allow Apple to compete at the top of its industry but are not a source of sustained advantage because Apple's competitors have access to similar financial resources.

This is not to say that financial resources are unimportant or that Apple should not pay attention to them. This indicates that financial resources are not a source of strategic differentiation for Apple. Finally, let us turn to one of Apple's most critical capabilities: ecosystem integration. By ecosystem integration, I mean the ability to make hardware, software, and services work together seamlessly across devices. Is it valuable? Yes, ecosystem integration is valuable because it creates value for customers who use multiple Apple devices. This makes each device more useful in the context of the other devices and services in the Apple ecosystem, creates a more frictionless customer experience, increases customer satisfaction, and generates switching

costs for customers who would lose the value of other Apple products if they switched to a competing product. Is it rare? Ecosystem integration is rare. While most of Apple's competitors have at least made some attempts at ecosystem strategies, few, if any, have executed an ecosystem strategy as completely and successfully as Apple.

Most technology companies focus on either hardware or software and therefore lack the expertise or incentive to fully coordinate both sides. Is it imperfectly imitable? Yes, ecosystem integration is important for several reasons. It was developed over many years, and the unique path and conditions Apple took, particularly controlling both hardware and software from the start, are difficult to fully replicate by companies that do not share the same integrated history.

Ecosystem integration is causally ambiguous because it reflects complex coordination across many different functions and dimensions, from hardware engineering to software development to user interface design to cloud services to developer relations in ways that are difficult for competitors to fully understand and reverse engineer. It is also socially complex in that it depends on the organizational culture and cross-functional collaboration patterns that are deeply embedded in Apple's structure and are thus difficult to replicate by other companies. Because ecosystem integration is also VRIO compliant (the firm is organized to exploit it), it is an important source of sustained competitive advantage for Apple and should be a central feature of its strategy, which is, of course, the case.

VRIO analysis helps us answer this question: Given our resources and capabilities, which of these will be sources of sustained advantage, which will be sources of temporary advantage, and which are necessary for competition but will not provide advantage?

The last two criteria are easy to understand. Resources and capabilities that fail to meet the last two criteria do not provide a competitive advantage. Parity resources are necessary for competition but provide no advantages. Temporary advantage resources and capabilities provide an advantage, but not for long, and in a fast-changing world, such temporary advantages may evaporate in an instant. The first criterion is what separates resources that provide a sustained advantage from those which merely provide parity with rivals. Valuable resources and capabilities provide a sustained advantage if they are rare, if there is no alternative resource or capability that rivals can use to provide the same benefits, and if the resource or capability is difficult to imitate. Sustained advantage is ensured by rare resources and capabilities that are difficult to imitate because competitors cannot find substitutes for them. However, while the value of a resource or capability is a necessary condition for advantage, it is not sufficient because there must be no substitute. A valuable resource or capability for which a perfect substitute exists cannot be the basis of an advantage because a substitute that is easily available is not rare. As a result, all four criteria are necessary for a sustained advantage.

The VRIO framework is valuable because it provides a

clear, simple, and rigorous way to think through the competitive significance of a given resource or capability. The implication for strategic decision-making is that resources and capabilities which meet all four criteria should be the subject of investment and protection, those that meet the criteria for parity should be adequately provided for, and those which do not meet any criteria should not be provided for. In the absence of sustained advantage, new sources of sustained advantage should be sought. Now, let us consider how the three frameworks we have considered in this chapter—the SWOT informed by PESTLE, McKinsey's 7S model, and VRIO analysis—relate to one another. We presented the three frameworks in this chapter as alternatives. This implies that a decision-maker might choose to use one of the frameworks to the exclusion of the other two. We now want to suggest that this is a mistake in the manuscript. In fact, far from being alternatives, the three frameworks are complementary and should be used in combination. They each look at a different aspect of an organisation's internal situation and answer a different question.

The question that SWOT informed by PESTLE is answering is: "Given what is happening in the external environment, what are our internal strengths and weaknesses, and how do they relate to external opportunities and threats?"

That is, it takes the list of external opportunities and threats from the PESTLE analysis and links them to an analysis of the organisation's internal strengths and weaknesses. McKinsey's 7S model is answering a different question: "Are all elements of our organization aligned and working together coherently to support our strategy, or are there

misalignments that undermine effectiveness?" It does not ask about the organisation's strengths and weaknesses. It assumes that it knows that and instead assesses how effectively and coherently the organisation is internally aligned. VRIO is answering still another question: "Which of our specific resources and capabilities can provide sustained competitive advantage, and which are merely necessary for competitive parity, and which provide only temporary advantage, if any?" It drills down into an organisation's specific resources and capabilities to identify the foundation for its long-term competitive strategy. Taken together, the three frameworks help an organisation understand and assess its internal situation with more clarity, precision, and sophistication than any framework could on its own.

Moreover, they can be used in a reinforcing sequence, as explained below. The first step in a comprehensive internal assessment process is to conduct a PESTLE analysis and map the macro-environmental factors affecting the industry and market in which the organisation operates. The next step was to feed the PESTLE factors into the SWOT analysis by translating them into opportunities and threats. The third step is to conduct an internal audit to identify the organisation's strengths and weaknesses, thereby completing the SWOT analysis. The fourth step was to integrate the SWOT quadrants.

For each opportunity, the strengths which can be used to exploit it and the weaknesses which may hamper doing so can be identified. The same is true for threats. This step of the process identifies the strategic implications of the SWOT analysis: the points where strengths can be matched with opportunities to make the most of them, the

points where strengths can be used to reduce threats, the points where weaknesses make the organisation vulnerable to threats, and the points where weaknesses may prevent opportunities from being exploited. The next step is to use the 7S model to drill down and ask whether all the elements of the organisation's internal situation are aligned with and supportive of the strategic direction implied by the SWOT analysis, or where misalignments or gaps exist that would prevent the strategy from being executed effectively. The sixth step is to apply VRIO analysis to the organisation's resources and capabilities which were identified as strengths in the SWOT analysis, to see if any of them provide a sustained advantage and, if so, to determine which. The final step of the process is to use the integrated insights provided by the steps to inform strategic recommendations and make decisions.

We are now at the point where the recommendations we make as a result of the analysis we have conducted and presented in this chapter and the previous two can be described as grounded in reality. They were the result of asking a sequence of questions to better understand the context in which an organisation is operating and its position in relation to that context. To be clear, we are not discussing having all the answers and complete certainty here. As we have stressed throughout, strategic decisions need to be made in the context of incomplete information, uncertainty and limited cognitive capacity. However, the recommendations made in this situation are likely to be better than they would have been otherwise had a process such as the one described here been used to inform them.

One reason recommendations arising from such an approach have a better chance of being good recommendations than otherwise is that (1) they will be based on external realities; (2) will be focused on the organisation's strengths (and particularly the organisation's resources and capabilities that have been found to be the source of sustained competitive advantage); (3) have been sufficiently aware of and addressing critical weaknesses and misalignments to make it possible for the organisation to act on the recommendations; and (4) have been alignment-tested to ensure that the organisation is capable of acting on them. For one last integrative example, a final hypothetical to see all three models working together, we consider Starbucks: Starting with PESTLE, suppose the coffeehouse giant has external factors to consider, such as political pressure to source coffee ethically, economic recession leading to consumer spending cuts, social changes to health consciousness and work patterns, technological opportunities in mobile ordering, legal demands for eco-friendly packaging, and environmental concerns regarding climate change in coffee growing regions. Some factors that could be translated into SWOT would be opportunities for ethical differentiation, remote worker market, mobile technology innovation, and sustainability leadership, while threats include price competition due to recession, supply chain volatility, and increasing compliance costs. Internal strengths include a strong global brand, established supply chain, mobile technology, and prime store locations, whereas weaknesses include premium pricing vulnerability, reliance on a few coffee suppliers, and high operating costs.

Integrating all of these into a SWOT analysis could lead to a set of strategic imperatives, such as leveraging brand and technology strengths to tap the remote worker opportunity, addressing the cost structure weakness to reduce the recession threat, and investing in the supply chain to protect against environmental factors. Shifting to the 7S model, Starbucks would then assess alignment on factors such as strategy to capture new customer segments like remote workers with focus on experience and convenience, structure to support this strategy such as agile technology deployment and empowered store-level decision-making, systems to back this up like mobile ordering, loyalty programs, and flexible store operations, shared values that support differentiation and service, skills to train baristas and tech teams, style to create an enabling environment, and staff practices to attract and retain the right employees to execute this strategy. An alignment test, such as changes to fit the remote worker opportunity, could show that current store layouts might not fully support this if designed for quick takeaways, indicating a structure-strategy misalignment. Systems may need to be improved with better support for remote work needs, such as reliable Wi-Fi and longer power outlet access for charging devices. Style may need to focus less on high-throughput and more on creating a welcoming environment for extended stays. These represent potential realignments to fit the new strategy and require intentional changes in the management. Bringing VRIO to Starbucks resources, the brand would check all four boxes for sustained advantage and thus be central to the strategy. Supply chain capability is valuable, rare, and somewhat costly to imitate with the right organisation, indicating a potential sustained

advantage if protected and enhanced. Mobile technology is valuable and rare, but easy to imitate as competitors catch up, meaning more temporary advantages, requiring continuous investment in innovation. Store locations are valuable but are becoming common as everyone expands, indicating parity.

This analysis highlights that brand and supply chain capabilities should be strategic priorities as the cornerstones of a differentiating strategy, while mobile technology and store locations, although still valuable, may require different strategic approaches. Linking all three analyses into an integrated strategic direction for Starbucks suggests that the coffee giant's strategy should leverage its brand to position itself on sustainability and experience and capture the remote worker opportunity. It should also focus on investing in supply chain capabilities to hedge against climate risks and support ethical sourcing as a unique position. Mobile technology should be continuously improved to retain temporary advantage, but with the expectation that it will not last as others will develop similar capabilities.

The company should address cost structure weaknesses to guard against recession without eroding brand value. It should ensure that all 7S factors align with this strategic direction, with particular attention to realigning store design and service style to remote work opportunities. This final example shows the strategic direction that can be arrived at when using all three models, which is more robust than any single model by itself.

Conclusion

Internal assessment is one of the most important activities that a firm can undertake in the strategic management process because it tells us the reality of what the organisation can actually do and where its real competitive advantage comes from. This chapter has provided three integrated frameworks for internal assessment, which, when used together, will allow you to systematically and comprehensively understand your own organisation. The SWOT analysis informed by PESTLE provides the necessary link between external environmental context and internal organizational reality, helping to ensure that internal assessment is always grounded in the reality of the real opportunities and threats facing the organisation in its markets. By systematically translating PESTLE factors into opportunities and threats, and then thinking deeply about internal strengths and weaknesses in light of these external realities, organisations can arrive at strategic decisions that are simultaneously externally relevant and internally feasible.

The Starbucks and umbrella entrepreneur examples have shown us how this translation from external to internal works in real practice, and that external analysis and internal assessment are not two separate tasks but rather different parts of one strategic thinking process. McKinsey's 7S model offers the most comprehensive framework for assessing whether an organisation's internal elements are aligned and mutually reinforcing. By systematically going through each of the 7Ss – Strategy, Structure, Systems, Shared Values, Skills, Style, and Staff – and looking for areas of misalignment, organisations can diagnose implementation challenges and help ensure that all internal organizational

elements are working together in a coherent manner. The Toyota and Amazon examples have shown us how top-performing organisations are aligned across all seven elements, creating an organizational coherence that helps to drive effective implementation, and how dysfunction and implementation failure result from changing one element (particularly strategy) without considering the other six. VRIO and VRIN offer the most rigorous approach to determining which resources and capabilities can provide a sustained competitive advantage.

By systematically evaluating whether resources are Valuable, Rare, Imperfectly Imitable, and Organizationally supported, managers can differentiate between resources that can give them real and sustained strategic differentiation and those that simply lead to competitive parity or, at best, a temporary advantage. The Apple examples have shown us how to apply VRIO to real-life resources (in these cases, brand, financial resources, and ecosystem integration) to see different strategic implications at work in each case and to prioritise investment and strategic attention accordingly.

As can be seen, each of the three frameworks in this chapter focuses on different questions, all of which are relevant for better understanding an organisation's internal set-up. All three approaches are useful for conducting an internal assessment, and the most complete internal assessment will use all three. A key insight that this chapter should provide is that the three frameworks work best in combination with one another. SWOT is a model that links external and internal perspectives. The 7S model offers a lens through which internal alignment can be viewed. VRIO

is an evaluative tool that can help identify and articulate sustainable advantages. In practice, this means that effective internal assessment takes a holistic view of an organisation, seeing it as a coherent whole while still recognising the need to drill down into detail to better understand specific issues and nuances.

In practice, organisations that are effective at internal assessment have a clear understanding of their strengths and weaknesses, are able to know and articulate the capabilities on which their current advantages are based, and are well-aligned and ready to execute their strategy. This type of clear, deep self-knowledge also positions an organisation to make more informed strategic decisions about where to compete, how to compete, and what new capabilities to develop and improve. The concepts and tools that you have learned in this chapter are frameworks that you will be able to use in any organisation that you work in the future—whether as an employee, as a leader, or as the owner of your own business.

The concepts and frameworks from this chapter will also be useful in your future role as a manager or leader, as they will help you better understand your organisation's reality and make more informed strategic decisions. Internal assessment is not a "one-and-done" activity. Rather, it is an important, ongoing discipline that effective organisations perform throughout their lives, regularly revisiting, re-analysing, and updating their understanding of their internal capabilities as they and their environment change.

Organisations that are effective at internal assessment are better positioned to build and sustain competitive advantages over time, even in the face of changing environments,

and to create value for their customers, employees, and other stakeholders.

Learning activities :

Case Study : Internal Assessment of PureTech Water Ltd.

Background: PureTech Water Ltd. is a UK-based company that designs and sells eco-friendly water filtration systems for residential and small-business use. Established in 2017, PureTech has grown steadily and developed a reputation for innovation and commitment to sustainability. However, the company has recently begun to experience challenges from new entrants in the eco-filtration market, increasing costs due to changes in supplier pricing, and a heightened consumer focus on sustainable technology.

Company Situation:

- Brand reputation: Locally recognised for sustainability and customer service.

- Innovation: Patent for a filter design that is twice as durable as standard ones.

- Resources: Limited cash flow after recent R&D investments

- Supply chain: Dependence on a single supplier for a proprietary filter component, which has recently raised prices.

- Technology: Recent models feature smart water usage tracking, although 50% of customers still purchase the basic model without this feature.

- Staff: Small but highly skilled workforce and limited formal training programs.

- Market: Increasing demand for sustainable technology and stringent water quality regulations.

Questions

1. SWOT Analysis (brief)

a) Name ONE key strength, ONE key weakness, ONE opportunity, and ONE threat for PureTech Water Ltd.

2. VRIO Application:

b) Select ONE PureTech resource mentioned above and, in a sentence each, analyse whether it is Valuable, Rare, Imperfectly Imitable and Organised.

c) From your answers above, does this resource offer PureTech a sustained competitive advantage Briefly explain.

7

Chapter 7

Using Strategic Management Tools to assess Market Sectors

Introduction

Strategic management serves as one of the cornerstones for operating businesses successfully, as it creates a process for firms to relate to complex and dynamic markets while making the most advantageous and effective decisions to fulfil long-term aspirational goals. Businesses do not operate in a static world; thus, basing a strategic direction without empirical data or intuition does not usually yield favourable results. Successful organisations rely on good data analysis to deepen their understanding of the internal and external conditions influencing their decision-making. This chapter focuses primarily on using strategic management tools to facilitate the analysis of market sectors and act on learned

information to inform organisational decisions.

Understanding how to use specific tools to analyse information is an appropriate skill for business practice, as when used properly, analysing the context of extremely complex information can help leaders create strategic objectives that are enactable, lead to competitive advantage over time, and sustainable organisational growth. The three tasks we will specifically analyse in detail in the chapter are the Balanced Scorecard, Porters Five Forces model, and Stakeholder Analysis. These three analysis tools offer different specific perspectives on strategic analysis, and when taken in combination, they offer a broad perspective of an organisation's strategic position. The Balanced Scorecard provides a structure to systematically assess an organisation's vision and strategy across a broad range of performance measures.

The Balanced Scorecard allows the organisation to measure performance against the 'strategy map'' and 'customer measurement' dimensions, which creates an ever clearer strategic alignment. Porter's five forces model provides a framework to forecast the level of intensity and attractiveness of the sector by drawing upon some very basic structural forces that shape competition within an industry. Stakeholder Analysis provides a systematic way of identifying, assessing, and prioritising people and/or groups that may have an influence or be impacted by decisions made within an organisation.

In this chapter, we explore each analytical tool in detail with reference to the underpinning theoretical basis for the

tools and demonstrate through real-life case studies how each analytical framework informs the direction of strategic decision-making in contemporary business.

The Balanced Scorecard: Aligning Vision and Strategy

Understanding the Balanced Scorecard Framework

The Balanced Scorecard (BSC) is an all-encompassing strategic management tool that revolutionised how organisations measure and manage performance by augmenting conventional financial measurements to account for multiple dimensions of organisational success. The Balanced Scorecard was introduced in 1992 by Kaplan and Norton in a seminal article in the Harvard Business Review. The Balanced Scorecard flows from the conviction that financial data are not in and of themselves sufficient to provide a complete diagnosis of organisational health, nor can they serve as a way of predicting future performance.

The main concept of the Balanced Scorecard is that organisations must have a more complete set of measures to consider more intangible assets, such as customer satisfaction, the ability to innovate, employee development, and internal processes. These will lead to financially viable, sustainable, and successful enterprises, but traditional accounting statements have not and cannot measure them.

The Balanced Scorecard acts as a complicated dashboard which pulls together multiple measures, forms a single screen, and provides management with the ability to achieve

an overall view of organisational health while driving all levels of decision-making throughout the enterprise. The real beauty of the Balanced Scorecard is that it communicates the vision and strategy of an organisation into a single set of coherent performance measures, which is broken down into four perspectives (Financial, Customer, Internal Processes, and Learning and Growth). These four perspectives are interrelated in a definable hierarchy and causal order; thus, improvements in one typically improve the others. The Financial perspective indicates how the organisation will need to look to its shareholders to be financially stable; typically consisting of objectives related to growth, profit, costs, and return on investment. The Customer perspective indicates how the organisation should look to its customers if the organisation were to fulfil its vision, typically consisting of objectives related to satisfaction, market share, brand strength, and retention. The Internal Process perspective indicates the business processes that must be excelled to satisfy or fulfil obligations to customers and shareholders; it typically consists of objectives related to operational excellence, quality control, innovation, and efficiency. Finally, the Learning and Growth perspective indicates how the organisation will maintain its ability to change and improve, typically consisting of objectives around a preferred training process, culture, and management processes around knowledge management.

A Detailed Explanation of the Four Perspectives.

The Financial perspective typically sits at the top of the Balanced Scorecard hierarchy. For most profit-seeking

organisations, the ultimate measure of strategic success is financial objectives. For an organization to be financially successful, it must ask itself the primary question, "How do we need to look to our shareowners?" This will ultimately lead to specific, measurable financial objectives that could include achieving revenue growth by expanding into new markets, increasing profit by reducing operating costs, improving profit margin by price skimming, or diversifying revenue streams to reduce risk. For example, a manufacturing organisation may have a financial objective to increase revenue growth by 15 percent in the next fiscal year while decreasing production costs by 10 percent through better processes. Financial objectives can be reported and measured through traditional financial statements (e.g. income statements, balance sheets, and cash flows) and ratios (e.g. return on equity, earnings per share, and operating profit margin).

Overall, the important point in the Balanced Scorecard is that although financial measures are indeed measures of past performance, they are lagging indicators that show us what happened as a result of our previous actions, but not what we need to do to be an effective organisation currently or in the future. The Customer perspective starts from the understanding that financial success can only happen G03TDK when an organization delivers exceptional service to the customer and adds equivalently value in the market.This viewpoint considers the question: "To realize our vision, how should we appear in the interaction with our customers?" Answers to this question will cause organisations to articulate their target customers or

market segments, as well as exactly what value proposition distinguishes them from competitors. Customer-focused objectives may include improving customer satisfaction scores, improving market share with certain segments, increasing brand awareness and reputation, decreasing customer acquisition costs, and increasing retention rates.

For example, a retail organisation could operationalise the objective of demonstrating better product quality than competitors as proven by customer satisfaction surveys, online reviews, and Net Promoter Scores (NPS). Another illustration may be the objective of achieving 90% or greater customer satisfaction for a technology company, which may be learned from customer feedback survey results and reviews of customer service interactions on a quarterly basis. The Customer perspective is a leading indicator because improvements in customer satisfaction scores and loyalty usually precede improvements in the financial performance of an organisation, as satisfied customers continue to purchase, refer others, and are less sensitive to price. The Internal Process perspective studies the internal activities and business processes that allow an organisation to deliver its customer value proposition and achieve its financial objectives. It considers the question: "To meet the needs of its customers and shareholders, which business processes do we need to perform well at?". This set of objectives with an internal perspective falls into numerous groups, including operational management processes (production efficiency, quality control), customer management processes (order fulfilment, after-service), innovation processes (new product development, research), and regulatory and societal processes (compliance, corporate social responsibility).

For example, a manufacturing company that is looking to provide quality products to customers may establish the internal process objective of achieving excellence in quality control and measure that success by defect rate, production cycle times, and statistical process control measurements. An example of a service organisation may be objectives associated with the timeframe for response and measure the time to resolve customer enquiries through various customer service avenues. The Internal Process perspective is another set of leading indicators of success in operational excellence, and continuous improvements in processes are the basis for improved customer satisfaction and associated financial success. The Learning and Growth perspective considers the fundamental question, "To achieve our vision, how will we sustain our ability to change, and improve?".

This perspective recognises that in a rapidly changing business environment, organisations must constantly develop their capabilities, invest in their people, improve their information systems, and develop cultures of innovation and continuous improvement. Learning and Growth objectives typically include three main areas: human capital (employee skills, training, and development), information capital (systems, databases, and networks that provide strategic information), and organizational capital (culture, leadership, and alignment). For example, an organisation might have a learning and growth objective of increasing employee training and qualifications, measured by the number of training hours per employee per year, the number of professional certifications obtained, or satisfaction survey scores from annual employee surveys. A technology company might have an objective related to its innovation

capability measured by the percentage of revenue from products developed in the last three years or the number of patents filed annually, for example. The Learning and Growth perspective represents the most fundamental leading indicator set because investments in people and systems and the organisation's capabilities lead to process improvements, which in turn drive customer satisfaction and ultimately financial success.

Case Study: Applying the Balanced Scorecard in Practice

For example, Starbucks, a global coffee shop chain, has developed and successfully used the Balanced Scorecard framework to ensure that its organisational vision is aligned with measurable strategic objectives at all levels of the organisation. In the early 2000s, Starbucks was expanding rapidly while trying to maintain its unique customer experience as it attained aggressive growth goals.

The executive team realised that traditional financial objectives could not capture Starbucks' unique "third place" experience that customers enjoyed between home and work. To fix this deficiency, they built their own balanced scorecard that translated their vision into measurable objectives for all four perspectives. For example, objectives from the financial perspective include revenue growth from opening new stores, profit growth from efficiencies in operations, and same-store sales growth (as indicated in quarterly financial statements and same-store sales). Objectives from the customer perspective included enhancing

customer satisfaction and loyalty to Starbucks (as indicated in customer satisfaction surveys, social media sentiment tracking, and the Customer Snapshot of the speed of service, product quality, and overall atmosphere). Interestingly, the measurements indicated that customers emphasised ambiance and quality of service rather than speed in their experience with Starbucks. The internal process perspective included objectives for quality standards for food and drink preparation, consistency of preparation processes between stores, favourable layout of stores as a means to enhance operational efficiency, and socially responsible practices to source materials (as indicated through audits related to quality control, mystery shopper programs, or supplier audit certifications).

Finally, learning and growth included objectives for a barista program for coffee training and skill improvement, employee satisfaction and retention rates, and cultural learning to share practices in coffee preparation (measured through the completion of training programs, employee attrition rates, and employee engagement surveys). The interrelated nature of Starbucks's objectives is an example of the relationship in practice. Investing in training and developing employees (Learning and Growth) has improved service, product, and overall customer experience (Internal Processes), ultimately improving customer satisfaction and loyalty (Customer), which in turn supports sales and profitability (Financial perspective). In 2008, for example, Starbucks performed poorly due to the impact of the financial crisis, but was able to use its Balanced Scorecard framework to identify the decline in both service quality

and employee morale as the cause of their decline in same-store sales. Therefore, they took strategic business actions to temporarily close stores for additional barista training, adjust the focus of the training to elements of customer experience that were value important (speed of service instead of quality of product), and reduce plans for store openings (which improved all four perspectives in the subsequent years).

This illustrates that the Balanced Scorecard is an effective measure of success, but also that it is a more holistic strategic management system that integrates vision and action, aligns the operational activities of an organisation, and communicates reader priorities across the organisation.

Analysis of Porter's Five Forces Framework

Model of Five Forces is a basic framework for understanding competitive intensity and structural attractiveness in an industry or market sector developed by Michael E. Porter, Harvard Business School, in 1979. The model was birthed from Porter's recognition that a firm's competition in an industry is far broader than simply the competition which firms encounter. Instead, competition is shaped by five distinct structural forces which combine to determine an industry's profit potential and strategic challenges, regardless of any one firm's competitors. Knowledge of the forces allows an organisation to understand the sources of competition, consider whether the market sector is attractive for entry or ongoing investment, and devise business strategies to allow the firm to position itself favourably in relation to these competitive forces.

The Five Forces Framework has become one of the most widely used tools for the strategic analysis of an organisation because it offers a rigorous framework to think critically about the market structure and competitive context of virtually all industries across economic activities from manufacturing to services and from traditional industries to digital markets.

The five forces that shape industry competition are the threat of new entrants, bargaining power of suppliers, bargaining power of buyers [customers], threat of substitute products or services, and the intensity of competitive rivalry among existing competitors. Each competitive force represents a different type of competitive pressure that may erode profitability and restrict strategic freedom in the industry. Collectively, the strength of these forces (above) establishes the ultimate profit potential of the industry, as assessed in terms of the long-term return on invested capital. An industry where the five forces listed are typically favourable (weak) will be attractive with the potential for superior returns, while an industry where the forces are unfavourably typical (strong) will be an arduous competitive space that may only yield reasonable returns with the best efforts of participants.

It is important to note that the strength of the five forces may differ from industry to industry and will change with time as the industry conditions evolve; thus, competitive analysis must be an ongoing project rather than a once-off study.

Examining the Five Forces

The threat of new entrants captures the likelihood that new competitors will enter the market, creating increased capacity and resources that will lead to greater competition and decreased profitability for current competitors. The extent of this threat is a function of the barriers to entry that exist in the industry—higher barriers make entry more difficult, thus protecting current competitors; lower barriers allow newcomers to challenge the known players. Some barriers to entry include economies of scale (with size providing some cost advantages that newcomers cannot match), capital requirements (the amount of investment required to be competitive), access to distribution (difficulty in obtaining shelf space, dealer networks, or access to customers), government probing through licencing, and brand loyalty/cost to switch. For instance, in the commercial aircraft manufacturing industry, the threat of new entrants is extremely low because of enormous capital requirements (billions of dollars to develop a new aircraft), extremely high technological requirements, and strong pre-existing brand relationships between Boeing and Airbus and their existing airline customers.

Conversely, the restaurant industry has a high threat of entrants because of lower capital requirements, the ability to lease locations, and culinary expertise that can be developed or hired. The entry of new competitors may also depend on the response anticipated by existing competitors if more aggressive competitors retaliate against any newcomer to their territory. If existing competitors exhibit aggressive behaviour against a newcomer regardless of entry barriers, it may dissuade any potential competitive entry.

The bargaining power of suppliers explores how much pressure the supplier can apply on the industry to raise prices, reduce quality, or restrict the source of inputs, thereby capturing more of the industry value for itself. Suppliers possess bargaining power when they are concentrated (there are not many market alternatives), their product is differentiated or switching costs are high, the industry represented is not a significant customer to that supplier group, and suppliers have a threat of forward integration (i.e. they could enter into the industry themselves). Additionally, the industry may incur costs associated with changing the inputs applied in the corresponding industry.

For example, in the smartphone manufacturing industry, suppliers of specialised inputs such as advanced processors (Qualcomm or Apple's proprietary chip designs) or high-resolution cameras on their devices have bargaining power because there are few alternative suppliers who can provide equivalent technology and/or switching costs are significant. Conversely, when the inputs are commodities with numerous market options (e.g. agricultural products or standard industrial components), suppliers have little power because buyers can switch between suppliers based on price and availability. The bargaining power of suppliers is examined closely because it directly impacts the cost structure of the industry, thereby impacting how much of the value created can be retained by companies versus purchasing it from suppliers.

The bargaining power of buyers (customers) evaluates the extent to which customers can apply pressure on the in-

dustry to establish lower prices, higher quality, or better service, thereby appropriating value for themselves at the industry's expense. Buyers have power when they purchase relatively large volumes (a significant share of the seller's sales in the industry), buy standardised or undifferentiated products/services (the buyer can easily switch to a different supplier), face low switching costs, are sensitive to price (either because of the portion of their costs the product takes up or some other reason), or can credibly threaten backward integration (i.e. to make the product themselves). For instance, large retailers such as Walmart or Tesco have extremely high bargaining power over their suppliers because they account for a high volume of sales, have the ability to credibly threaten to make their own branded products, and consumers often see the products as fungible; therefore, they can delist any supplier that does not meet the retailer's terms. In comparison, buyers have lower bargaining power in industries where products are highly differentiated, switching costs are high, or the good is an important part of their business and is not easily substituted. For example, patients wanting treatment from a specialist medical professional have little bargaining power because they need to see someone specific for their health and do not have many alternatives. High buyer power decreases overall competitiveness and limits industry profitability which means it must be understood and managed as a critical force.

The threat of substitute products or services is an analysis of how much "cross-industry competition" exists in the sense that products from outside the industry can satisfy the same need, establishing a price ceiling on what exists, industry

participants can price their offerings, and profits that can be made in the industry.

Substitute products or services serve the same or similar needs or functions through different means. An example of this might be that video conferencing services, such as Zoom, can substitute for business travel, streaming services, such as Netflix, can substitute for movies and traditional television, or sugar substitute products, such as artificial sweeteners serve as substitutes. The threat of substitutes generally originates from relative factors, including price-performance (whether a substitute provides better performance for the price), the cost of switching, and the buyer's propensity to switch (the buyer's willingness to try alternatives). An illustration of the importance of substitute threats is the urban mobility market. For instance, electric scooter rentals have a significant threat from substitutes, including public transportation, ride-sharing services, and even simply walking or riding a bicycle for short-distance travelling. All of these substitutes can satisfy the need for short-distance urban mobility, often at lower costs to the consumer, with relatively few switching costs.

Substitutes are an increasingly significant threat in contemporary business because technological innovation introduces new ways to satisfy customer and organizational needs that may not be bound by traditional industry borders. For instance, smartphones have substituted or disrupted traditional cameras, GPS devices, music players, alarm clocks, and many other products and services all at once. From a strategic management perspective, organisations must be able to monitor not only direct competitors and

other organisations in the same industry but also substitutes that will undermine what to make it difficult to predict from which direction.

The intensity of competitive rivalry among existing competitors examines the intensity of competition between firms that are already operating in the industry, typically articulated through price competition, competition in advertising, product introduction, and improved customer service. Rivalry is especially intense when there are many competitors of similar size and power; when the industry is maturing or growing slowly (which causes firms to compete for their share of a static market, rather than grow with the market); when products or services are commoditised and therefore not differentiated; when fixed costs are high (or products are perishable), creating pressure to keep capacity utilisation; when competitors have many different strategies or origins (which makes anticipating competitor behaviour much more difficult); or when high exit barriers cause companies to stay in the industry even if profitability is poor.

The retail industry is a great example of an industry with several competitors, including Walmart, Target, Amazon, Costco, and many regional and niche retailers, providing intense competition over price, selection, convenience of shopping location, and service. This rivalry is represented by frequent promotion cycles, price-matching guarantees, rapid adaptation to new retail technologies, and frequent innovation in delivery and fulfilment options.

Industries with limited competition, product variation, and/or growing demand have weaker competitive rivalry.

For example, the commercial aircraft duopoly of Boeing and Airbus is characterised by great competitive rivalry because there are two firm competitors, but competitive rivalry is less intense because of their limited total number of competitors, high product variation, and the rapidly growing demand in the overall market for air travel worldwide. Understanding competitive rivalry in an industry is important because it indicates the extent to which the value created in the industry will be dissipated competitively or retained as profit.

Porter's Five Forces and Application to Walmart

To illustrate the application of Porter's Five Forces model, we can examine Walmart, the world's largest retailer, which competes in a highly competitive marketplace with rapid technological changes and evolving consumer expectations. When using strategic analysis using Porter's Five Forces framework, we obtain valuable insights regarding the complex competitive environment that shapes Walmart's choice-making in its marketplace.

Starting from the threat of new entrants, Walmart experiences a moderate to high threat, largely due to the rise of online retailers. While traditional retail required a significant capital investment in brick-and-mortar retail sites, in addition to capital for distribution and inventory systems that create a barrier to entry, the barriers to entry have been lowered partially due to the shift towards e-commerce and the elimination of having to get, or invest in, an expensive retail site. We know that Amazon and others

have been able to build a significant scale by leveraging a digital platform. Competing on the same scale of operational efficiency is likely more challenging for an upstart retailer with physical buildings than competing with an established retailer like Walmart. Nevertheless, while new entrants represent a baseline threat, there is also a considerable barrier to entry for them to compete at Walmart's scale, simply due to Walmart's economies of scale, logistical supply chain systems, and established relationships with suppliers.

To analyse the bargaining power of suppliers, Walmart has strong capabilities under its supply chain strategy—supplier bargaining power is low in Walmart's scenario because Walmart is the largest customer for many suppliers across the vast variety of products they offer. In many cases, Walmart's sales volume is so significant within a supplier's business that they rely on Walmart to be a partner, and this allows Walmart to negotiate many advantages during the purchasing cycle, from price to payment terms to product specifications, and more. This means that Walmart is a calculating player that captures most of the value in the supply partnership. There are exceptions for particular categories of products that are branded and have a long line of loyal consumers (that is, Apple products or top-line consumer goods brands). Depending on the product, the supplier has more opportunity to exercise bargaining power because Walmart must eventually have those products available if they want to keep their customers in their stores and are bound by the terms of purchasing each product. The bargaining power of buyers (customers) is more advantageous for Walmart from the perspective of

a retailer because, in retail, consumers have significant bargaining power due to their almost non-existent switch (brand) costs, numerous alternative retailers available, and price sensitivity when they purchase everyday consumer goods.

This high percentage of buyer bargaining power forces Walmart to always strive to have the lowest prices, along with conveniently located stores and an adequate selection of available stock, and they know that their customers can move their purchases to the storefront down the street. Retailers' response to that power from buyers has historically been to maintain their "Everyday Low Prices" positioning, maintain operational efficiencies, and increasingly invest their resources to develop omnichannel capabilities to provide convenience.

The threat of substitute products to retail is significant and nuanced; consumers can replace in-store experiences with online purchases (e-commerce), direct-to-consumer brands, subscription products, second-hand marketplaces, local retailers, and specialty stores to meet specific needs. The COVID-19 pandemic has greatly hastened the replacement of in-store shopping with online shopping, permanently altering overall shopping patterns and amplifying the threat of substitutes. Finally, the threat of intense retail rivalry is extraordinarily high. Walmart competes against significant rivals such as Amazon in e-commerce, Target in general merchandise, Costco in bulk and wholesale, regional grocery chain competitors in grocery products, and many specialty retailers across various categories. Retail rivals aggressively

compete on price, swiftly drive technological innovation with respect to retail technologies, continually expand product selection, and regularly improve delivery and fulfillment options.

Each competitor is taking a different approach —Amazon focused on convenience and selection, Costco focused on bulk and value, and Target distinguished itself with better design and shopping experience – which makes competitive dynamics complicated and unpredictable.

Strategically, the Five Forces analysis suggests that Walmart is competing in a structurally tougher industry with intense competitive forces undermining profitability. This type of analysis explains where Walmart is emphasising operational efficiency and cost leadership (to balance high levels of competitive rivalry and buyer power), its aggressive investments in e-commerce, continuing to expand Walmart.com, and acquiring companies like Jet.com (to counter the threat of online substitutes), where Walmart has initiated its own branded private label products (to reduce their buying power dependence on specialty grocery branded suppliers), and Walmart's continuous improvements with respect to supply chain (to sustain barriers to entry against new entrants).

Through conducting an analysis of the five forces, the leadership at Walmart will be able to first identify and assess specific threats and opportunities, second, quantify the relative priority and resource allocation among those threats, and third, alter their competitive strategies and position their organisation relative to the structural features of the

retail industry. This example demonstrates that Porter's five forces analysis not only provides a snapshot of the industry structure but also provides a dynamic representation of the industry structure in decision-making and strategy development.

Stakeholder Analysis: Recognizing and Applying Influence

Defining Stakeholder Analysis

Stakeholder Analysis is a systematic approach to strategic management that identifies, analyzes, and ranks individuals, groups, and organisations that can affect or are affected by a project, decision, or strategy. The fundamental premise of Stakeholder Analysis is that organizational performance is a function of the organisation's human and physical assets, its competitive position, and the management of relationships with stakeholders who have an interest in the organisation's performance. Stakeholders can be employees, managers, and shareholders (internal stakeholders), customers, suppliers, regulators, communities, advocacy groups, and the media (external stakeholders). Stakeholders have a wide diversity of interests, expectations, influence, and power.

Stakeholder Analysis systematically identifies stakeholders and provides an understanding of the complexity of this web of relationships to assist organisations in understanding, among other things, and ideally, categorising and engaging the most salient stakeholders in decision-making and

strategy development. Given the pressures organisations face from multiple stakeholders today, Stakeholder Analysis is more relevant than ever. Additionally, social media has shelter for consumers and other stakeholders and presents unprecedented, accessible, and visible pressure to both organisations and their leaders in many industries through the stakeholder lens; success requires crystallising stakeholders' interests and influence toward goal attainment.

The stakeholder Analysis disposable process typically involves three components: stakeholder identification, stakeholder analysis, and stakeholder mapping to help inform engagement strategies. Stakeholder identification is a process that begins with a comprehensive scoping of all individuals, groups, or organisations that may affect the organisation's strategy or who may be affected by the organisation's strategy, noting both the obvious stakeholders (such as major customers and suppliers) and the not-so-obvious stakeholders (regulatory bodies, community groups, potential future stakeholders, etc.). Stakeholder identification must be comprehensive because ignoring key stakeholders to whom you may not see any advantage to the organisation can lead to resistance, conflict, and subsequent strategic failure, either because their interests and concerns were not foreseen or recognised or simply were not given consideration. Stakeholder analysis is to review each stakeholder's characteristics, interests, and concerns (i.e. what do they want to achieve or protect), their influence and power (i.e. to what extent are they able to affect outcomes), their relations hip/attitude towards the organisation or the organisation's strategy mindful of whether they perceive themselves (sup-

portive, neutral, or in conflict) with your organisation, and their relationships with other stakeholders (e.g. supportive alliances, or within or across stakeholder groups). Stakeholder mapping, typically through visual frameworks (i.e. Power/Interest Matrix), informs stakeholder categorisation and appropriate engagement strategies for each stakeholder group. This structured process systematically reduces engagement complexity into systematic forms of knowledge that can inform amenable choices in strategy and effective engagement with stakeholders.

The Power/Interest Matrix Explained

The Power/Interest Matrix is the most commonly used tool for stakeholder mapping, categorising stakeholders into the four quadrants of the matrix on two important dimensions: Power (the level of authority and influence they have to affect outcomes of the organisation) and Interest (the extent to which they care about or are vested in the organisation's strategy or decision). The two-by-two matrix creates four categories of stakeholders, each with a special approach to engagement. Stakeholders with high power and interest are in the "Key Players" or "Manage Closely" category; these are the highest-priority stakeholders requiring a high level of engagement and joint collaboration as they have both the means and incentive to influence an outcome significantly. Examples of Key Players include important investors, significant customers, government regulators with oversight of key operational processes, or the senior management team. The appropriate strategy for Key Players, given the aforementioned properties, is to partner with them

by heavily engaging them in decision-making, engaging them frequently, and capitalising on strategic plans that include their input.

Stakeholders with high power but low interest are in the "Keep Satisfied" category; these stakeholders have significant power but have no particular positive interest in the specific strategy or decision being considered. Examples might include a governmental regulatory authority with power over the general industry but not involved in and concerned with all day-to-day operations, a major financial institution with a significant dollar debt, or board members without operational responsibility. The engagement strategy for this group is to keep them satisfied without inundating them - in other words, keep them informed of major developments, accommodate their concerns, and refrain from involving them with operational details that do not concern them. The risk of not keeping this group satisfied is that if the interests of these stakeholders are not covered, they could become oppositional and engage their considerable power against the organisation. Stakeholders with low power but high interest are in the "Keep Informed" category; these stakeholders are very interested in and impacted by decisions made by the organisation, as they have little ability to influence the outcomes and the situation. Examples might include employee groups, community organisations and advocacy groups, or even customers, who cannot independently or collectively force the organisation to make a change.

The most appropriate strategies are to keep these stake-

holders well informed via reporting, provide opportunities for input and feedback, and, where applicable, consider providing accommodation for their interests or concerns. Notably, while these stakeholders lack direct authority to enforce change, public sentiment can sway the actions of influential stakeholders with significant power.

Ultimately, stakeholders who rank low in power and interest are known as "Monitor" stakeholders. These parties have little influence and limited interest in the actual decisions/strategies. While stakeholders in the "Monitor" group do not have to be fully engaged or involved with the organisation, it may be sufficient to maintain very low levels of awareness and communication to ensure transparency and goodwill, and consider the fact that situations can change, taking Monitor stakeholders from the confines of this category to a higher level of involvement. The Power and Interest Matrix is therefore not a finite categorisation but a planning tool that must be iterated and updated as stakeholders' power and interests change. For example, a community group may begin as a Monitor stakeholder with low power and interest, but if the operations of the organisation produce environmental concerns, that group can quickly move to a Keep Informed or even Key Player Stakeholder if they mobilise public support and gain regulatory interest. Stakeholder interests can also shift based on economic factors, competition, and changes in social values. Stakeholder Analysis requires continual renegotiation of engagement approaches as conditions shift and are updated.

Case Study: Stakeholder Analysis for a Pharmaceutical

Firm

To demonstrate the practical application of Stakeholder Analysis, let us consider a large pharmaceutical firm, which we will refer to as PharmaCo, that is developing a new strategic initiative to introduce a new standard of care for cancer treatment into various markets worldwide, which is innovative but expensive. The determination of whether to pursue a strategy affects several stakeholders in different ways based on their level of interest in the outcomes of the strategic decision. Thus, the application of Stakeholder Analysis approaches is warranted.

In terms of stakeholder identification, PharmaCo's strategic team identifies internal stakeholders, such as the Board of Directors and their major shareholders (interested in financial returns and reputational value), the research and development team (for the scientific return on their discoveries), the commercial and marketing teams (responsible for the execution of the launch), and employees of the entire multi-functional company (worried about the safety of their employment at PharmaCo, and on a larger scale, their respective company's success in the market). External stakeholders will also emerge in the future. Patients and patient advocate groups want to make financially, if not personally, all-inclusive innovative therapies available, while oncologists and healthcare providers wish to obtain better mortality outcomes for their patients' management of cancer.

Insurers (health) want to determine the advantage of cost-

effectiveness and budgetary management of drug therapy; regulatory agencies such as the FDA or EMA want to have a reasonable assurance of safety and efficacy threshold to ensure licence approvals; competitors would rather not have their market share impaired by a new treatment (competition); generic drug formulators may have anticipatory plans once PharmaCo secures licencing approval to take advantage of a future dismissal of effective patents; media exposure and public awareness is increasingly a key actor in the perception of the pharmaceutical industry in establishing product value; and policymakers and governments, among others, must balance the motion of non-innovation vs affordability within the system of healthcare.

Using the Power/Interest Matrix to categorise stakeholders, as demonstrated above, can help differentiate these groups and offer pharmaceutical firms key insights into multiple engagement strategies. PharmaCo categorises regulatory authorities, key healthcare payers, and prominent shareholders as "Key Players" (high power, high interest). Regulatory authorities have the authority to sanction products and maintain strong sentiments regarding low safety and effectiveness standards. Healthcare payers, including insurers and government health services, possess the extensive ability to determine reimbursement and are therefore intensely concerned about cost assumptions. Major shareholders influence the board and exhibit deep concern regarding strategy and subsequent returns. PharmaCo's strategy for these Key Players is simple: have intensive dialogue over strategies, report to regulators while they are approving the product, engage healthcare payers with full health

economics to demonstrate value for money, and provide updates to investors to explain the rationale and returns of strategies.

For government policymakers (legislation and regulation) and other institutional investors that have material stakes in the company but take a passive approach, the strategy is to keep these stakeholder groups "satisfied" and keep them informed about major milestones and connect with them on an as-needed basis to respond to policy positions before they escalate.In the "Keep Informed" quadrant (low power, high interest), PharmaCo will identify stakeholder groups, including patient advocacy groups expressing significant interest in the issue of treatment access, but little direct influence over the approval, and individual patients and families with more direct personal investment in treatment access. Oncologists and prescribing physicians may have a more direct impact on treatment decisions, but they also do not have the power as a group to impact treatment pricing or approval. Employees with professional and personal investments in the success of the Pan Pharma product involved in its development and launch will also be identified here.

For this group, PharmaCo can plan ongoing communication to update stakeholders about company activism through various communication channels, provide medical education programming for physicians, develop and promote patient assistance programs addressing product affordability, and run internal employee communication campaigns to reinforce employee engagement in the ongoing project. Finally, there is "Monitor" (low power, low interest),

where PharmaCo identifies stakeholders such as general media without healthcare specialisation, competitors in different therapeutic areas, and the general public who has no immediate connection to cancer treatment or publishing pharmaceutical research. PharmaCo is unlikely to engage these stakeholders proactively but will have monitoring capabilities to inform future engagement and adjust current strategies if the stakeholders move from "Monitor" to "Keep Informed ", "Key Players", or "Minimal Effort" using different situational triggers. For example, a social media campaign surrounding greater accountability and accessibility of pharmaceutical pricing could attract media and public attention that PharmaCo would need to monitor (they would not want to avoid it), suggesting that it may be necessary to revisit their communications strategy to engage with their stakeholders and prevent them from moving to "Key Players".

The strategic value of this Stakeholder Analysis comes to life when PharmaCo is moving to make a critical decision, a scenario based on pricing strategy.

In the analysis, PharmaCo can see the tensions present, that is, that shareholders and executives would like more priced to garner a higher return on their R&D investment, that payers and policy makers want all products to be affordable to ensure the sustainability of the healthcare system, and patients and their advocacy groups want access to affordable products whether they can pay for them or not, while the oncologists focus on efficacy of treatment and not cost. Since the stakeholder analysis takes careful

consideration of potential stakeholder positions, PharmaCo can devise a pricing strategy that might be bottom line heavy with some kind of differential pricing for wealthy vs developing nations, patient assistance programs widely for uninsured or underinsured patients that can incentivise R&D spending, or even outcomes of care-based reimbursement agreements with primarily payer stakeholders with any other agreements noted on the slide while being transparent in communication about R&D costs and justifications on pricing.

The Stakeholder Analysis also builds PharmaCo's ability to assess and manage risk in this scenario, identifying, for example, that any sustained negative engagement from patient advocacy groups can be enough to gain media and public interest, potentially pushing the consumer view from Monitor or Keep Interested to becoming a valued Key Player. A scenario like this involving complex engagement with multi-party strategic scenarios demonstrates how Stakeholder Analysis can clarify a confrontational scenario at a strategic and complex to think through situation for the company to know through assessment what communication strategies need to look like across the company and may sensibly lead to real risk management, strategic decision making, and communication actions in the current situation.

Integrating Strategic Management Tools for Comprehensive Analysis

Complementary Nature of the Three Frameworks

Although the Balanced Scorecard, Porter's Five Forces, and

Stakeholder Analysis each have value in isolation, their true strategic power emerges when they are used in combination as complementary tools to address different dimensions of strategic analysis. The Balanced Scorecard looks inward to the organisation, aligning its vision with measurable objectives across multiple dimensions of performance while ensuring that all organisational activities link to strategic priorities. Porter's Five Forces examine the competitive environment and industry structure to understand the structural forces that shape profit potential and competitive intensity in the market sector.

Stakeholder Analysis links internal and external strategic choices into a more systematic way of identifying and considering individuals or groups that could influence and limit strategic options. All three frameworks provide a more comprehensive strategic analysis that includes the internal context, external competitive forces, and stakeholder context. The combination of these tools enhances or strengthens the strategic framework generated by either tool used independently.

For example, when applying Porter's Five Forces analysis, you identify an industry with intense competitive rivalry and high buyer power, suggesting that a differentiation strategy focused on customer relationship management is critical for success. This then informs the Balanced Scorecard, specifically to clarify which perspectives and objectives must take priority. For example, from the customer perspective, emphasis may be placed on customer satisfaction and loyalty objectives, while the Internal Process perspective may be

focused on objectives of innovation and quality excellence in service to the primary differentiation strategy. Simultaneously, Stakeholder Analysis will identify which customer segment (and other stakeholders) has the greatest power and interest, further informing the prioritisation of the differentiation effort most directed at stakeholders who will be the most 'influential'. The simultaneous application of the tools ensures that the strategic objectives being developed are consistent first at an internal alignment level (Balanced Scorecard), second at a potential external alignment level (Porter's Five Forces), and third at a stakeholder awareness level (Stakeholder analysis).

Practical Process for Applying Strategic Management Tools

In practice, businesses should use these strategic management models in a systematic sequence that sequentially builds an understanding of the comprehensive strategy. The more analytical or factored process of strategic management usually begins with the Five Forces Model to analyse the structural attractiveness of the industry or market sector competitive dynamics and the key competitive challenges and opportunities the organisation is likely to experience in the selected market sector. This external analysis provides information about the likely attractiveness of the sector for profit, the level of competitive pressure in the sector, and the areas of strategic leverage that will exist within the structural industry model of competition. After conducting an analysis of industry structure, businesses would analyse stakeholder engagement to understand or identify people groups that

will be influential to strategic choices or decisions or are themselves affected by a strategic decision.

Stakeholder engagement assessments or analyses identify stakeholder power and interest to strategically map whether the engagement should be responsive, engaged, monitored, or informed as the organisation moves forward. A stakeholder engagement assessment will also identify a source of potential support, a reason for resistance, or concerns that the organisation will need to accommodate in its strategic plan, or identify potentially important relationships that the organisation should seek to leverage for strategic advantage in the selected sector. After developing a reliable and comprehensive sense of the external competitive forces and stakeholder dynamics of the external environment, organisations would then work to develop their Balanced Scorecard—operationally representing their strategic or substantive response in four categories: Financial, Customer, Internal Processes, or Learning and Growth— facilitating effective business strategies and accountability for the execution of the strategic intentions, and effectiveness of the strategy itself, in observable, measurable ways.

Organisations always need to maintain strategic coherency throughout the analysis process, as findings learned through one framework inform and relate to the other analysis frameworks. As a practical example, if an external analysis of competitive forces identifies supplier power as a competitive pressure point, and consideration of stakeholder analysis identifies suppliers as keystone relationship stakeholders of

interest, then the Balanced Scorecard would need to reflect objectives in the Internal Process category related to supplier relationship management, exploration of alternate or competitive sourcing strategies with suppliers, or consideration of supplier abilities negatively affecting strategic objectives. Similarly, if the stakeholder analysis identified the regulatory authorities as Key Players, as topics of interest exit and power in the industry or market sector, then the objectives for the Balanced Scorecard would need to include objectives for Regulatory Compliance and Relationship Management to neutralise or negate the regulatory authorities as threats to strategic objectives, while also reflecting in Porter's Five Forces analysis how regulatory barriers impact competitive forces as competitive power.

Framing our strategic situation analysis through these integrated frameworks and putting our strategic consideration in potentially systematic ways should produce clear directional and implicational considerations for strategic analysis and strategy development, increasing the likelihood of translating dull-strategic simple frameworks into a comprehensive strategic management explicatory process of predicting or explaining enduring outcomes pragmatic in academic traditions, to provide contingency analysis and guidance for implementation.

Conclusion

Utilising strategic management tools, such as the Balanced Scorecard, Porter's Five Forces model, and Stakeholder

Analysis, provides organisations with systematic structures for evaluating market sectors and providing strategically informed decisions that result in competitive advantages. Each of these analytic tools, when used independently, provides awareness for strategic analysis by looking at the subject matter through an, albeit slightly different, limited lens: Balanced Scorecard perspectives will consider the performance measures to gain internal alignment through the transformational practice of converting vision into performance measures; Porter's Five Forces will consider external competitive forces to assess, as compared to the competition, the attractiveness of the industry and sources of competitive pressure; and Stakeholder Analysis will take a systematic view of each person or group that has ramifications on strategic decision options or implications to strategic decisions. Each of these tools provides measured competitive advantages when used in a limited manner; however, when all of these tools are merged into a more comprehensive analytical process, they provide a robust foundation for strategic management and assessments that include internal capabilities, external competitive pressures, and stakeholder relationships.

The real value in strategic management tools is not simply in the tools analytical frameworks, but in their ability to deconstruct complex strategic situations into a structured analysis that informs not just decision-making, but decision-making at all levels of the organisation. The application of strategic management tools is illustrated in the cases reviewed throughout the chapter: Starbucks (application of the Balanced Scorecard to keep its customer experience spe-

cial during rapid expansion), Walmart (use of Porter's Five Forces to navigate a hyper-competition retail environment), and PharmaCo (stakeholder mapping to address the complex stakeholder dance when launching a new pharmaceutical).

Demonstrations of how applied strategic success comes from a framework that integrates the theory of strategy with the process of analysis of a strategy.

The real advantages of organisations adding these tools to their capabilities and/or to their capacity as value systems to apply are that they provide advantage; they make a more informed strategic choice driven by a systematic analysis versus making decisions based on gut instinct; they are able to identify opportunity or threat to competitive advantage faster than rival organisations who do not systematically assess their advantages; they align more organisational activity tied to strategic importance; and they manage stakeholder relationships more proactively and manage strategic interest before they are dealt with as crises. The variables and are free to use, and are not to be used like static formulas. Skilled business professionals always think like executives do. If they can go beyond their specific sectors or companies, the dimensions of balanced performance, purpose, that industry structure matters, and the importance of managing stakeholder relationships are relevant for all executives, even though to remain relevant, the environment is dynamic; those dimensions remain competitive landscapes or stakeholder issues will vary. For students pursuing the Pearson Higher National Diploma in Business, the acquisition and demonstration of strategic management tools as their own professional skills from

academic necessity is an important and useful competence that will aid their capacities and capabilities, which influence any of the strategic analyses of strategy as a component of their ongoing strategic thinking in organisations. Successful students as professionals will develop applied competencies in their professional lives. As students continue their professional development, they will use these frameworks to contextualise with real organisations, analyse how to use the frameworks as a pair of lenses, and work across frameworks to develop an appreciation of the overall usefulness of strategic analysis.

8

Chapter 8

Using Strategic Analysis and Evaluating Outcomes

Introduction

Strategic management tends to be more than just developing a plan and wishing it would work out. You will need to use statistically sound tools to decide on the actions to take based on the outcomes of your actions, and you will make adjustments to your practice based on what you learned. You will learn how businesses apply the Ansoff Matrix to determine the product to develop and markets to enter, how businesses track if they are "winning" with the tactics they have taken using strategic-performance indicators, and how businesses think on their feet based on frustration or opportunity and decide to change their actions linked to their objectives. You could think about the case studies

as learning to drive a car; first, you learn how to use the vehicle controls (the Ansoff Matrix), second, you learn how to read your tachometer (assess performance indicators), and third, you learn when to change your route (reflect on your objective). Therefore, when you finish this chapter, you will understand that you are not just learning about theory, but also about applying those theories to businesses to achieve sustainable growth and competitive advantage.

Understanding the Ansoff Matrix

The Ansoff Matrix, published by Igor Ansoff in the Harvard Business Review (1957), is one of the simplest and best-known tools of strategy management and has great durability, longevity, and relevance to its practical application in the world today. At almost 70 years of age, the Ansoff Matrix is still relevant today because it proposes an answer that each organisation has to wrestle with: how do we grow? Ansoff suggests that there are fundamentally only two dimensions to develop a plan for growth: what you are selling (products or services) and who you are selling it to (your markets). If we consider the two dimensions as ' new ' and '' new, Ansoff then proposes a simple conceptual combination of two dimensions to create a combined simple matrix of two-by-two ingress of four separate strategic opportunities, all with different risk levels and capabilities to consider in your options.

The beauty of the Ansoff Matrix is that it is simple and clear about what to input in the matrix. Its purpose is to structure how managers visualise their strategic options and help

them understand the trade-offs between risk and growth rates. The four basic strategies are Market Penetration (existing products, existing markets), Product Development (new products, new markets), Market Development (existing product, new markets), and diversification (new product, new markets). Essentially, each quadrant is linked to your growth opportunity, and it is important for you as a business manager to understand when to use which growth opportunity strategy. Therefore, let us review each strategy to see if we understand what each strategy means, whether it may be appropriate when considering which strategy to implement, and whether any real-world businesses have applied the Ansoff Matrix to trust it for success as they used the theory, to warn themselves and their decision-makers to consider those traps of barriers.

Market Penetration Strategy

Market penetration is the least risky strategy in the Ansoff Matrix because it involves selling products that are already well-known to customers you already know. The purpose of a market penetration strategy is to increase sales and market share within the existing market without changing the product or moving into new markets. You will work with previously built relationships, distribution channels, brand recognition, and operational know-how; therefore, your strategy mainly builds on already established strengths rather than exploring untested waters. The general aim is to solicit more customers to buy a product, have existing customers consume more frequently, and/or take market share away from competitors.

Organisations can employ many tactics to execute a market penetration strategy. To appeal to price-sensitive customers and solicit initial purchases, prices can be altered through discounts or promotions. Increased advertising and/or promotional activities can increase awareness and improve brand presence in the minds of consumers. Improving distribution by getting more of the product into retail locations or improving online accessibility could also capture new sales. Strengthening or improving customer loyalty programs may reward repeat purchases and incentivise customers to buy rather than being loyal to competitors. Product improvements or add-ons can make your existing product participate in a new and improved version of itself while still leaving the fundamental product unchanged.

A classic and successful example of penetration is the Coca-Cola "Share a Coke" campaign. Coca-Cola faced stagnant sales growth and increasing competition from other beverage companies. Coca-Cola wanted to revitalize interest in its core product, but they wanted to do this without changing the product and packaging. Oftentimes, a product can be very successful, but it is the product itself that is tired, and Coca-Cola needed to revitalise potential customers' interest in its core product, Coca-Cola. Spread across the Coke shelf-living in grocery stores and convenience stores across the U.S. were Coke products with popular names stamped on them. Coca-Cola encouraged consumers to use social media, take photos, and post soda products with their names, friends' names, or family names. Coca-Cola was clever; it did not change the product (it was still the same tasty Coca-Cola formula the consumer

loved), nor did it utilise a new market (it was only focused on previous consumers instead of new ones in new markets). Coca-Cola reshaped the experience by naming the product and inviting the consumer to take a picture with it, signifying an experience that was uniquely personal to them. The success of penetration was great; Pepsi and other Coca-Cola competitors launched their campaigns that mimicked what Coca-Cola had done, but not with the same success Coca-Cola had experienced.

Nevertheless, despite the success and importance of using a penetration strategy, limitations exist. Growth potential can be limited in mature or saturated markets, where competition is strong, and most potential customers are already served by existing suppliers. When competitors are firmly entrenched in a mature market, gaining market share often means taking it directly from a competitor, so they rely on price pressure and reduced profitability. There is probably a natural limit to how much you can grow by simply selling more of the same product to the same consumers. This is when businesses more often than not, must look to the other strategies of the Ansoff Matrix once you hit the natural ceiling of growth with a penetration strategy.

Strategy for Product Development

Product development involves designing new products or materially enhancing existing products for sale to the current customer base and prospective customers. Product development is riskier than market penetration because it requires investment in research, development, and innova-

tion, and you cannot be certain that customers will welcome new products or enhancements to existing products. Simultaneously, it can produce high returns because you are using your existing market knowledge and existing customer relationships while providing something new and perhaps more valuable to your customers. You are well-acquainted with your customers' needs, wants, and buying patterns, which removes some of the inherent risks associated with innovation.

Successful product development relies on strong capabilities in several functions. You must have strong research and development functions that can develop products that meet customers' needs and provide competitive advantages. You must have insight into customers' preferences and trends to anticipate what customers may want in the future. You must have solid innovation capabilities that can quickly move the product from idea to production. You must have strong marketing and awareness-building capabilities to communicate the benefits of new products and their competitive advantages.

Apple provides one of the best examples of successful product development in the world. Considered a leader in developing innovative products to meet the constantly changing needs and wants of consumers in the technological space, Apple launched the iPhone in 2007. The iPhone was a new and unique product for its existing customer base of Mac computers, iPods, and technology enthusiasts. The iPhone combined a phone, Internet communicator, and music player into a revolutionary product. Apple

did not stop with the first iPhone; it continued to evolve the iPhone product line with new features, technological advancements, and design improvements each year. Better cameras, more powerful processors, facial recognition, better battery life, and new software features ensured that the product remained at the forefront of the technological market.

This type of product development builds loyalty with our customers and moves existing customers to upgrade to the latest version of the product while maintaining product development within an existing customer segment. Apple's ongoing success with the iPhone, iPad, MacBooks, and other electronically charged products illustrates the company's commitment to developing a product development strategy built on extending product development as a growth strategy.

The most important aspect of successful product development is the understanding that you are not developing something just to develop it, but rather, to develop something that fulfils a solution or desire for customers you are already familiar with. By understanding your customer, in combination with technical ability, innovation is the key to distinguishing successful product development from an expensive endeavour that results in failure.

Market Development Strategy

Market development refers to taking existing products to new markets, which could mean new geographical areas,

customer segments, or distribution channels. In other words, you are taking products that you know work well and selling them to customers or in places you have not been to before. Market development includes moderate risk because you understand your current product, but you may have less understanding of new market dynamics, preferences, regulations, and competitors.There are several ways to implement market development. Geographical movement refers to expanding your products to new regions or countries. Targeting customer segments means finding groups of customers who are not your target but could benefit from your products. New distribution channels, such as online versus retail, are another way to target customers in new ways. New market opportunities can be identified by determining different uses for an existing product.

A good example of a market development strategy is Tesla. The electric vehicle manufacturer has methodically explored new geographical markets with its existing product line of electric vehicles, targeting different countries where electric vehicle adoption is either strong or gaining momentum. Tesla did not do anything to adjust its core product (electric vehicles with advanced technology and co-performance) for this market development strategy; instead, the company intentionally developed an extensive infrastructure for charging stations in the new market space to facilitate the daily use of its vehicles, which helped solve one of the perceived barriers to the adoption of electric vehicles.

The significant investments made in charging station infrastructure demonstrated to customers that Tesla in-

tended to make their existing products usable in the new geographical market. Through this market development strategy, Tesla was able to better establish its international presence and increase the demand for its electric vehicles across multiple continents.To be successful in market development, research is needed in new markets prior to entry. To succeed, you need to know the culture, preferences of potential customers, regulations, competitive landscape, and distribution challenges. Angling your marketing messages, pricing structures, or even minor elements of the product may be necessary to better fit local preferences or culture; however, the core of your product should remain unchanged. The most important aspect is to identify markets that still have an existing use for current products without having to adjust the core function of the product.

Diversification Strategy

Diversification is generally considered the riskiest strategy in the Ansoff Matrix because it entails the development of new products for new markets. You are co-mingling the two unknowns: you are developing products that you have not developed before for customers you do not know of. Because you have two unknown dimensions, it is inherently risky but often presents opportunities for significant growth, risk spreading, and new business categories. Companies generally engage in diversification when they have exhausted potential growth avenues with existing products and markets when they are spreading risk across different business classes and have interesting opportunities in new industries.

There are two types of related diversifications that you should consider. One type of diversification is related diversification. This is when a company moves into products or markets that are related in some way to their current business products or markets; for example, they share some technology, a distribution system, or customers. In this case, companies use existing capabilities to explore new markets. The second type of diversification is unrelated diversification. This is when a company moves to entirely different products and markets that have no obvious connection to its current business. Companies leverage diversification into other business areas to spread risk, but unrelated diversification maximises the risk-spreading potential while increasing the challenge of operating unrelated products or markets.

An example of a firm that is diversifying is the popular fast-food chain McDonald's. By regularly updating its menu and adding new products, it adapts to shifts in consumer tastes across different markets. McDonald's has shifted away from its primary focus on selling hamburgers by introducing salads, wraps, coffee drinks, breakfast, and locally specific products in different markets. In fast food, McDonald's is creating new categories of products as well as targeting new customer segments. For example, McCafé premium coffee drinks expanded their product offerings and attracted health-conscious customers with salads and other nutritional options. McDonald's adapts its products to stay on top of a constantly changing competitive fast food market; the company utilises diversification as a tool to stay relevant to overall sector shifts. With its diversification

strategy, McDonald's can capture multiple dining occasions, expand its customer segments, and reduce its reliance on a firm's core product (hamburger) to meet consumer demand.

When considering diversification, firms must assess their capabilities, resources, and management capabilities to successfully use the power of diversification strategies to enter genuinely new areas. Many diversification efforts fail because firms miscalculate or underestimate the difficulties of operating in an unknown market or with an unknown product. However, if a firm has conducted its research, planning, and committed proper resources, diversification can be an effective strategy for opening paths to significant new growth of a business and its portfolio strategy.

Evaluating Strategic Outcomes

Brilliant strategy development is only half the battle; you have to measure whether the strategy is actually in motion. This is where strategic performance indicators are important. Without measurement, you are essentially just flying blind, hoping that your strategy will succeed. However, there is no objective way to determine whether it produces the intended outcomes. Strategic performance indicators offer data-based evidence to assess success, identify problems early, and rationally decide whether to stay the course, modify the course, or discontinue a particular strategic initiative.

What Are the Strategic Performance Indicators?

A strategic performance indicator (often referred to as a key

performance indicator (KPI)) is a quantifiable measure or metric that allows you to track progress towards strategic goals and objectives. They make abstract strategic aspirations tangible and provide a quantifiable measure of the strategic outcome that can be reviewed frequently. Much like the dashboard in your car, it is essential that you monitor certain measures of your business performance as regularly as you know what your speed, fuel, and engine temperature are while driving to manage strategically. The key word in key performance indicator is "key." Not all measures or metrics are strategic performance indicators. Strategic KPIs are chosen specifically because they directly measure progress towards the most critical strategic objectives.

Strategic performance indicators must have several important characteristics to be effective and valuable. They must be precise and defined so the team is crystal clear on what is being measured.The indicators must be measurable, i.e. actual data can be collected to inform you instead of relying on subjective impressions. The indicators must be relevant to the strategic objectives, meaning that they reflect the outcomes that are being attempted to be achieved. The indicators must be time-bound, meaning that the indicative indicators must include clear targets and deadlines to assess whether the objectives are being met. The indicators must be actionable, meaning that the data they generate must provide insight for decisions and actions and not just live in the reports.

Types of Strategic Performance Indicators

Different strategic objectives require different types of performance indicators. Financial indicators measure economic performance and may include revenue growth, profit margins, return on investment, cost reduction, and cash flow. For example, if your Ansoff Matrix strategy is market penetration, to achieve growth by obtaining a percentage of the market, you would like to measure revenue growth within your existing market segment, market sales as a percentage of market share, and possibly the cost to acquire a customer as compared to generating revenue from that customer. Customer indicators measure the relationship with the customer and satisfaction, and might include customer retention, Net Promoter Score, customer lifetime value, market share, and/or customer acquisition costs. If you are pursuing a product development strategy, you will want to measure customer adoption rates of new products, customer satisfaction with new features, and percentage of revenue from new products launched in the previous year.

Operational indicators assist in measuring internal efficiency and effectiveness. They may also measure production efficiency, order fulfilment lead time, inventory turnover, quality measures, or resource utilisation. In a market development strategy that focuses on growth into new geographical markets, you might measure how quickly you can fulfil orders in new markets, what percentage of the potential distribution channels you have penetrated, or how your operational costs compare in new markets to your established markets. Innovation indicators measure your ability to generate and implement new ideas and may include the number of new products introduced, research

and development costs as a percentage of sales, time to market for new products, or revenue generated by new products. Innovation indicators are especially important for market development strategies located in the product development quadrant of the Ansoff Matrix.

The following is a concrete example of how these indicators work. Consider a mid-sized coffee shop chain that currently has 50 store locations in urban areas within one region. They develop a market development strategy to enter suburban areas in adjacent regions within the next two years. Their strategic goal is to open 30 new store locations in suburban markets and obtain the same level of profitability as their urban stores within 18 months. To determine whether they are succeeding in their strategy, they may determine the following strategic performance indicators: number of new store locations opened (target 30 stores over two years), average revenue per new location relative to established locations (target 85 percent of revenue in six months, and 100 percent of average revenue in 18 months following opening), customer satisfaction scores in new locations (target above 4.0 for all average scores on a 5.0 scale), local market awareness in new regions (target 60 percent aided brand awareness in new markets in the first year), and the time to break-even in new locations (target 12 months). With these specific measurable indicators tracked each month, the management team will be able to quickly determine whether their market development strategy is on track or whether adjustments are needed.

Identifying and Developing Strategic Performance In-

dicators

The process of selecting and developing strategic performance indicators is a thoughtful process, and key stakeholders should be involved for their input. You will start by clearly defining your strategic goals. Each strategic initiative from your Ansoff Matrix exercise should relate to a clear and specific goal around what is desired as the outcome. For each goal, you will decide what successful accomplishment means in measurable terms; in other words, if this strategy is successful, what will be specifically different, and how do we measure that difference?

Next, select the specific KPIs that best represent progress toward each goal. Generally, it is best to have a few highly relevant KPIs rather than dozens of measures, resulting in an information glut. The vast majority of organisations have found that three to five KPIs per strategic goal provide a clear enough representation without losing focus on what is happening. For each KPI, you will then define a baseline measure (where the organisation is now), target (where the organisation wants to be), and timeline (when the organisation wants to be at the target). In addition, you will define the data source and measurement of the KPI, so everyone agrees on what and how the KPI will be calculated and reported.

It is also an important step to assign ownership and accountability for each KPI; in other words, a person should be assigned to monitor the indicator, collect and report data, and take action when performance does not meet the targets.

Without a designated owner, KPIs tend to be ignored, even when they may contain meaningful signals about strategic performance. Finally, you will want to determine how often an indicator will be reported. Some KPIs need to be monitored weekly or monthly, while others may be monitored daily, quarterly, or annually. A regular reporting cycle enhances the visibility of strategic performance, and the timing of information reported improves decision-making.

Now, consider another tangible example of our Ansoff matrix for practical purposes. You have a software company that sells project management tools to small businesses (their existing products and markets). As part of the process, you identify that they have an opportunity to develop a new enterprise version with more functions and features for large organisations (product development strategy). To measure the success of the product development effort, the company establishes the following: development milestones met on time (target of 100% of planned milestones completed within a week of the target for that milestone), partner beta user satisfaction scores (target of an average of 4.2/5.0), feature adoption of new features by beta users (target of 75% of customers regularly use at least five of the ten major new features or functions), sales pipeline for enterprise (target of 50 qualified leads for the enterprise product within three months of launch), conversion rates of trial to subscription users (target of 20% of users converted from trial to subscription in six months of trial), and revenue of new enterprise products (target of 15% of the total company revenue, in 18 months). This list spans

development, customer satisfaction, sales, and revenue performance, giving the company a view of whether the product development strategy is successful.

Revisiting and Revising Goals and Objectives

Strategic management is not an event that occurs once and is then forgotten. However, the market is constantly changing. Your competition will do something (or everything), technologies will evolve, and something unanticipated will take place. What made perfect sense strategically six months ago or even last month is no longer relevant or may even be detrimental. Therefore, in strong strategic management practice, it is understood and implemented to revisit and revise goals and objectives. Regularly reviewing a strategy will allow you the opportunity to review whether the organisation is still in alignment with its mission and vision while also adapting to changing circumstances.

The Strategy Review Process

A strategy review is a formal, organized process to reflect on and assess your strategic plan goal, ensuring that your original plan is still aligned with the organizational goals and environmental outlook. The strategy review process involves both reflection and assessment of data, engaging different organizational stakeholders, forming opinions on gaps between desired and achieved performance, and reformulating strategies as needed. The strategy review process usually involves some steps that walk you through a comprehensive yet objective review of the critical areas of

the pandemic impact and/or recovery and your approach, starting with the preparation stage. In the preparation stage, you will define the scope of your review, the objectives of the review, and the time frame for the review work overall. You should be certain about what you are reviewing, why you are reviewing it, and what decisions the review process will inform. The second step was data collection. In the data collection step, you will then provide performance-based information about all your strategic indicators using competitive market analysis and anything else you might collect from direct experience with customers. This is where the performance indicators you developed within the strategy formulation process will come in incredibly helpful; they will provide objective evidence of performance or non-performance.

The third step is the review process. To obtain your performance baseline data about your strategic indicators, you will review the data for the purposes that it tells you how effective and ineffective your overall strategic direction was. You will review your target performance concerning the actual performance.

You will be surveying patterns or trends and, where possible, where they start and how effectiveness can be explained. The fourth step is to identify the gaps. Following the comparison stage of the strategy review process, you will identify what you planned to accomplish and what you accomplished. At this point, you are formally identifying your gaps. The questions to address here are as follows: where are we ahead of performance, where are we behind performance, and what evidence can explain the difference?.

The fifth step was the external review. In this step, the area of external trends that circulate in organizational frameworks is yielded–trends within the environment, your external environment, to identify anything happening in your external environment that the organisation should be aware of, and can be characterised as possible responses to demands related to market demand/challenges and competitive market leveraging changes. These environmental factors will help to explain whether or why the strategy achieves unique performance or to help support unmet suggestions more evidence-based.

The sixth step is stakeholder integration. In this step, you yield perspective about all encaptured performance that you will have explored with employees/customers and possibly partners, and/or other aspects of stakeholder definitions (hints) in qualitative experiences common to most quantitative qualitative insights have suggested in relation to quantitative performance data and measures. Stakeholders often value subtle changes that are overlooked, and traditional methodologies of investigation have not considered this. The seventh step is to move your recommendations in specific reference to the identified gap areas performance. In this step, you will develop proposed recommendations to adjust the strategy from the evidence generated during the review and stakeholder perspectives based on specialist rationale.

Recommendations should be clear, actionable, and ultimately discounted based on your evidence/perspective, context, and understanding of what your recommendations are bringing forward. The eighth and final step is implemen-

tation and qualification. In this step, you will implement your proposal to adjust and monitor performance data and data to assess particular performance and your adjustments.

When to Evaluate and Revise Strategy

Organisations often hold formal reviews of their strategies regularly (quarterly, annually, etc.); however, they should also be ready to examine their strategies when an event or change occurs. Scheduling a review regularly ensures that the strategy continues to receive the attention of management as an ongoing focus of managerial deliberation and not just when there is panic to address the strategic issue. A quarterly review allows for relatively frequent changes to tactics and tactical initiatives. An annual review allows you to rethink your strategic direction in a more comprehensive manner.

Event-triggered reviews occur when something meaningful has changed that could affect your strategy. Events that would prompt an event-triggered review could involve major competitive movements (such as a competitor launching a disruptive product or entering your market), major market changes (such as a fundamental change in customers' preferences or a new market segment), technological disruption (such as a new technology potentially presenting an opportunity for your organisation or a threat), changes in regulation or law (for example, new laws affecting how you can do business), and internal events (such as a change in leadership, merger or acquisition, and large operational issues). Balancing responsiveness to these events while

maintaining a strategic focus is a challenge in effective strategic management.

Redefining Goals and Objectives

When you have made a periodic strategic review and it indicates that adjustments are needed, you might also need to redefine goals and objectives. Defining goals and objectives does not mean abandoning strategic thinking or change whenever a result is not ideal. Instead, it signifies being intellectually frank about what is and is not working while being open to change as a result of evidence and learning.

There are a handful of circumstances in which redefining goals and objectives makes sense. First, if previously set objectives have been achieved ahead of schedule, it makes sense to extend more ambitious objectives to help continue the momentum. Second, if you experience consistent under-performance which suggests that objectives are over-reaching given available resources or market conditions, it makes sense to change (readjust) objectives that are nevertheless stretching yet feasible to accomplish. Third, if there has been a substantial shift in the external environment, so that previously set objectives are no longer valid or achievable, it makes sense to redefine goals and objectives, so they are responsive to the new reality. Fourth, if you discover that your objectives are no longer in alignment with your overall mission and vision, perhaps because organizational priorities have adjusted changing your path, it makes sense to realign them. Finally, if new opportunities

or threats become evident that were not identified in the original planning process, it makes sense to adjust goals and objectives to either act on the previously unseen opportunity or address the threat.

Let us return to our coffee shop chain scenario to illustrate how this works in practice. Six months after the enactment of the market development strategy to enter the offered suburban areas, the management team undertook a strategic review. They could note that they have opened 12 more shops (a start toward the target of 30) but observed that the average revenue per shop was only 70 percent of the leading shop and customer satisfaction scores were only 3.7 out of 5.0 (below the target of 4.0). The management team undertook a follow-up investigation and discovered that customers in suburban locations differed in preference from urban customers, preferring the shop to include comfortable seating for lengthier visits, a less congested parking area, and a family friendly atmosphere. Having learned from their investigation, management would shift goals and objectives relative to their new knowledge. They typically opened a new shop every three months, but now they would change the target to a new shop after every two months (20 shops in two years vs. 30 shops in two years), at which time they would reaffirm the potential suburban customer preferences and unfurl the misses before planning the next location, while absorbing some feedback into the frontline shop.

Following that, they designed suburban shop designs to include more seating and family amenities. After an inventory state of play with preliminary objectives for educating

toward revenue objectives, they would reaffirm existing (accepted as customary) and accept that revenue objectives may take longer than before, particularly a re-cautioning of how suburban customers behaved, (adapting performance service) that perhaps new suburban locations may take as long as the 24 months to find profitability and determine new key performance indicators (KPIs) or objectives around customer behaviour that might travel anew past previous performance and habits to improve an overall prior way or habit including average get visit duration. The example of the coffee shop illustrates how strategic: review or definition of objectives is not simply abandoning the strategy; it is only learning relative, and only when keeping the perspective of drawing on what appears to be insight from organizational experience to consider objectives through or new objectives through tactical executives experience, rather an conventional mission or vision.

Sustaining Strategic Stability While Being Adaptive

One of the difficulties in reviewing and redefining strategies is achieving the right degree of stability and adaptability. Organisations need sufficient strategic stability to build capabilities, perform in markets, and persist with initiatives. A strategic environment that changes from moment to moment creates disorder, squanders resources, and never fully follows through on an approach. Just as an organisation needs sufficient adaptability, it also needs sufficient stability to respond to changing situations and, possibly, learn from them. Sticking with a strategy even when it is not working simply because it was the original plan raises similar issues

of inflexible thinking.

The challenge is to be clear about what is fixed and what can be altered. Your core mission, vision, and values must remain relatively stable to provide continuity and identity for the organisation. Your long-term strategic direction (notionally, "become the best provider of sustainable products in our industry") must remain relatively stable. However, the tactics, timing, and approaches you take in pursuing that strategy must be adjusted/altered as you learn. The Ansoff Matrix provides a good construct and, in turn, may provide a lens to maintain the required stability/adaptability. For example, you may retain your commitment to a market development strategy (the stability) and alter the markets you are developing or the speed of development based on the early findings and learning (the adapt).

Conclusion

Using strategic analysis tools and measuring outcomes is not simply an academic exercise but an operational necessity for business success in competitive environments. The Ansoff Matrix provides a clear way to think about growth options, including the associated risks, regardless of the choice to penetrate the market with my existing products into existing markets, develop products for my existing customers, develop markets for my existing products, or diversify into new products in new markets. Each strategy has a unique use, and successful organisations know when to adopt each strategy based on their organizational capabilities, the urgency of market conditions, and an overarching strategic goal.

Choosing a strategy is only the beginning. You are also required to establish clear, measurable strategic performance indicators (KPI) that allow you to track whether or not your strategy is working, if issues arise early, and support evidence-based decisions on how to proceed. These KPIs convert strategic ambitions into tangible indicators that allow opportunities to assess behaviour, outcomes, and gain regular feedback on progress.

Finally, ensure that you are committed to delivering routine strategic reviews to assess the commitment to honesty regarding performance, collect different data points for perspectives and analysis to formulate what is working and what can be improved or stopped by simply measuring, and lead timely actions when necessary. Arguably, a clear strategic direction (Ansoff), systematic measurement (performance indicators), and adapting learning (reviewing and adapting) are a formula for strategic management that greatly enhances the likelihood of obtaining a sustainable competitive advantage and long-term success.

As you read more and further your studies, moving into professional practice, it is important to remember that strategic management is ultimately an activity regarding making better decisions under conditions of uncertainty. The tools and processes discussed in this chapter do not eliminate uncertainty or assure success, yet they provide structured approaches for thinking through options, processes of measurement, and finding ways to learn. Organisations that apply these disciplines reliably for an extended period tend to outperform those that rely too heavily on intuition or do not measure and adapt their strategies. The more you appreciate how to apply these concepts and determine how

to integrate these ideas into a toolkit that you can adaptively modify to your practice, the more invaluable your capability will be for your business career.

Learning activities :

Strategic Analysis and Decision-Making Exercise

Strategic Challenge of TechStyle Fashion Group

You have been hired as a strategic analyst of TechStyle Fashion Group, a mid-sized online fashion retailer that has been successfully selling fashionable clothing and accessories to women aged 18–35 in the UK for the past eight years, primarily using its e-commerce website. The business currently generates approximately £15 million in annual revenue and offers its current customer base of approximately 80,000 active subscribers fashionable, high-quality clothing and accessories at an affordable price, with fast delivery, and, of course, Instagram-socialisation-ready clothing pieces. However, the company's board of directors is concerned about the revenue growth recently stagnating at a mere 3% year-over-year increase, down from recent growth rates of 25% three years ago, and has tasked you with investigating and recommending strategic growth opportunities. The company has a current allotted £3 million fund available for strategic investment and may have access to further borrowing if a competitive case can be made. The CEO has also provided you with five pre-framed strategic opportunities to discuss and analyse.

You will use the Ansoff Matrix framework to discuss these four possibilities and select the most appropriate, develop or establish measures of performance, and generalise how you would review the strategy based on performance data.

The five strategic options that the company is considering are as follows:

Option A, the first possibility to consider, would be to launch an aggressive digital marketing campaign which could include partnerships with influencers, a loyalty program, and promotion pricing targeted to drive new sales growth with existing customers of the company in the current UK market. Option B focuses on product development by creating a new men's fashion line using the capabilities the company already has in design and supply chain, selling to male customers in the same age demographic through the existing website. Option C exemplifies market development by expanding into three new European markets (France, Germany, and the Netherlands) using the existing women's fashion product line with localised websites, customer service, and logistics. Option D is an example of diversification for a completely new product category of sustainable beauty and cosmetics targeting environmentally conscious consumers age 25-40— this option involves partnerships with new suppliers and developing expertise in a completely new industry. Finally, option E proposes the acquisition of a small chain of physical fashion boutiques located in major UK cities, converted to TechStyle Fashion branded stores to create an omnichannel retail experience.

For this activity, complete the following in a detailed paragraph format. Please analyse each of the five strategic options by explaining to which quadrant of the Ansoff

Matrix each option belongs (that is, Market Penetration, Product Development, Market Development, or Diversification) and provide your reasoning for each assignment, explaining what led you to classify each option in each manner and what constitutes its respective classification. Next, the relative risk level of each strategy is assessed based on factors such as market knowledge, product knowledge, required capabilities, and investment requirements, and the likelihood of failure is evaluated. Once this is complete, rank the five options from lowest to highest risk, and provide a clear rationale for your risk assessment. Third, determine which TWO strategies you would recommend TechStyle Fashion implement, given their available resources to support implementation, and provide a detailed rationale for the appropriateness of these strategies for the current state of the company, and their resources, capabilities, and growth ambitions.

In your response, please also discuss the reasons for rejecting the other three strategic options. For the TWO recommended business strategies, you will have to develop an appropriate measurement plan. If you select the business strategy as your highest priority, you will create five measurable Key Performance Indicators (KPIs) that TechStyle Fashion should track to measure success with the business strategy. The plan for KPI development should state the metric of the KPI, the specific and realistic target, the timeframe of measurement, the person responsible for tracking the progress, and the rationale for considering this KPI significant to be used in determining if the business

strategy is delivering the intended results. You will also describe what a quarterly performance dashboard would look like, how management should monitor the KPIs when it is reported in the first year, and what signals would show whether or not the strategy is performing from successful to struggling.

Finally, demonstrate your grasp of strategic review and change by responding to the following scenario: After nine months under the applied business strategy, the quarterly review of performance provided mixed results, with two of the KPIs performing at 120% of target and two KPIs performing at 95-100% of target. Ultimately, does not quite measure up to optimal. Nonetheless, one pivotal KPI registered only 55% of the goal, representing a legitimate shortfall which raised serious concerns about the overall success of the strategy. Prepare a thorough strategic review assessment describing which KPI you think is underperforming and why, what external or internal factors might be the cause of the underperformance, what additional information and data you would collect to determine a root cause, and what specific recommended action items you would suggest to the leadership team of TechStyle Fashion to fix the underperformance and at the same time maintain momentum on the KPIs that are performing on target. Also note whether the significant underperformance should trigger a consideration of revisiting the underlying strategy or merely revisiting the tactical elements of the strategy to get it back on track. At each step of your analysis, you will need to demonstrate an understanding of how the Ansoff Matrix helps frame strategy choices, how performance measurement provides objective feedback on

the evolving execution of the strategy, and how a regular interval of review promotes learning from the organisation's experiences and adjustments to practice instead of adhering to the original plan regardless of the results in the real experience.

This study is a large and multi-layered activity that will require you to interrelate all the concepts from Chapter 8, apply an understanding of theoretical frameworks in practice, while demonstrating a critical evaluation of strategic thought, formulation, measurement/adaptation. Your response should resemble a final product that uses clear logical paragraphs that flow from strategic analysis through measurement design to review and adaptation planning, depicting how they operate as one connected strategic management process. Please ensure that your total response touches on each component of the overall exercise. Please complete your response in ~1500-2000 words. Take your time to review your work and cite references where necessary. The type of exercise here is identifiably similar to what you might be asked to do in significantly more senior roles in business organisations, to analyse complex business issues, make recommendations based on your analysis, incorporate structures of accountabilities, and demonstrate ongoing consideration to evidence-based change and not mount a defense of every aspect of a plan when it needs to be changed to deliver improved results.

9

Chapter 9

Developing Strategic Management Plans for Competitive Advantage

Strategic management planning is key to the success of an organisation. In practical terms, lofty aspirations are turned into tangible actions that offer a competitive advantage in challenging market conditions. In prior chapters, we focused on how to analyse strategic situations and apply particular tools, such as the Ansoff Matrix. Strategic management planning is more than simply creating a plan or document that will collect dust on a bookshelf; it is also about creating living documents that contribute to the decision-making process and help inform and align overall organizational effort, identify and coordinate resource allocation, and adapt to changing scenarios while keeping a steadfast focus on long-term intent. Consider strategic management planning as if you are directing the navigational system of a vessel as it crosses the ocean: you first must know where you want to go (vision and mission),

next you must consider the currents and weather patterns already in existence (environmental analysis), you then must draw the route to your destination (strategy formulation), the vessel is then sent off to the destination (implementation or execution), and finally, as you and your vessel make progress, you must check your current position and make adjustments accordingly (monitoring and review).

This chapter covers the major definitions and concepts within strategic management, provides a walkthrough of the entire strategic management process in a step-by-step procedure next to an example, looks at how the Business Model Canvas assists organisations in visualising their business model and transforming it based on new contextual factors, and lastly, how strategic roadmaps communicate organizational long-term intent and strategy to its stakeholders. By gaining familiarity with the definitions and mechanisms above, you will be equipped to build strategic planning processes that provide (and emphasise) sustainable competitive advantages in your market sector.

Understanding Strategic Management: Definitions and Elements

Strategic management is the responsibility of determining the history and intentions of an organisation in the context of its future direction and purpose, delineating objectives, developing policies and plans for achieving those objectives, and allocating resources for implementing the plans.

It is the highest order of managerial activity and is executed

by the organisation's chief executive officer and executive team, providing the overall direction and purpose of the entire organisation. Strategic management is also distinguished when compared with operational management: whereas operational management oversees the day-to-day affairs of the organisation while managing short-term efficiency, strategic management focuses on decision-making with a distance and a future-oriented mindset–typically looking 3-5 years ahead, and sometimes further–assessing how the organisation makes its way through marketplace conditions and positioning itself to thrive in these marketplace conditions. Strategic management is forward-looking in nature, to the extent of trying to anticipate and then understand change - recognising changes in technology, customer behaviour and preferences, competition, and broader social and economic trends.

Strategic management includes several important distinctions that set it apart from other managerial activities. First, strategic management is future-oriented, having more to do with where an organisation wants to go in the future than where it is today. Second, it is comprehensive and integrative; it considers many aspects of what the organisation does and how they come together, as opposed to just optimising each function (or department) as a single entity. Third, it is messy and uncertain because it deals with the future, and all conditions cannot be known with certainty. Fourth, it concerns both internal capability and external environment; success relies on an organisation doing well and what the external market wants. Fifth, ethical dilemmas and difficult resource allocations and tradeoffs are more

a part of strategic management than operational activities, since an organisation will have limited resources to pursue all opportunities at the same time.

To provide a more concrete example of strategic management, consider Netflix. In the early 2000s, Netflix was a DVD rental company that primarily competed with retail outlets such as Blockbuster. Netflix's strategic management process required, among other decisions, to be aware that this technology would eventually move into digitally streaming movies in the future, even if streaming was not economically viable at that time, nor was it being widely adopted by consumers. Strategic decisions were made at that time to heavily invest in streaming technology and licencing content prior to the streaming market becoming viable. Meanwhile, Netflix positioned itself to dominate the market once consumer behaviour tipped in the direction that promised profitability for streaming. This involved difficult decisions regarding resource allocations away from the profitable DVD rental business towards the uncertain streaming market.

Building capabilities in technology infrastructure, content licencing, and later production were also major factors. Patience was required for investors who were not privy to Netflix's strategy to understand why the investment was so substantial in an unproven business model or technology. Today, Netflix's strategic management decisions have allowed for sustainable competitive advantage; the company is a ubiquitous global leader in streaming entertainment with over 230 million accounts worldwide. Blockbuster

no longer exists because it did not strategically adapt. This example demonstrates that strategic management involves anticipating future conditions and exercising difficult resource allocation, pivoting capabilities ahead of immediate implications, directing resources to a new focus of the organisation, and maintaining an opportunity-focused and in hindsight right behaviour despite short-term pressures and naysayers.

The foundation of strategic management is to obtain and sustain competitive advantage. A sustained competitive advantage exists when an organisation creates more total value for customers or creates similar value for customers at a lower cost than its competitors. Competitive advantage allows organisations to consistently outperform rivals over time by earning higher profits, growing faster, or fulfilling their mission more economically and effectively than competitors. Strategic management planning is a regular process through which organisations identify sources of potential competitive advantage, make purposeful endorsement decisions to obtain an advantage strategically, construct an organizational alignment of resources and capabilities, and make strategic pivots/changes behaviourors as conditions dictate. Without effective strategic management planning, organisations tend to remain reactive, adrift in the immediate pressures they face, while failing to proactively plan to set an agenda for their future. Organisations also struggle to coordinate activities in individual departments to promote coherence and focus in a systematic reward system.

The Strategic Management Process: A Holistic Framework

The strategic management process presents a logical framework for the overall development, implementation, and assessment of an organizational strategy. Various scholars and practitioners have expressed the process in diverse terminology and focused on different emphasis; however, the majority of strategic management processes contain five main phases that provide a logical flow from the understanding of the current position to taking action and monitoring the outcomes. These five phases are as follows: initial assessment and position; environmental scanning and analysis; strategy formulation; strategy execution; and monitoring and assessment. It is important to understand each of the phases in-depth, including the important activities, tools, and outputs of each phase, to develop effective strategic management plans.

Phase One: Initial Assessment and Positioning

The strategic management process begins with an initial assessment, which clarifies the fundamental identity and purpose of the organisation. It answers several critical questions, such as why this organisation exists. What is it trying to achieve ultimately? What principles will guide the organisation's decision-making and behaviour? Without answers to these fundamental questions, eventual strategies will lack integrity, thereby reducing the validity of the range of strategic options considered for action and the justification of why certain opportunities were

selected and others were not. The main components of the initial assessment phase are as follows: development of (or affirmation of) the vision statement, mission statement, and core values.

A vision statement communicates where the organisation aims to be in the future and tells a story of the vision of effective vision statements that are aspirational yet plausible, specific enough to give focus, yet broad enough to allow for many pathways, and emotional rather than just descriptive. Microsoft's vision statement is "to help people and businesses throughout the world realize their full potential", clearly defining an aspirational future state around empowerment versus a specific product or technology. While the products Microsoft offered have evolved dramatically from PC software to a cloud computing platform, this vision is still relevant. A mission statement provides the current state of an organisation's business; it articulates what an organisation does, for whom, and how it creates value. Effective mission statements establish the primary products or services offered, customers or beneficiaries targeted, geography, potential such as custom or product offerings that help differentiators or competitive costs, and the organisation's commitment to its stakeholders.

An example of this is Tesla's mission statement, which is "to accelerate the world's transition to sustainable energy", This statement is distinct in that it identifies what it produces (sustainable energy products), why that matters (the environmental transition), and how it distinguishes itself from others (it focuses on accelerating transition versus simply

engaging in transitional work). Core values articulate the principles and beliefs that guide an organisation's decisions and behaviours by defining what the organisation stands for and how people in the organisation should act. For instance, some of Google's core values include "focus on the user and all else will follow" and "you can be serious without a suit", which clearly articulate customer-centricity, as well as cultural informality to distinguish from competitors.

Strategic positioning, which is closely related to the initial assessment, establishes how the organisation will differentiate itself from the competition and create unique value in the market. This means knowing who your competitors are, what they offer, how customers currently make choices, and where you see the opportunity to position yourself differently than them. Strategic positioning options usually land on cost leadership (offering similar prices as other similar type options but at lower prices through efficient means), being a differentiator (offering unique products and/or services with those differences starting with a premium price), or focusing on a niche (offering one segment of customers positively affluent options). For instance, Southwest Airlines strategically defined itself as a low-cost carrier focused on short-haul (less than 500 miles), point-to-point service, and where service was no frills, providing differentiation from traditional hub-and-spoke airlines and the benefit of price to its cost-sensitive customers. This strategic position continues to drive Southwest's decisions about what routes to fly, what amenities to offer, what type of aircraft to buy, and how to structure flight operations today decades after making the strategic decision.

Phase Two: Environmental Scanning and Analysis

Once the organisation's core identity and positioning are established, the strategic management process progresses to the comprehensive phase, in which systematic environmental scanning and analysis of internal strengths and weaknesses and external strengths and weaknesses are performed to understand the strategic landscape. This phase addresses critical questions, such as: What are we good at? What are our weaknesses? What opportunities and threats are presented in the environment? What trends are affecting the industry? What capabilities will organisations need to be successful in the future? The output of the environmental analysis phases generates metrics from which organisations can assess which strategic options are feasible, attractive, and aligned with the organisation's capabilities.

An analysis of the internal environment explores an organisation's resources, capabilities, processes, culture, and performance to determine its strengths and weaknesses. Resources refer to tangible items, such as financial capital, physical facilities, and technology, and intangible resources, such as brands, intellectual property, and customer relationships. Capabilities refer to what the organisation can do well, such as innovate quickly, manufacture effectively, provide quality customer service, or manage complex distribution networks. Internal environmental analysis should be honest and evidence-based instead of a wishful thinking exercise; many organisations are not aware of their internal weaknesses until they encounter pressure from a competitive environment.

For example, Nokia once owned the mobile phone industry based on its strength in hardware engineering and global delivery. However, Nokia never acknowledged its weakness in software development and UX design until confronted with competition from Apple, which developed the iPhone and demonstrated that software and User Experience design capabilities were more important than the hardware strength that Nokia possessed.

An analysis of the external environment examines the overall environment in which an organisation operates, including the industry, competitive forces, customer trends, and macroenvironmental conditions. One widely used tool for analysing the external environment is the PESTEL analysis which systematically examines Political, Economic, Social, Technological, Environmental, and Legal factors that might create an opportunity or threat to the organisation. Political factors may include government stability, trade policy, tax policy, and regulations. Economic factors may include economic growth rates, interest rates, exchange rates, inflation, and unemployment rates. Social factors include demographics, cultural attitudes, lifestyle changes, and education. Technological factors may include rates of innovation, acceptance of technology, research and development (R&D) activity, and economic demands for process automation. Environmental factors may include climate change which may impact resource availability, resource scarcity, average sustainability standards, and environmental regulations. Legal factors include employment laws, consumer protection laws, health and safety regulations, and intellectual property laws. By systematically analysing each

dimension of PESTEL, organisations can identify changes in the external environment that create strategic opportunities and threats.

SWOT analysis is perhaps the most widely used method for integrating internal and external analyses. It organises findings into four categories: strengths (internal resources and capabilities that provide an advantage), weaknesses (internal limitations that provide a disadvantage), opportunities (external conditions that can be leveraged), and threats (external conditions that may cause challenges). To be clear, effective SWOT analysis involves much more than listing strengths, weaknesses, opportunities, and threats; it investigates the connections between points and possible strategic implications. For example, can you leverage particular strengths to ensure the exploitation of particular opportunities? Can you resolve particular weaknesses to reduce specific threats? Are there opportunities that require developing capabilities that you currently do not possess, which would further your strategic purpose?

An interesting example of this dynamic occurred in the mid-2000s, when Amazon's environmental analysis led to the establishment of Amazon Web Services (AWS). Amazon identified their internal strength in building and managing enormous technology infrastructure to support their e-commerce platform (which included their technology related to servers, storage, and networking capabilities). In addition, they discovered the external opportunity that many businesses struggled with a variety of both technology- and non-technology-based costs and complexities associated

with building their technology infrastructure, which may create demand for infrastructure as a service. By connecting internal strength (expertise in technology infrastructure) to an external opportunity (infrastructure demand), Amazon was able to leverage its strength to build the AWS business, corporate, and residential needs, which has taken off, and when all sales isolated to AWS, manifests as one of the biggest drivers of corporate profits at over $80 billion of annual revenues and contending to support most of the internet. Here is an illustrative example of the power associated with credible environmental analysis: it can reveal unexpected strategic opportunities for existing capabilities, grounded in thoughtful respect to environmental analysis.

Phase Three: Strategy Formulation

Strategy formulation is the phase of the strategic planning process in which the organisation's observations are drawn from environmental analysis and translated into concrete strategic choices about how the organisation will compete and add value. Part of this phase is memorialising the strategic goals and priorities, assessing strategic alternatives, and deciding which strategies to implement. The formulation of strategy is analytical and creative in determining what actions are practical and inferable and creative in considering possible actions that may not logically come to one's field of vision.

Strategic goals are specific measurable objectives that an organisation wants to achieve, generally within the context of planning, three to five years. The planned strategic goals

would meet the definition of SMART - Specific (measurable objectives are not ambiguous); Measurable (there is a way to measure the quantitative measurement), Achievable (the objective is realistic) Relevant (is consistent with the mission and vision of the organisation) and Time-bound (a date for their desired completion). The strategic goals would include a range of performance considerations for each goal, such as the financial aspect (e.g. revenue growth, profitability, ROI), customer aspect (e.g. market share, satisfaction, loyalty), operational aspect (e.g. efficiency, quality, and innovation), and organizational aspect (e.g. capabilities and capacities, culture, and employee engagement).

For example, a manufacturing firm may identify specific strategic outcomes, such as obtaining 20% revenue growth over the next three years through new products and entry into new markets, increasing the operating margin from 12% to 16% through efficiency improvement, improving customer satisfaction from 7.5 to 8.5 (scale from 1-10), and decreasing turnover from 18% to 10% over the same period.

Strategic priorities are strategic initiatives with the greatest outcomes towards achieving strategic outcomes. Organisations have limited resources and management attention; thus, it is not possible to initiate multiple identical events or consume identical resources, time, effort, and creativity. Therefore, a strategic priority requires making a difficult decision regarding what is most important and where thinking and resources should be prioritised. A strategic priority should consider three to five strategic themes; it can be difficult to focus on anything more than three to five

themes; it is possible, however, to have multiple action plans but avoid the theme, such as the organisation's focus and attention, which continues to be spread thin. A strategic priority can be determined by its urgency (a lack of action would contribute to a major event) or importance (well "planning", etc.). Ultimately, the organisation will invent, modify, or evaluate its importance.

A critical priority is an urgent priority, where inaction or lack of knowledge eventually results in financial input return (failure) or an existential threat to the organisation, products, or services. An important priority is to be a fairly high priority (note urgency), which will lead to the eventual consideration of an important outcome. A desired priority is likely to be a very timely priority which has value but may not have an urgent time scale; it may also be based on hope that someday it will lead to long-term critical general success. For example, a retail firm which is now facing increased competition from customers purchasing goods online has the following strategic priorities: a critical priority towards reactiveness would be to develop the infrastructure to build or improve the omnichannel shopping experience (integrated online and brick-and-mortar shopping); an important priority would be to improve supply chain efficiency to reduce cost and improve product availability from their competitors; and then, following through, occupying the organisation as a participating factor of the business, a desired priority to have expanded into adjacent product category markets through brand strength reputation into that evolved service. When assessing strategic options, you are looking to evaluate potential strategies against a number

of criteria to identify which strategies you think best suit your organisation's interests.

While the evaluation criteria can vary greatly across organisations and strategies, they often include (1) strategic fit or alignment with mission, vision, and value statements; (2) feasibility, or whether the organisation has or can create the needed capabilities and resources; (3) attractiveness, or market size, growth potential, and profit potential; (4) competitive advantage, or whether the strategy creates sustainable differentiation positioning the organisation better than competitors; (5) risk, or the probability and impact of potential downsides; and (6) stakeholder acceptance, or the anticipated acceptance and willingness for key stakeholder groups to support the strategy. Each strategic framework, such as Porter's Generic Strategies framework, the Ansoff Matrix, or Blue Ocean Strategy concepts, provides a distinct lens through which to evaluate strategic options. Porter's Generic Strategies framework suggests that organisations can gain competitive advantage on the basis of a cost leadership strategy, differentiation, or focus strategies. Ansoff Matrix, introduced in Chapter 8, will assist you in evaluating growth strategies based on product/market combinations. The ideas of Blue Ocean Strategy will help you identify potential opportunities to create a new market space instead of competing in an existing or saturated market. For example, Cirque du Soleil utilised the thinking behind the Blue Ocean Strategy when it developed a completely new form of entertainment that combined elements of circus, theatre, and artistic performance, avoiding traditional competition with circuses

and theatre productions and being able to charge a premium price from a new segment of customers.

Phase Four: Strategy Implementation

Strategy implementation is effectively making plans a reality through actions, resource allocation, organizational alignment, and change management. This phase is often the most complex, as it involves taking abstract strategic concepts and converting them into specific operational activities, overcoming staff resistance to change, retaining staff interest and energy for lengthy periods, and ensuring implementation across various segments of the organisation. Many well-formulated strategies fail during the implementation stage because organisations do not appreciate the difficulty in modifying existing work patterns, transferring resources away from existing activities to carry out new priorities, building new capabilities, or staying focused while business pressures seek to detract from good implementation. Successful implementation of a strategy involves first developing detailed action plans that describe what will be done, who will do it, when it will be done, what resources will be required, and what the expected outcomes will be.

Action plans help break down strategic objectives into specific initiatives, initiatives into specific projects, and projects into specific tasks that require clear accountability and deadlines. For example, if a strategic objective of the firm is to "enter two new geographic markets within 18 months", the action plan would indicate which markets will be entered in which order and with what market

entry mode (exporting, licencing, joint venture, or new direct investment), the assignment of a project budget, the organizational resources required, and which specific outcomes are expected at 3, 6, 12, and 18 months. Gantt charts are a commonly used tool to illustrate action plan information that supports project complexities by task assignment, task sequencing, accountability, and deadlines, so that all parties can track progress and understand any delays that may arise.

Resource allocation is a major implementation activity where a difficult decision is made on the prioritisation of financial resources, human resources, technology, and management attention across a number of strategic initiatives. Strategic implementation necessarily involves reallocating resources away from existing activities to pursue new priorities, which often results in organizational tension, as existing activities have their proponents and supporters. One aspect of effective resource allocation is the ability to align resources with strategic priorities so that an adequate allocation of resources is made available for the successful implementation of critical initiatives. It is important to include not only explicit financial budgets for activities but also to mitigate general human capital allocation, since having enough money does not ensure success without having the right people and capabilities.

For example, when Apple decided to enter the smartphone market with the iPhone, the firm made the difficult decision to transfer talented engineers away from computer development activities to support the iPhone project, illustrating

an important factor in strategy implementation: it requires making difficult decisions about what will not be done, not simply adding something new to the workload of existing activities.

Organizational alignment ensures that structures, systems, processes, culture, and incentives support strategic objectives rather than working against them. Structures define reporting relationships, decision-making processes, and information flow, and should facilitate rather than impede strategic priorities. Systems encompass planning, performance management, information, and communication systems, all of which should be designed to support the execution of the strategy. Processes describe how work is done and should be efficient and effective in creating strategic results.

Culture includes shared values, beliefs, and behaviours and influences whether an organisation embraces or resists strategic change. Incentives, such as compensation, recognition, and promotion, should reward behaviours and outcomes that support strategic objectives. For example, when Microsoft changed its strategic focus from licenced software to cloud-based subscription services, it changed its sales compensation systems from one-time licence deals to recognising and rewarding growing recurring subscription revenue, which aligned incentives with the new strategic direction.

Phase Five: Monitoring, Review, and Adaptation

The final phase of the strategic management process is monitoring, reviewing, and adapting. This phase includes systematically tracking performance against key performance criteria, evaluating the degree to which the strategic plan has produced the desired results, learning from successes and failures, and making necessary adjustments. This phase change recognises that strategic management is not a one-time or event-based activity but an ongoing cyclical process of planning, acting, learning, and adapting. Without systematic monitoring and review, organisations do not have a reliable way of determining whether particular strategic initiatives are working, nor do they have a time-tested understanding or explanation of why performance is not aligned with expectations.

Performance monitoring involves regularly tracking the key performance indicators (KPIs) and measures of progress toward strategic objectives which we explained in some detail in Chapter 8. Effective monitoring systems produce timely, accurate, and relevant information that decision-makers can use, generally in the form of a dashboard or other reports that show trends and variances from targets, both intended and unintended. The frequency of monitoring should complement the speed of the business and the nature of the measure; some need to be monitored daily or weekly, and others need to be monitored every six months or quarterly. For example, a technology company might implement a strategy to increase revenue from new products and therefore monitor the daily sales numbers for all new products, the weekly number of customers who adopted the new products, the monthly revenue from new products

versus existing products, and the quarterly profitability of new product categories.

The monitoring frequency for these performance measures adds short-term signals about tactical execution and indicators for longer-term signals about strategic progress. A strategic review is a periodic and formal evaluation of an organisation's overall strategic performance. Strategic reviews are conducted periodically, typically quarterly or annually.

During a strategic review, teams of leaders step back from day-to-day operations and evaluate whether the overall strategy remains the right one and whether there may be a need to adjust the strategy. A strategic review considers quantitative performance data and qualitative factors, such as changes in the competitive environment, fluctuations in customer preferences, technological advances, or changes in the capabilities of the organisation. A strategic review will create an environment to discuss what is working as well as what is not working, why performance is different from expectations, and what we have learned and therefore what needs to change.

For example, a pharmaceutical company may perform an annual strategic review that evaluates key variables, such as the results of clinical trials for candidate drugs, the anticipation of regulatory approval over the next year for drugs in development, scheduled competitive launches of drugs, scheduled expiration of patents, a review of merger and acquisition considerations, and examination

of the allocation of research investments across therapeutic areas. Based on this comprehensive review, an organisation may make decisions that include accelerating development investment for promising drug candidates, discontinuing research investment in some drug candidates, exploring the acquisition of smaller companies with complementary capabilities, or adjusting pricing strategies in response to competitor actions.

Strategic adaptation refers to adjusting strategies based on the details observed in monitoring and review. This is where the balance between strategic consistency and tactical flexibility, as discussed in Chapter 8, comes into play. Some adaptations are minor tactical adjustments to execute current strategies. For example, reallocating a marketing budget across different marketing channels, changing the pricing in response to competitive actions, or accelerating or delaying particular initiatives based on a reduction or availability of resources are types of minor tactical adjustments that fall into this category. Other adaptations are more stringent strategic adaptations that change the core strategic direction, such as entering or exiting a market, acquiring or divesting a business, or significantly repositioning a product or service. The critical task is knowing when a minor tactical adjustment is sufficient and when a more stringent strategic adaptation is needed. For instance, during the COVID-19 pandemic, restaurants had to adapt their strategies from dine-in services to delivery systems in a very short time frame. Minor tactical adaptations could include the establishment of contactless payment, enhancing the take-out packaging of meals, and increasing delivery partnerships

with third-party food delivery companies.

More substantial strategic adaptations included permanently shutting down dine-in restaurants to just delivery models, restructuring a traditional full-service restaurant into a fast-casual concept, or it may have meant selling meal kits.

The Business Model Canvas: Visualizing and Transforming Business Models

The Business Model Canvas is a powerful strategic management tool that enables organisations to visualise, evaluate, and modify their business models in a structured but flexible manner. The Business Model Canvas was developed by Alexander Osterwalder and Yves Pigneur and was introduced in their book entitled "Business Model Generation." Since then, the Canvas has become one of the most popular strategic planning tools in the world because it provides a common language for discussing business models, fits on one page for ease of visualisation and communication, encourages holistic thinking about how elements fit within the business, and encourages analysis of current models and design of new models, among other reasons.

Although the Business Model Canvas is particularly useful in the strategy formulation phase when organisations are asking themselves how they can create value for customers and capture value in unique ways, it can be very useful when implementing the strategy to facilitate communications about strategic changes in the Canvas context and

monitoring when evaluating which aspects of the model have either value or cost implications.

Understanding the Business Model Canvas Framework

The Business Model Canvas consists of nine building blocks that make up the most important aspects of any business model, organized around four main perspectives: what value do you create for a customer? How do you deliver this value? How do you make money? What resources and capabilities are required? The nine building blocks are Customer Segments (who do you serve), Value Propositions (what do you offer), channels (how do you reach your customer), Customer Relationships (how do you interact with customers as part of your model), Revenue Streams (how do you make money), Key Resources (what you need to have), Key Activities (what you need to do), Key Partners (who do you work with), and Cost Structure (what and where do you spend money). These building blocks are arranged on a single page template which organises the nine elements visually and shows the interaction between them, with elements or blocks that exist between an organisation and its customers on the right side, blocks that organisations need to have as infrastructure on the left side, the value proposition at the centre, and financial blocks at the bottom in relation to the previous blocks.

Customer Segments represent distinct groups of individuals or organisations that a business works with or serves, and each customer segment has distinct needs, behaviours, or characteristics. It is essential to develop clear customer

segments because no business can be everything to everyone, particularly if those segments have different value propositions, channel structures, or types of relationships. For example, Amazon serves multiple customer segments, including individual consumers shopping for themselves, small and medium businesses purchasing supplies, large enterprises purchasing technology services through Amazon Web Services, content creators selling through Amazon's platform, and advertisers trying to gain access to Amazon customers. All of these have different needs, and different approaches may be required for each. Value Propositions are bundles of products and services that generate value for a particular customer segment by solving customer problems or satisfying customer needs.

To add value, it is important to be specific about how your value proposition creates value, for example, through newness, performance, customisation, design, brand status, price, cost reduction, risk reduction, accessibility, or convenience. For example, Netflix's value proposition includes unlimited access to streamed content, a large library of content, personalised recommendations, all for an affordable monthly subscription.

Channels are the means by which you communicate and deliver value to customer segments, including awareness channels (how customers become aware of you), evaluation channels (how customers evaluate your offering), purchase channels (how customers buy from you), delivery channels (how you deliver the product or service), and after-sales channels (how you continue to support your customers).

Channels may be owned by the company (such as company websites or retail stores) or partner channels (such as third-party retailers or distributors) and can be direct or indirect. For example, Tesla mostly uses direct-owned channels, including company-owned retail stores, the company website, and direct delivery to customers, unlike more traditional automotive manufacturers that rely on independent dealers to sell their products.

Customer Relationships describe the relationship types created with customer segments that range from personal assistance to self-service, automated services, communities, and co-creation. The choices of relationship types also impact customer acquisition, retention, and revenue growth. For example, a large enterprise software company may maintain personal relationships with its large business clients through account managers, while a consumer-facing mobile application may lean toward automated and community-based relationships. Revenue Streams refer to how the business generates money from each Customer Segment, and there are many potential revenue models, including the model of asset sale (selling ownership of physical products), usage fee (charging for using the service), subscription fee (charging continuously for access), lending/renting/leasing (temporary exclusive access), licencing (charging customers for the use of intellectual property), brokerage fees (providing intermediation services), and advertising (charging for product placement). It is critically important to understand your revenue streams and how they align with customer segments and value propositions, which will have an impact on whether the business model is viable.

For example, Google derives nearly all its revenue from advertising rather than charging users for search services. This allows Google to provide services to billions of users while charging advertisers who want to serve ads to those users. Key Resources are the most important assets that must be available to make a business model work. They can be physical resources (facilities, equipment, vehicles, and systems), intellectual resources (brands, patents, copyrights, and data), human resources (employees with particular expertise), and financial resources (cash, credit lines, and stock). Key resources are very different for different business models; for example, a consulting firm would have different key resources (people and methodology) than a manufacturing company (production facilities and supply chain).

Key Activities are the most important things a company must do to make its business model work. Key Activities can be grouped into categories such as production (designing, making, and delivering products), problem-solving (providing solutions to customer problems), or platform/network (building and managing platforms that connect different parties). For example, the key activities of a pharmaceutical company would include drug discovery research, clinical trials, regulatory approval processes, large-scale manufacturing, and marketing to physicians and consumers.

Key Partnerships refer to the collection of suppliers and partners that help to make the Business Model work. Partnerships are used to optimise and streamline business model operations, reduce risk, and acquire resources. Partnerships

can be described as strategic alliances, joint ventures, buyer-supplier relationships, or coopetition (cooperation between competitors) relationships. Examples of key partnerships in a business model include a smartphone manufacturer partnering with component suppliers for screens and processors, telecommunications carriers who partner with smartphone manufacturers to distribute their products and provide service plans to consumers, app developers partnering with smartphone manufacturers to provide downloadable software content, and partnerships with retail chains in a brick-and-mortar presence (for example, Apple and Best Buy Corp.). Cost Structure refers to all costs incurred to operate the Business Model, and it should result from the business model's Key Resources, Key Activities, and Key Partnerships. Some Business Models are inherently cost-driven to the extreme (minimising costs where possible), such as budget airlines and discount retailers. Other Business Models are less cost- and value-driven, such as luxury products and services.

Utilizing the Business Model Canvas for Strategic Management

The Business Model Canvas is a very effective tool for strategic planning, specifically because of the many ways it simultaneously catalyzes the formation of a strategic management plan. First, the Canvas assists organisations in explicitly articulating their current (this) business model, bringing shared meaning to the leadership team to understand how the business is structured to create value in

the present moment. Many organisations will find that simply articulating their current business model provides a glimpse into what executives assume about the core building blocks of the business model. Providing a shared meaning to any difference in assumptions about the current business model is a powerful step in broadening the strategic conversation about the future. Second, the Canvas allows for the examination of an organisation's strengths and weaknesses in its business model by looking at each building block of the model independently and analysing its performance, competitive position, and sustainability. This deeper exploration can expose weaknesses or opportunities that examining a functional area typically does not yield.

Third, the Canvas encourages a systematic exploration of business model innovation by suggesting creative questions about the status quo and experimenting with alternative structural configurations of the current business model. Organisations can experiment with business models by asking, What if we segmented our customers differently? What if we deliver value through different channels? What if we earn revenue differently? What if the key partners or resources are different? These answer-seeking thought experiments can expose productivity and create significant advantages over the competition. Fourth, the Canvas captures the essential functions of your business model and allows you to compare your business model with competitors' models in a manner that can represent competitive positioning and highlight alternative opportunities for differentiation. Fifth, the Canvas provides a common language to employ as an organization to communicate about changes in strategy, so

your employees understood not only "the what" is changing, but importantly, "the why" these changes created value

Let us consider an example of how the Business Model Canvas assists with strategic planning in detail. For example, consider a traditional bookstore chain that is experiencing declining revenue as consumers switch to online retailers for convenience and e-books for reading purposes.

The current business model canvas depicts the following: Customer Segments include traditional book readers in local communities; Value Proposition includes the physical experience of browsing books (see a conversion, or improved consumption experience), product availability in the moment, and knowledgeable staff recommendations; Channels used to reach customers are physical retail space; Customer Relationships used to build loyalty is personal relationship with in-store assistance; Revenue Streams are book sales, or retail sales for a predefined margin; Key Resources are retail space, inventory of personable retail staff; Key Activities are management of inventory processes, merchandising the retail space, and customer service processes; Key Partnerships are publishers and distributors;

Cost Structure is dominated by the cost of retail space lease; cost of inventory; cost of labour. In examining this business model, several weaknesses are revealed: how much is being paid in fixed costs of retail space lease; what is the true reach of the organisation geographically in reaching customers in an actual physical location; multiple competitors and

competition for price, with lower fixed costs than retail inventories; and a sense of vulnerability if digital substitutes blaze a trail from e-books increase.

Through the lens of the Canvas to explore alternative business models, the bookstore chain could envision many changes if they chose to pursue a community or experiential focus: 1- Customer Segments that expands to include both customers wanting cultural experiences and community connection (beyond just book buying); redesigning Value Proposition to elevate the bookstore as cultural community space, with offerings beyond just bookshelf; that is, have author events, book clubs, workshops, a cafe and the ability to co-working space (with a strong wifi); retain the physical store as Channel, but change it from a transactional space to experience destination; deepen Customer Relationships- as community through membership, event participation, and developing community; diversify Revenue Streams beyond product sale to include, but not limited to, fees for memberships, tickets for events, food and beverage sales, or rentals for meeting spaces; retain the physical locations as Key Resources but reconfigure space as experiences spaces (multiple uses); add cultural programming and community as Key Activities alongside retail; develop Key Partnerships with local cultural organisations, authors, and local educational institutions; and lastly, Cost Structure likely will not reduce dramatically but properly diversifying revenue streams and customer loyalty will easily justify the costs. This is the key to creating alternative business models; it changes the way the bookstore is positioned in the market, now competing around experience and community versus

price and convenience, as well as a possible sustainable differentiation from online retailers.

Another alternative might be narrower, focusing on expertise: 1- narrow Customer Segments to professional readers in a specific field (educators, academics, specialists, etc.); sharpen your Value Proposition around specialising in curation, specialised inventory, and professional services in a certain field or domain; add online channels alongside physical bookstores for the professional readers outside of your immediate geographic customers; demonstrate deeper Customer Relationships through processes like consultative or professional selling, and ongoing professional readership support; you would continue to offer and sell products as a Revenue Model, but possibly be able to do so with higher margins on specialised products; deep domain expertise becomes a Key Resource; professional consulting and relational or custom sourcing would become a Key Activity; Key Partners will include specialist publishers or professional associations; finally, your Cost Structure can be optimised because of the possible reduction in the number of locations, while at the same time investing in the knowledge of expertise and specialised inventory. The alternative business model discussed here does not focus on breadth and convenience; rather, it emphasises domain expertise and specialisation.

The above examples demonstrate how the Business Model Canvas can help identify strategic alternatives in a more

systematic and structured way, making the abstraction of strategic marketing concepts more practical and concrete, while also providing the reader with a means of assessing different strategic approaches. An organisation can sketch out multiple or various Canvas models, as above, evaluate the various models with some strategic criteria, prototype some, and ultimately select, validate, and implement transformed business models through pilot logic that creates a competitive advantage.

Strategic Roadmaps: Visualizing Long-Term Goals and Approaches

Strategic roadmaps are visual representations that outline long-term business goals, strategies, and initiatives over time, depicting, for example, how an organisation will evolve from its current state to its intended future state in increasing dimensions. The Business Model Canvas indicates the structure (regardless of event timing) for creating value at a specific point in time, whereas strategic roadmaps exhibit the pathway of evolving value creation over time. Roadmaps serve a particularly important role when the strategy covers a diverse range of potential complex strategies that unfold in sequence or parallel.

Roadmaps are also valuable in circumstances in which an organisation is undergoing a hefty transformation of value creation, and stakeholders need to be aware of the general pathway to understand the entirety of the journey. Roadmaps can also facilitate the coordination of resource

commitment in organisations with different departments or business units working toward a common outcome. A good framework for the strategic roadmap is not overly specific (plan) so that it remains in the general direction of strategy, yet not so flexible that no learning or adaptation can occur if reliance on circumstance changes (Da Costa, 2023).

Core Elements of Strategic Roadmaps

Strategic roadmaps typically include a few core elements which work together to tell a coherent story about the strategic direction and timing. The time horizon of the roadmap is the length of time the resource will be committed and often ranges from 2 to-5 years. Two-to three-year time horizons tend to be more often used in technology companies, where changes occur quickly and market segments rapidly evolve. On the alternative five to ten -year frames tend to apply with pharmaceutical companies or infrastructure businesses with longer development cycles and approval timeframes. The vertical axis is largely defined in chronological terms and is typically displayed horizontally, crossed into quarters, half-years, or years with initiatives and milestones identified within that timeline.

Strategic themes or lanes identify organized areas of strategic focus, organising your initiatives into coherent themes, which might include themes such as product development, market expansion, operational excellence, organizational capabilities, or technology infrastructure. The thematic organisation of the roadmap helps identify distinguishable dimensions of strategy for stakeholders and relates the

initiatives within each theme to one another. The initiatives or programs are specific strategic projects or workstreams to be carried out, represented as bars or boxes along the time axis to display when they begin and how long they will take to accomplish. Good roadmaps are selective in nature. Roadmaps display major strategic initiatives but are unlikely to represent all your work or projects. Milestones are significant accomplishments, deliverables, or decision points denoted on particular timeframes, and may include dates for product launches, a date for entering a new market, major system implementations, or strategic timeframes for review and feedback.

Milestones help shape the vision and communicate what the appearance of success will look like at different points in time, and also serve as an instrumental point for reviewing progress against a timeline.

Furthermore, dependencies or relationships between initiatives can be represented graphically through connections or proximity in time or space, which helps stakeholders understand which initiatives should be completed before another is started or which initiatives need to be coordinated for success together. Strategic objectives or goal outcomes are important for communicating to stakeholders initiatives linked to particular objectives. It is common to place objectives on the roadmap above all the initiatives organized together or alongside the strategic theme locally represented. Resources or investment levels can also be represented in roadmaps using colour, bar thickness, or numerical

designations (such as a "number of resource categories") to help stakeholders understand the relative scale of the initiative and the relative importance of each initiative. Furthermore, roadmaps often associate levels of certainty or commitment to a piece of work to delineate between initiatives confirmed to occur (committed), initiation forthcoming (planned), or initiatives only existing as an idea (exploratory). Transparency regarding what is known and what might change helps calibrate stakeholder expectations.

Creating a Strategic Roadmap That Works

Developing an effective strategic roadmap begins with being thoughtful about the strategic priorities and objectives from the strategic formulation phase of the strategic management process. The strategic roadmap shows a clear flow of strategic objectives and how individual initiatives develop those objectives over time, while visualising multiple phases of implementation, overall expectations, and interdependencies. The general process of developing a strategic roadmap usually involves the following linear steps: First, identify and list all strategic initiatives that are realistic based on thinking and outputs from strategic formulation. Second, group initiative(s) into strategic themes or tracks that align with areas of significant investment or breadth of focus. Third, project and build out a sequencing of initiatives to figure out what should be done first, what is dependent on another initiative, and what can be done simultaneously with another initiative so that a reasonable timeframe is created. Fourth, estimate the timeframes for initiative development, including when an effort will start, how long it will take,

completion dates, and expectations. Fifth, the milestones that signal substantive completion or needed decisions can be identified.

Sixth, the feasibility of the roadmap is validated … are the required resources realistic, can dependencies of initiatives be easily managed, and is the pace realistic. Seventh, collaborative stakeholder(s) input is helpful for validating the strategic roadmap which can be refined and iterated with iterative stakeholder input. Eighth, create a decent visual representation of the -idea- of the strategic roadmap to represent clustered initiatives; you need a high-level overview.

Imagine a somewhat detailed example of a strategic roadmap in context. Consider a mid-sized health technology company that develops and markets electronic health record (EHR) software that is primarily sold to primary care physician practices. The leadership of this company wants to increase their strategic objectives over the next three years by growing their market share in the primary physician marketplace from 8% to15%, growing their vertical market share to specialty physician market spaces, growing their retention rate from 85% to 95%, and achieving 25% growth in annual revenue. The strategic roadmap might be constructed with four overall strategic themes to explore in the next three years that run horizontally across the three years: Product Innovation, Market Expansion, Customer Success and Technology Platform.

The Product Innovation strategy roadmap shows the

planned phases of development initiatives over the three-year period: - Year 1: Develop mobile applications for physicians and patients (Q1-Q3) with the marker that a beta will be available in Q2 and a launch will happen at the beginning of Q3, and develop a patient engagement portal (Q2-Q4) with a marker of a pilot rollout with 10 practices by Q4; - Year 2: Integrate with major laboratory systems and large pharmacy systems (Q1-Q3) with the milestone of five major integrations finished before the Q3 revenue reporting; develop specialty verticals with cardiology and orthopaedic practices (Q1-Q4) with the milestones of the quality release for the cardiology practitioners being finished before the Q2 revenue reporting and before the end of Q4 for the orthopaedic specialty; and start the development of AI clinical decision support (Q3-beyond); - Year 3: launch AI supported clinical decision support (Q1-Q2) with a marker that it will initially be ready for operations before the last day of Q2; validate that the telehealth integration (Q1-Q3) is acceptable to practices needs, and start a process for user redesign (Q2-beyond).

The roadmap for market expansion highlights Year 1 priority actions, such as sales team expansion in the Western region for Q1-Q2, a practice management consultant education partnership launch for Q2-3, and a specialty market entry pilot in cardiology for Q4.

For Year 2, actions include creating a full cardiology market entry for Q1-2, which has a target milestone of 50 cardiology customers by Q4, an orthopaedics specialty market entry for Q3-4, and researching East Coast opportunities for Q2-4.

Year 3 actions include new specialty market entries for Q1-4, an international market feasibility assessment and pilot for Q2-4, and establishing a partnership channel with selected healthcare systems for Q1-3.

The Customer Success roadmap highlights the beginning of Year 1 actions, including a customer success management program for Q1-2, customer training academy development for Q2-3, and a customer community portal launch for Q3. Year 2 actions include initiating proactive monitoring and support for Q1-2, customer health scoring program development for Q2-3, and a customer advisory board for Q3. Year 3 actions include the implementation of predictive retention analytics for Q1-2, expansion of professional services strategic offers for Q1-4, and development of a customer certification program for Q2-4.

The Technology Platform summary for Year 1 plans includes migrating infrastructure/architecture to the cloud for Q1-4, with the milestones of 50% completion by Q2 and completion by Q4, implementing modern development tools and practices for Q1-3, and upgrading security and compliance for Q2-4. For Year 2, actions include building an API infrastructure for third-party integrations for Q1-3, with milestones of a beta launch in Q2 and general availability by Q3; advanced analytics infrastructure implementation for Q2-4; and database architecture upgrades, with Q3 continuing into Year 3. Year 3 summary actions include continuing to implement additional database architecture upgrades for Q1, owning and stabilising microservices architecture, beginning for Q1 and continuing into Year

3, and developing a developer ecosystem for Q2-4.

The roadmap clearly identifies overlapping multiple initiatives across three themes and the transparency of how they fit into strategic objectives while having relevant milestones that become evident. Dependencies are also apparent in the roadmap; for instance, we can generalise that a sustainably developed product feature will need to exist to enter specialty markets or that API platform development will also need to be completed to launch third-party integrations. The roadmap shows how initiatives build onto one another; once a mobile app is developed, we can integrate telehealth deeper into the customer experience; similarly, cloud migration leads us to advanced analytics.

Utilizing Roadmaps for Communication and Coordination

Strategic roadmaps have multiple important functions in strategic management planning, beyond just documenting the plan. Roadmaps facilitate strategic communication through visualisation, which is more easily digestible than text. Executives can use roadmaps to communicate strategies to the board, investors, employees, and partners. Roadmaps will help each stakeholder understand the destination and journey. In addition to facilitating the communication of strategy, roadmaps facilitate organizational alignment by clarifying how various departments and teams will contribute to the overall strategy and how their work will relate to others. When product, sales, customer success,

and technology teams can see deliverable alignment to each other and to overall objectives, coordination will improve, and conflict over priorities will lessen.

Roadmaps also support resource planning by showing when various initiatives will need resources and where resource constraints may result in bottlenecks. Leadership teams can use roadmaps to make evidence-based decisions regarding personnel, budgeting, and resource allocation across initiatives. Roadmaps also frame the monitoring and review of initiatives in relation to established expectations of what should be accomplished and when. Routine reviews of roadmaps will help organisations understand whether they are on track, if circumstances have changed, and where adjustments are needed. Roadmaps also help manage stakeholder expectations by framing realistic timelines and making trade-offs visible. Stakeholders will begin to understand why one initiative takes precedence over another when they can monitor the commitment of resources to initiatives.

To realise the full potential of strategic roadmaps, roadmaps must be treated not as plan documents but as living documents. Roadmaps must be reviewed and updated regularly, typically quarterly, to document what has been learned, changes in circumstances, and necessary adjustments. Updates may include the advancement of completed initiatives, changes in the timing of initiatives taking longer than expected, the insertion of new initiatives designated as strategic priorities, the removal or deferral to a future time of initiatives that are no longer strategically important, and,

at the other end of the process, adjusting the sequencing of initiatives based on changed dependencies. The discipline of periodic reviews of road maps will keep retiring strategic plans relevant and allow organisations to adapt based on learning rather than following a previously dated plan too rigidly.

Conclusion

Creating holistic strategic management plans informed by models, theories, and concepts is an important strategy for achieving competitive advantage in dynamic markets. In this chapter, we have looked at the journey of the strategic management planning process, from the initial assessment and environmental scanning, through strategy formulation, implementation of the strategy, and monitoring the strategy. A critical consideration is to see strategic management as a process rather than a one-time effort, as organisations need to continuously cycle through assessing their situation, developing appropriate strategies, implementing them effectively, monitoring the outcomes, and responding to learnings. Each stage of the strategic management process has an important purpose, and there are specific models, methods, and techniques that can support organisations in strategically managing their decisions.

The Business Model Canvas provides an anchoring tool for synthesising, evaluating, and changing business models, helping organisations understand how they create and capture value in more holistic terms. By deliberately mapping

out an organisation's customer segments, value propositions, channels, relationships, revenue streams, resources, activities, partnerships, and costs, organisations can recognise opportunities for innovation and competitive advantage that may exist in these components but may have been missed when examined individually. The Canvas allows you to generate a current business model as well as a transformed business model to either respond to changing conditions or create a new competitive advantage.

In contrast to the Canvas, Strategic roadmaps demonstrate the journey of a transformation over time, showing how multiple initiatives, each across their dimensions, will be implemented sequentially in parallel, resulting in long-term goals. The Roadmap provides the temporal dimension that the Canvas does not; while the Canvas can communicate what the organisation will do differently, it can also communicate the sequence of actions and provide a visual of when an organisation will implement these things.

The frameworks and processes discussed in this chapter will hopefully allow you to develop strategic management plans that are robust, holistic, and actionable. In the future of your studies and professional practice, it is important to realise that strategic management planning is ultimately about making better choices when confronted by uncertainty, change, and complexity. These frameworks do not remove uncertainty or guarantee success; rather, they offer organized means of assessing one's situation, generating and evaluating options, making informed choices, implementing actions effectively, and learning from experience.

Organisations that can sustainably and consistently focus on developing the disciplines of strategic management planning, using the best models and methods while adapting based on evidence, have long-term goals as guidelines whenever they decide on methods. They are much more likely to create a sustainable competitive advantage than those that guess what/ how to do something, or those that in a few sittings only occasionally, or never, strategically plan. Your capability will be to develop strategic management plans that are effective throughout your professional life.

Learning activities :

BlueSky Fitness: A Strategic Management Scenario

You are a member of a strategic planning team for BlueSky Fitness, a regional health and fitness company that has been operating successfully for 12 years across the North of England. BlueSky owns and operates 18 health and fitness centres in medium and large cities, such as Manchester, Leeds, Liverpool, Newcastle, and Sheffield. The brand has built a strong reputation for offering good-quality facilities at mid-tier pricing which caters to working individuals between the ages of 25 and 50 who want easy access to locations, contemporary equipment, and no-fuss exercise facilities. BlueSky generates approximately £24 million in annual revenue, with operating margins of 14%, which is just above the industry average of 12%. The company has 42,000 active members who pay an average of £45 monthly subscriptions, and employs 380 team members, including fitness instructors, personal trainers, facility managers,

customer service agents, and corporate support functions.

However, the competitive landscape has intensified over the past three years. Budget fitness chains have aggressively expanded and now offer monthly memberships for £15-20, attracting price-sensitive customers and forcing BlueSky to offer membership discounts to maintain its competitiveness. Premium boutique fitness studios offering specialty classes such as spin, yoga, Pilates, and high-intensity interval training have also emerged in urban centres, attracting customers willing to spend more for specialty experiences and community. Digital fitness platforms offering on-demand workout programming and virtual training have rapidly expanded, particularly following the behaviours established during the pandemic. Consumers adopted digital platforms like Peloton, which permitted them to work out at home instead of travelling to a fitness facility. As a result of these competitive forces, BlueSky has experienced a decline in member growth from 8-12% annually to only 2%, and a reduction in customer retention from 78% to 71% as its current members leave in pursuit of budget fitness or premium options.

The board of directors at BlueSky appreciates that the organisation now requires a comprehensive strategic management planning approach to meet these challenges and set the business on a pathway for sustained growth over the next five years. The board set courageous strategic objectives: grow annual revenue to £40 million within five years (67% growth), improve operating margins to 18% through continuous improvement and operational excellence with

premium offerings, increase customer retention to 85% through delivering superior and exceptional value and customer experience, and position BlueSky as the leading fitness brand in the North of England offering quality, innovation, and customer success. The organisation currently has £5 million available for strategic investment from retained earnings and has potential access to further debt financing if compelling strategic opportunities arise in the future. The CEO assembled an executive team consisting of the COO, CFO, CMO, and Director of Member Experience to develop a comprehensive strategic management planning approach and sought the services of an external strategic planning consultant to facilitate the project and provide independent analysis.

This is a follow-up to your project on the primary elements of BlueSky Fitness's strategic management plan. You will work through the elements of the strategic management process in order, applying various frameworks from Chapter 9 along the way. Your response should be organized into cohesive and logical paragraphs that demonstrate your understanding of students learning about strategic management concepts and your ability to apply them in this realistic business situation. Your entire response should cover approximately 2,000-2,500 words, with each of the following components as focal points in your writing.

First, engage in the initial assessment and strategic positioning phase by first articulating BlueSky's current implied mission and vision and providing an example of mission and vision statements that one would develop based on

where BlueSky is now and where one feels it would like to go, given its current situation. You need to clearly articulate what makes your mission and vision statements good recommendations for BlueSky and how they will help provide guidance in strategic decision-making for the future. You should then articulate what you believe are the five key core values that will be essential for BlueSky, depending on the company's context and future strategic aspirations.

Once again, when making recommendations for BlueSky's core values, you will need to articulate your values and clearly convey why these values are important strategically, contextually, competitively, and in terms of ambition.

Finally, considering BlueSky's current strategic positioning, you will need to provide a recommendation on whether BlueSky should remain in the middle market, pursue a strategic leadership plan to make aggressive offerings to value-driven customers, differentiate its market offerings to aggressively compete with premium offerings, or create a narrow scope of focus with customer segments. You would need to substantiate your positioning recommendation based on BlueSky's capabilities, competitive environment, and market opportunities in this area and level of service. Articulating these ideas is important in the business and is formally part of the writing process as at most firms and companies, we find professionalAs a next step, you'll want to do environmental scanning and analysis by doing a SWOT analysis for BlueSky Fitness. Of course, you are looking to identify at least four internal strengths that the firm can build on, four internal weaknesses that the firm needs to

potentially mitigate, four external opportunities that the firm could take advantage of, and four external threats that the firm needs to contend with. In each of the SWOT analysis elements (strengths, weaknesses, opportunities, threats), you will want to ensure that you provide specific explanations instead of generic explanations, and your analysis should reflect the particulars from the case scenario. After completing the SWOT analysis, you will want to offer three key strategic insights to emerge from the inspection of connections between strengths-opportunities, weaknesses-threats, strengths-threats, or strengths-opportunities. These key strategic insights should lead to specific strategic imperatives or considerations for a strategic formulation phase reading.

Additionally, you want to proceed to the strategy formulation phase by offering three clear alternative strategies that BlueSky could utilise to assist it in fulfilling its potential objectives. Each alternative could contemplate a materially different strategy option that is distinct from one another and not just a mild variant of one strategy. For each alternative strategy your offer, please discuss what the strategy entails, what the major initiatives would be, what capabilities or resources would be employed, what would be expected of the strategy, and what would be the foremost implications or sunk costs of the alternative strategy. After presenting the alternative strategies, you will make a recommendation on which alternative strategy BlueSky should undertake and explain why your chosen alternative strategy is the better plan than either of the alternatives, based on BlueSky's current context, rationale

capability, industry environment, and objectives. Your recommendation should highlight the thoughtfulness in thinking strategically to balance the mission and ambition of the strategy with a realistic assessment of operationalising the potential alternative strategy.

Finally, you will want to allow the completion of the BCM for BlueSky Fitness, which represents your recommendations. In developing your Business Model Canvas, you will want to articulate each of the nine blocks of the BCM in a way that reduces the details of expectations on behalf of BlueSky. There are nine blocks of the BCM that you will want to define: Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure.

Your Canvas should demonstrate how the different elements of business models interrelate into a cohesive system to create and capture value. After presenting your Canvas, discuss how the business model creates a competitive advantage for BlueSky, highlighting which elements of the business model are truly unique or difficult to replicate from a competitive perspective. Your Canvas should also reflect an understanding that business models are a system of interrelated ideas and that the initiatives are working in synergy and reinforcing one another.

Fifth, a roadmap for BlueSky Fitness was created as a three-year strategic implementation plan. The roadmap should be organized in reference to four strategic themes for the business, which support the broad discussion areas of Prod-

uct and Service Innovation, Market and Customer Growth, Operational Excellence, and Organizational Capabilities. As the final element of the roadmap development, you will need to detail three to five specific strategic initiatives under each of the themes, which begin and end during the specified strategic implementation period (which is three years) and should be formatted as quarters and dates (i.e. Q1 Year 1 to Q3 Year 1). In addition, you will need to create two major milestone moments per year that reflect major one-time accomplishments or decision points. When writing the description of the roadmap, it should reflect the format of paragraph descriptions of the major moments, which clearly drive the sequencing of how I would implement each initiative and explain why some initiatives will happen before other initiatives, some will run parallel to other initiatives, and briefly describe the thematic relationships of the different initiatives within each theme in their relationship to the roadmap. We will also discuss how a balance of short-term wins and long-term transformational initiatives supports momentum and describes the relationship of the roadmap actions in the context of progress towards BlueSky completing its five-year strategic goals.

Lastly, to demonstrate understanding of monitoring, review, and adaptability, please review the following scenario. It has been 18 months since BlueSky initiated the implementation of the recommended strategy. During the quarterly strategic review process, the following performance has been reviewed, - against key strategic goals: 15% revenue

growth over the 18 month period (which continues the 67% is achieving an annualised target for a five-year objective); operating margin has improved 15% over the same 18 month period (continuing with progressive improvement to 18%- but slower than ideal); customer rate retention is at 76% (up from 71% and still below the targeted retention of 85%); and brand awareness has improved significantly in current markets (which reflects improved market position).

Two major unexpected external developments have also occurred. 1) A major private equity organisation with a portfolio of several budget fitness chains has emerged as an aggressive competitor with identified growth plans in the Northern England region; and 2) an international public health pandemic (not to the degree of COVID-19) has resulted in 15% of their members on average, pausing or suspending their membership regularly due to health reasons, in members' shared space of indoor/classroom facilities as they interact and exercised together with other members and instructors. Considering the performance measures and the two external events, please develop a detailed strategic review memo with recommendations for BlueSky to change its strategic plan.

In your memo, you will evaluate which parts of the strategy are functioning well and should continue on their current course, which parts need tactical adjustments to improve execution, and whether the external environment warrants a fundamental strategic change in the approach to your identified outcomes. You must articulate your rationale for each recommendation, demonstrating that strategic man-

agement requires a thoughtful balance between consistency and change, that you maintain your long-term focus while pragmatically adapting to changed circumstances, and that you can and should strive to accomplish all of this within a strategic management framework.

As you respond to this wide-ranging task, you should demonstrate your mastery of the nuances of strategic management by using language and terms from Chapter 9, justifying your recommendation with the logic and reasoning of strategic managers, moving beyond merely stating advice, and meaningfully relating your thinking in your analysis to connect your various components into a coherent strategic management plan. In addition, you should demonstrate some awareness of trade-offs and challenges instead of seeming to provide overly simplistic solutions.

The assignment is designed to reflect the intensity of strategic planning that you will eventually experience in business professional roles, as you will need to analyse complicated circumstances, apply suitable frameworks and models, and generate comprehensive yet practicable plans. Finally, you will be required to articulate your strategic thinking to a diverse range of stakeholders. First and foremost, your assignments will be evaluated, in part, based on your critical analysis, the logic and feasibility of your recommendations, the appropriate use of strategic management frameworks and concepts from Chapter 9, the relevance and clarity of connections in your various plan components, and the clarity and professionalism of your written communication.

10

Chapter 10

Strategic Choices, Alignment, and Sustainable Competitive Advantage

Introduction

Creating a strategic management plan consists of more than just environmental analysis and strategy formulation; it involves making difficult decisions about the strategic direction of the organisation, aligning every aspect of the organisation with those decisions, embedding sustainability into long-term strategic thinking, and selecting strategies that align with and fit the organisation's overall corporate agenda and stakeholder expectations. This chapter continues to explore how organisations move from strategic analysis to embedding strategic choices, aligning internal processes and capabilities to enable chosen strategies, considering sustainability in strategic planning, and selecting

fit-for-purpose strategies that reflect the overall corporate governance agenda and stakeholder interests. Strategic choice is fundamentally about what your organisation will do, but equally importantly, what your organisation will not do, recognising that organisations are limited in terms of resources and overall management capacity, and attempting to pursue every opportunity means that you will only be mediocre, not excellent.

You can think of strategic choice as a gardener deciding which plants to cultivate in a limited garden. You must make choices regarding which plants will grow well in your soil and climate, which plants are complementary, and which plants you have to remove or not plant in the first place because they will expend energy and resources that could be better used elsewhere. Similarly, organisations need to make choices about strategic directions that will leverage their capabilities, fit their competition context, align with their values and purpose, and have aligned processes and resources to support them. This chapter addresses how to navigate difficult choices in strategy, looking at possible strategic directions organisations can undertake, how to ensure organizational alignment after choices are made, how to embed sustainability thinking into the overall strategic planning process, and how to select strategies that satisfy competitive requirements and corporate governance agendas. Understanding these matters will provide insight into not only what organisations may choose as strategies, but also how organisations would choose from any alternatives identified during the process, how organisations would implement the chosen strategy through

organizational alignment, and how chosen strategies can deliver sustainable competitive advantage over time.

Understanding Strategic Choices and Directions

Strategic choices are the fundamental decisions organisations make about how they will compete, where they will compete, and what they will provide to their customers. These choices inform everything else the organisation will do because strategic choices govern where organizational resources will be allocated, what position will be taken in developing organizational capacity, inform the organisation's structure, define performance measurement criteria, and determine what decisions will be made on day-to-day operational matters. Making strategic choices explicit forces the organisation to clarify its priorities and focus, thereby preventing organizational drift or spreading resources too thinly across competing priorities. Good strategic choices should be clear instead of ambiguous, so everyone in the organisation can clearly understand the strategic direction; distinctive instead of generic, differentiate what the organisation will do in meaningful ways to customers; focused instead of everything inclusive, focus resources on real areas of competitive advantage; and sustainable instead of transitory, create positional that can provide competitive advantage over time.

Principal Strategic Directions

Organisations face a range of primary strategic direction options that influence their overarching strategies for com-

petition and value creation. Growth strategies are based on developing the business, either by increasing market share in existing markets or through the development of new products, new markets, or new business models, as discussed using the Ansoff Matrix in Chapter 8. Growth strategies are appropriate when there are growth opportunities, when the organisation has the resources and capabilities to invest in growth, when economies of scale (or network effects) create advantages for larger organisations, or when shareholders want increasing returns. For example, Amazon has consistently pursued aggressive growth strategies, expanding from an online book retailer into nearly every category of product, developing marketplace platforms, building AWS cloud services, acquiring Whole Foods brick-and-mortar retail, and investing heavily in local logistics capacity and in content creation.

Amazon's emphasis on growth is founded on market opportunities created by e-commerce and technology, its access to capital, and its willingness to reduce profits in the short term for a stronger long-term market position. Stability strategies focus on maintaining the current position without much, if any, growth or change in strategic direction which is based on providing effective operations, consistent customer engagement, and predictable financial performance. Stability strategies are appropriate when current positions are satisfactory, when stable market positions have become mature with limited growth opportunities, when growth would require significant new capabilities the organisation does not possess or want to respond to, or when growth performance has exceeded the ability of the

organisation to respond, and an organisation is looking to consolidate performance. As a practical example, you likely have seen many regional banks pursue stability strategies, which focus on serving the existing geographic market more effectively than aggressive expansion, managing their quality of service consistently, and potentially generating similar or slightly more returns without risk. Stability should not be interpreted as stagnation; stable organisations prioritise innovation and improvement, but within a particular focus and not from an external expansion perspective.

Retrenchment or turnaround strategies assume the position of reducing scope, cutting operating costs in narrowly defined operations, selling assets, or restructuring operating departments to achieve financial health or strategic focus. Retraining strategies typically become a concern when organisations have made mistakes beyond their capabilities to retain competitive advantage, or due to significant deterioration of competitive position, or when financial performance threatens to place the organisation in jeopardy, or when it is necessary to explore strategic cuts to focus primarily on "core" businesses. For example, under CEO Larry Culp starting in 2018, General Electric underwent significant retrenchment action by reducing its overall debt volume through selling or spinning off into joint funds significant business interests, including (GE Capital) financial services, GE Healthcare, and GE Transportation, and simplifying the conglomerate structure and focusing attention on its core industrial businesses (aviation and power). The General Electric example represents a retrenchment strategy acknowledging that the organisation's distinct multiplicity

of capital markets and continuous diversification strategy represented an "unwrapable" strategy.

Combination strategies indicate the action of working on growth and stability objectives, with the potential of retrenchment, simultaneously. Combination strategies recognise that different parts of the organisation experience completely different conditions and market fitness and might require or should consider different types of strategies. A practical example of a combination would be the types of strategies Microsoft pursues: for example, Azure cloud, Office 365 subscription services, or simultaneous management of the recently retrenching Windows Phone with each service's different performances. The combination strategy allows Microsoft relative freedom in allocating and dynamically managing its overall corporate portfolio, either independently or simultaneously.

Strategic Direction Selection Criteria

Choosing between these strategic directions requires a systematic evaluation against a set of criteria. Strategic fit assesses whether the strategic direction is aligned with the mission, vision, values, and long-term aspirations of the organisation; in other words, it ensures that action matches the strategy that an organisation is trying to become. Any direction that moves the organisation away from its stated core values or purpose, regardless of potential financial attractiveness, will lack legitimacy and commitment. For example, a company with core values concentrated on environmental sustainability would need to question the

strategic fit with the growth strategy if it required the organisation to significantly consume fossil fuels or use environmentally harmful production processes.

Market attractiveness examines the competitive and economic characteristics of the markets to which the strategic direction would take the organisation, including factors such as market size and growth rates, intensity of competitive rivalry, potential for profitability, power of customers, power of suppliers, threat of substitutes, and barriers to entering and exiting. Excellent strategies can still fail if they are implemented in fundamentally unattractive markets where structural market conditions make profit difficult, regardless of how well the strategy is executed. For example, airline industries generally score low in structural attractiveness because of the high capital requirements to create and sustain the airline, intense price competition, powerful suppliers (e.g. major aircraft manufacturers and fuel suppliers), demanding customers, and low switching costs. This helps explain why most airlines struggle financially to operate efficiently.

Organizational capability assesses whether the organisation can develop the capabilities, resources, and competencies required to successfully implement the strategy. Strategies that require an organisation to develop capabilities that are fundamentally different from those it currently possesses carry a more significant risk and are more time- and resource-intensive to implement. For example, if a traditional manufacturing organisation attempts to reengi-

neer itself into a fully diversified technology platform business, it would have no choice but to develop entirely new capabilities related to prophetic software development, data/analytics, user experience design and management, and platform management. This represents a serious capability gap that the organisation must fill. Financial feasibility determines whether the organisation has or can access the required financial resources to fund the strategy, including both the initial investments required and any additional capital to operate it on an ongoing basis. Strategies that require a level of investment that exceeds the financial resources of the organisation (equity or debt) are simply not feasible, regardless of their potential attractiveness.

Risk assessment considers the uncertainty and downsides associated with the strategy, including market risks (will customers behave as expected?).. Execution risks (Are we capable of or prepared to execute the strategy)?, competitive risks (how will our competitors respond?).. and external risks (what else might change?).. Different strategic directions undoubtedly carry different risk profiles, and an organisation must determine the appropriate amount of risk based on its circumstances and risk tolerance. Stakeholder acceptance assesses whether the organisation has the support of key stakeholder groups within or outside the organisation, such as shareholders, employees, customers, suppliers, regulators, and communities, or if there may be significant opposition to the strategy that may impede its accomplishment. Strategies that require fundamental changes in stakeholder behaviour or are in conflict with stakeholders interests will face significant obstacles in implementation,

notwithstanding their strategic logic.

Making Strategic Choices: A Practical Framework

Effectively making strategic choices requires a process that integrates analytical rigor, judgement, and creativity. The process often timeframes the process by first generating strategic options based on environmental analysis and identifying multiple plausible directions in which the organisation might take. It is important that the options are truly different alternatives so that only small variations of one option are ruled out; thus, you are seeing completely different options.

In the second step of the process, each option is evaluated against the selection criteria considered above with both quantitative analysis, when possible (such as financial modelling of returns and risks), and qualitative analysis (such as a judgement regarding possible strategic fit or stakeholder acceptability). When evaluating and analysing options, the analysis should be clear about the trade-offs between the various alternatives and options regarding competing criteria, because no one option will score highly across all criteria. For example, one option may clearly return high financial returns but require capabilities which the organisation may lack. A different option may build on existing capabilities and offer more modest returns. By making the trade-offs explicit, you can make an informed decision instead of obscuring difficult choices. The analysis will then move to the options being refined to finalists that are truly viable alternatives and eliminate options that do

not even come close to fulfilling the critical criteria.

Decision-makers should then resist the temptation to fool-proof and boot all options except one too early, and it will allow at least two finalists through a real evaluation, and that allows the process to test one for a more serious alternative.Testing against strategic options can be a method of reducing uncertainty before full commitment, such as scenario analysis, prototyping, or pilot programs; for example, a retail firm looking to implement an omnichannel strategy would consider piloting a fully integrated online and physical shopping experience in two or three markets before a full rollout. The firm can observe what is working and the challenges it faces. After the evaluation period, the final phase of the process is making a strategic decision following a governance process suitable for that firm, which may include consensus with executive leadership, board approval, and/or consultation with relevant stakeholders.

Depending on the culture of the firm, the complexity and magnitude of the decision are the determining factors in which governance processes are followed. After a strategic decision is made, it needs to be communicated clearly to the firm, including the reasoning and logic of the choice, the alternatives deemed, and the logic surrounding why that choice was made. This type of communication creates some level of understanding and commitment to the choice by the organisation, which is essential for the effective execution of the strategy. To consider an example of what strategic choice looks like in practice, Unilever, a global consumer products firm, worked through assessing

potential strategic direction choices as, during the 2010s, the firm was experiencing slower growing sales, while shareholder pressure for improved returns or financial performance was accelerating.

Unilever contemplated a number of strategic choices, including aggressive growth through acquiring smaller brands in high-growth categories; overweighting/retreating by divesting the slower-growing food and spreads businesses and pivoting financial and managerial resources to personal and home care categories, which had significantly better growth prospects; improving operational efficiency by cost-cutting in the supply chain and reducing overhead, which increases margins without a change in strategic scope; and shifting wholesaler by retailer distribution channels to include digital direct-to-consumer distribution channels.

Ultimately, Unilever policies a combination strategy of acquisition of selective natural and sustainable brands related to shifting consumer preferences (growth in this area), divesting businesses highly slow growing tea, including spreads (the latter as retreating from some categories), and undertaking improve efficiency through large cost-cutting programs. The combination strategy reflects Unilever's assessment that consumer food markets are seeing fragmentation of demand, related to both premium sustainable brands and value brands gaining sales, both categories eroding share from mid-tier brands, and this environment provides Unilever the opportunity to remake its portfolio and improve operating efficiency. These strategic choices have led to improved financial performance and stock

price appreciation, showing that a systematic approach to evaluating and clearly making choices can create long-term corporate value for the firm's shareholders.

Coordinating Internal Processes with Organizational Goals

Organisations need to make strategic choices, but merely making strategic choices is insufficient for obtaining competitive advantage; they also need to ensure that their internal processes, structures, systems, and capabilities are aligned to enable the chosen strategies to be implemented. Strategic alignment involves ensuring that everything an organisation does reinforces and enables the strategic direction it seeks, rather than working against it or pulling it in two different directions. Misalignment between strategy and execution is one of the most common reasons for strategy failure: organisations commit to a grand strategy but do not change the operational realities that determine how the work gets done, how decisions are made, how resources are allocated, or how performance is measured. Think of strategic alignment as aligning the wheels of a car: if the wheels are just a couple of degrees off, the car will not move smoothly toward its destination, regardless of how powerful the engine is. The wheels also wear out components much faster because of friction and stress.

Similarly, when an organisation is misaligned, there is friction, wasted effort, and inefficiency in moving towards strategic objectives, even when functions work hard.

Dimensions of Strategic Alignment

To be effective, strategic alignment must occur along multiple dimensions of the organisation simultaneously. Structural alignment involves developing aligned reporting relationships, decision rights, and departmental arrangements to advance a set strategic priorities. Different strategies have different organizational structures that support them; functional structures that group similar activities together (e.g. all marketing, all operations, etc.) are often optimal for strategies focused on efficiency or functional excellence within a single business. Divisional structures, where divisions are set on products, markets, or geography, are often effective for strategies across multiple businesses or distinct markets requiring unique or different strategies. Matrix structures that combine functional and divisional dimensions often work for strategies that require functional expertise and market awareness but add significant complications. Network or platform structures that coordinate multiple independent entities can work for strategies based on ecosystem partnership,

For example, when Apple made a strategic decision to open retail stores as part of its efforts to control customer experiences and represent its products, the company created a retail division that reported directly to the CEO, rather than folding retail into existing departments focused on sales or marketing. This organizational decision spoke to the strategic importance that retail would represent within their business model and gave individuals leading the retail division both the authority and marketing resources to

effectively accomplish this corporate strategy. Companies attempting to strategize retail, with stores reporting through existing channels for sales metrics, often failed due to under-resourced retail that was viewed as simply another avenue for sales replacement metrics rather than a strategically focused effort on the customer experience.

Process alignment is the alignment of operational processes, workflows, and systems designed to deliver operational outcomes aligned with strategic priorities. For example, strategies focused on cost leadership require that the process be aligned and designed to optimise efficiency, standardise processes, and minimise resource waste, and typically use techniques associated with lean management and automation.

Strategies focused on differentiation through innovative offerings will require the design of processes that most directly support creativity, experimentation, and rapid iteration of concepts, and often use an agile methodology that may tolerate a level of inefficiencies in the service of innovation. Strategies focused on customer intimacy require aligned processes that allow for customisation, relationship building, and responsive services for customers, and may even require flexible processes to meet competing customer demands rather than restrictive standardisation of processes.

One example would be Zara, a branded fashion retailer that has aligned and designed all of its processes from

design, manufacturing, and distribution to support a fast fashion strategy by bringing new designs into stores on a multitude of fashions that season it could take months or pencil. The processes now deploy designers working in close proximity to stores to quickly identify trends, small batch manufacturing that would allow changes in design more frequently, and sophisticated logistics that handle the delivery of new inventory to stores twice a week. These processes do involve considerably higher costs than traditional processes deployed in the fashion industry which are typically designed around large batch manufacturing and seasonal collections; however, they would also be stated as giving a Zara branding strategy that quickly delivers fresh, updated merchandise collections. The same is often true for retailers who typically compete in the traditional fashion industry without fundamentally redesigning the operational processes; these types of retailers also often find it difficult to implement fast fashion, attempting to layer fast fashion over operational processes that are prototypically seasonal processes.

Capability alignment refers to building the capabilities and competencies necessary to implement the chosen strategy. Different strategies require fundamentally different capabilities; for example, a digital transformation strategyrequires capabilities in software development, data analytics, user experience design, and digital marketing, whereas an international strategy requires capabilities in cross-cultural management, international logistics, regulatory compliance in different jurisdictions, and currency risk management. Similarly, product innovation strategies require capabilities

in research and development, design thinking, prototype testing, and intellectual property management. Organisations must deliberately build capabilities through hiring, training, acquisition, or partnerships, rather than assuming they will somehow materialise.

For example, when traditional automotive companies such as GM and Ford decided to pursue electric vehicle strategies, they faced significant capability gaps in battery technology, electric powertrains, software integration, and over-the-air updates. They have invested billions of dollars in developing these capabilities through a combination of internal development, acquisitions of technology companies, joint ventures with battery manufacturers, and partnerships with technology companies. It takes years and significant financial investment to build developed capabilities, which is what makes capability alignment the longest lead-time element in implementing strategies.

Aligning Performance Management to Incentives

Ensuring that performance management systems and incentive structures reinforce strategic priorities rather than work at cross-purposes is one of the most powerful levers for achieving strategic alignment. Organisations get the behaviours they measure and reward; thus, if measurement and rewards are not linked to the strategy, employees will rationally do the measured and rewarded items, even if the physical outcome does not match what the organisation values.

The strategic alignment of performance management requires at least two key elements:

First, the strategic objectives must be cascaded down in a way that departmental and individual objectives are derived; if every employee understands how their work and contributions contribute to the overall strategic goal, they can better prioritise and adjust their objectives. For example, a company with a strategy to grow market share through new customer acquisition needs to include objectives in marketing, lead generation and conversion, sales objectives that focus on closing new accounts, product objectives which consider features to attract new customers, and customer service objectives to ensure onboarding is successful. Each function's objectives should logically link together and contribute to the overall objective of increasing market share.

Second, any performance metrics measuring outcomes must matter for success based on the stated strategy and not measure activity or what supervisors assessed in the past. For example, if quality and customer satisfaction are emphasised as part of the strategy, performance metrics should include measures such as defect rates, customer satisfaction scores, or retention rates, and not simply the volume produced.

Third, targets need to be ambitious enough to stimulate performance improvement that fits the organisation's strategic primes, yet realistic enough that they can be achieved with adequate effort in the context of this overall strat-

egy. Unambitious targets usually demotivate performance improvements, often leading to a command to game the metrics as opposed to focusing on genuine improvements in performance. Fourth, performance conversations should provide consistent input on performance versus the strategic objectives under consideration, and where individuals and teams are engaged, or not engaged, in this realisation of success and need additional or different support moving ahead. Annual performance reviews are often too long. Quarterly, or at least monthly, provides more timely input with respect to mid-course adjustments being able to be made. Finally, compensation and rewards should be meaningfully tied to strategic performance, in which a significant portion of any variable compensation occurs from achieving strategic objectives, against only sustaining operations if that. If there is no link between individual performance and funding the strategic initiatives versus just getting acceptable short-term operational performance, employees will begin to conclude that strategic priorities are secondary to the day-to-day operational demands.

Consider how Netflix aligned its performance management system to support its strategic change from DVD rental to streaming. As streaming became the primary strategic change, Netflix expanded performance metrics around the quality of streaming service for technology teams, content recommendation accuracy, and subscriber growth. Initially, for the first three years of the strategic shift, Netflix permitted greater focus on the growth of streaming metrics in terms of compensation rather than performance against profitability metrics and lost performance predictability

as an evaluation focus for the DVD or streaming business. Although these three metrics may not have transitioned into a focus on long-term profitability, Netflix purposely adjusted talent management to move from a traditional annual performance review system to a more prompt input model with respect to delivering on alignment with strategic priorities and company values. The evolution of performance management systems indicated where the organisation was focusing its success in the strategic area and shifted the focus for all employees away from trajectory market outcomes in the DVD business.

Resource Allocation Alignment

Perhaps the most tangible dimension of strategic alignment is resource allocation; in other words, how organisations allocate budgets, human resources, management attention, and assets in time or physically across various activity streams. Resource allocation is one of the truest representations of an organisation's strategic priorities; regardless of what is in your strategy documents, the activities that receive the most allocations are the organisation's priorities. Achieving alignment means that the required resource allocations must be made to address historical legacies or simply the historical context. This is not a simple problem because legacy activities have their stakeholders and proven track records, while adaptive changes associated with strategic priorities are often met with uncertainty and change, meaning resistance from human capital.

Effective strategic resource allocation principles should address several issues. First, resource allocations should represent and be driven by strategic priorities as opposed to carryover or history of context and resource allocation from year to year or even departmental priority. Zero-based context approaches force these alignment actions because resource requests require demonstrating context contribution versus simply allocating context based on year-over-year budgeting. Second, when possible, resources should be allocated close to the level of strategic priorities. Appropriating adequate resources to only spend on the requested activity typically dilutes resource allocations as funds are spread across all activities rather than centred upon strategic priorities. Having enough resources to launch something more than sustaining a large number of unaudited activities is more effective and apparent.

Third, although the consequences of communication and mobilisation must often be premeditated, resource allocations must acknowledge and include the fluidity of reallocating as learning occurs during implementation. Very few plans survive the realities of a viable plan, remaining unchanged when confronted with the realities of planning sequence outcomes. As a rule, when funds and supportive resources have been allocated, the organisation typically reserves monetary funds and incorporates processes in the reviews to interrogate funds and resource levels, efficiency, effectiveness, and even appropriateness from periodic times that focus on scale and additional reassessment.

Fourth, the allocation of human resources is typically more crucial than that of financial resources. Strategic initiatives require talented and capable human beings, and if the best human resources remain in existing businesses, with less capable people placed in strategic initiatives, then strategies will fail, regardless of how much money exists. Organisations should intentionally place their best human resources on strategic priorities, recognising that the plan will strategically dictate contributing less time and resources to existing businesses. Fifth, management time is a finite resource that needs to be strategically allocated. Executives need to be intentional about using their time disproportionately for strategic priorities instead of evenly allocating time over all activities.

For example, when Satya Nadella became the CEO of Microsoft in 2014, he recognised that Microsoft was mainly allocating its resources toward its declining Windows and Office businesses, while cloud computing represented Microsoft's strategic future. Nadella worked with the management team to specifically reallocate human resources by, for example, reassigning thousands of engineers from Windows development to Azure cloud development, marketing budgets from Windows promotion to enterprise cloud services, and acquisition budgets from consumer-focused companies to enterprise cloud and artificial-intelligence-focused companies. He personally directed most of his time to cloud customers and partners, away from traditional software businesses. Each of these resource reallocation decisions was active and even controversial during the transition, but absolutely needed to occur for the cloud-first

strategic transformation process to take place at Microsoft.

The public success and stock appreciation of Microsoft after cloud transformation vindicated the executive decision to reallocate resources toward cloud strategy priorities demonstrating that the alignment of resource allocation and strategy results in a competitive advantage. Organizational Sustainability and Strategic Planning

The concept of sustainability has transitioned from a secondary aspect of corporate social responsibility to a primary strategic concern for organisations in all sectors. Sustainability must now be central to strategic planning and, therefore, is considered for strategy formation and execution rather than as a separate initiative detached from real business strategy. The full concept of organizational sustainability includes environmental sustainability (reducing the negative impact on environmental systems and contributing positively to the health of the environment), social sustainability (positively contributing to social well-being and equity), and economic sustainability (creating positive value over multiple time horizons).

These three concepts are interrelated. Organisations cannot develop economic sustainability if the environmental or social dimensions on which sustainability depends are degraded.

Why Sustainability is a Strategic Concern

There are some powerful forces that make sustainability

important as a strategic concern and not merely ethical. Regulatory pressure is escalating globally, and regulators are introducing carbon pricing mechanisms, emissions regulations, circular economy regulations, and disclosure regulations to create cost hurdles to deal with unsustainability and create financial incentives to pursue sustainability. The European Union is developing a Carbon Border Adjustment Mechanism which will tax carbon emissions associated with imported products and is designed to create a competitive advantage for companies reducing carbon intensity which essentially means that all companies will be incentivised to respond, irrespective of whether they are located in the European Union. Companies that achieve or prioritise sustainability in clear ways in strategy development will often be ahead of the current regulations. Competitors who have to "catch-up" will be subject to the costs associated with less sustainable business practices.

Consumer choice is increasingly dictating the market shift toward more sustainable practices, particularly among younger consumers, in which environmental and social values are incorporated into their holding decisions. Companies offering truly sustainable alternatives can capture growing segments of the market at a premium price, and companies perceived to be environmentally or socially harmful will suffer consumable reputational costs which may include boycott campaigns. An excellent example of a traditional market disruption based on consumer choice toward sustainability is the rapid growth of plant-based meat alternatives, such as Beyond Meat and Impossible Foods, which are both consumer-driven product strategies focused

on wildlife sustainability. Traditional beef companies that have not reacted to this consumer trend have suffered a loss of market share, while traditional beef companies that either developed their own plant-based product line or invested in plant-based companies are in a better position to deal with changing consumer preferences.

The pressure from investors is rising, as institutional investors have embraced environmental, social, and governance (ESG) criteria in their investment decision-making, producing advantages in the cost of capital for companies that demonstrate strong sustainability performance. Asset managers jointly managing trillions of dollars continue to screen their investments for climate risk, social impact and quality of governance. Companies with poor sustainability performance experience increased costs of capital, shareholder activism, and challenges in obtaining investment, while companies with strong sustainability performance can access greater pools of capital under more favourable conditions. The attraction of talent is informed and influenced by sustainability, as employees, especially talented professionals, place increased value on working for a company whose values align with their own. Companies recognised for their strong environmental and social performance can attract the best talent, while companies who unfortunately find themselves with poor sustainability reputations find it equally challenging to attract talent and often experience increased turnover.

Sustainability continues to be incorporated into risk man-

agement as climate change presents physical risks (extreme weather events, sea level rise, and temperature increases) and transition risks (stranded assets, changes in policies, and technology disruptions) to business continuity. Companies that identify and eliminate climate risks as part of their sustainability strategies create a protective fort against these threats, whereas companies that ignore climate change risks may inevitably face catastrophic losses in the future. For example, insurance companies are embedding climate risk into their underwriting decisions by either increasing premiums or deciding not to cover properties located in high-risk areas. This has a direct impact on real estate value and local development patterns. Climate change is limiting resources for water, raw materials and energy, creating vulnerability in the supply chain and overall cost increases that can be mitigated through sustainable resource management.Incorporating Sustainability into Strategic Choices

To incorporate sustainability into strategic decisions, sustainability should be integrated throughout the strategic management process (not added afterwards). In conducting environmental analysis, sustainability scanning should consider environmental trends (i.e. climate change, resource availability, and ecosystem health), social trends (i.e. inequality, demographics, and social movements), regulatory trends (i.e. emissions, circular economy, and disclosure), and stakeholder expectations (investor ESG criteria, customer preferences, and employee preferences). The purpose is to have sustainability scanning rebuff as a separate analysis to use the PESTEL and SWOT analyses separately.

When creating a strategy, sustainability criteria should be explicitly built into the criteria when assessing strategic options. The strategic options should be assessed for environmental impact (i.e. carbon footprint, resource consumption), social impact (i.e. quality of jobs, community, product safety, labour practices), and sustainability risk (regulatory risk, reputational risk, physical climate risk, resource scarcity risk). Even if a strategic option appears attractive from a financial perspective, options with significant negative sustainability impacts should be rejected or designed. Sustainability risks are also long-term financial concerns. Conversely, even if the projected short-term financial return is modest, options that create positive sustainability impacts should receive strategic prioritisation. Sustainability also creates long-term competitive advantages.

As the strategy moves to implementation, sustainability should also be prioritised in operational processes, product design, and supply chain management. For example, waste minimisation strategies may integrate the principles of the circular economy to design products for longevity, reuse, and recycling. Strategies to develop renewable energy supply and energy efficiency programs are also examples of sustainability integration, as well as creating standards for responsible supply chain practices with appropriate monitoring and enforcement. Engagement with stakeholders must also focus on the priorities of the community and environment in decision-making processes. Finally, innovation programs that create sustainable products, services, and business models must be created. Monitoring and reviewing strategy implementation should include

sustainability performance indicators alongside financial and operational indicators and be reported to stakeholders.

Consider how Unilever integrated sustainability into its core business strategy in its Sustainable Living Plan launched in 2010, with sustainability-related goals that were heroic in their ambitions: to halve the environmental footprint of Unilever's products, sustainably source 100% of Unilever's agricultural raw materials, and enable 1 billion people to improve their health and well-being. Critically, Unilever connected these sustainability-related goals with its business strategy, including the founding of sustainable brands that acted as growth engines for the company. Unilever's research found that brands with sustainability credentials (Dove, Ben & Jerry's, and Seventh Generation) increased sales at a significantly faster rate than their conventional competitors, validating the thinking behind their strategic rationale for embedding sustainability. In some cases, Unilever even reformulated products to reduce their environmental impact, including launching concentrated laundry detergent that used much less water and packaging compared to conventional products, but performed comparably.

Unilever has also transformed supply chains, including smallholder farmers ("Partner with smallholder farmers to improve sustainability on farms and enhance security and reliability of supply") to improve sustainability in agricultural supply chains. Unilever also integrated sustainability into sustainability performance management by persuading its executives to integrate sustainability targets as part

of their performance bonus contributions alongside their financial targets. Unilever's integration of sustainability strategy shows that we can achieve competitive advantage from sustainability, regardless of its potential cost, further affording organisations new operating relationships with customers.

Sustainable Business Models

Some organisations go even further and build entire business models around sustainability as their core value proposition. These sustainability-related business models will be executed with a competitive advantage based on superior sustainability, rather than simply considering sustainability in addition to everything else. Circular economy (or circularity-based) business models will design their products and services so that they create no waste (or waste which can be redirected back into productive use), either as a product-as-a-service, when customers pay for a product but do not own it and therefore behave more responsibly with someone else's product (incenting repair and durability on the part of the customer, for example), on sharing platforms spearheaded by Uber and Airbnb to maximise the utilisation of assets through sharing applications, refurbishing or remanufacturing products to extend their life cycle through professional renewal, or recycling and upcycling of products with the waste turned into valued input.

For example, Patagonia (an outdoor apparel company) was built on a sustainable and durable business model; its product design is tailored around longevity and repairability,

not planned obsolescence. It has a repair service to extend product life and has operationalised a used gear marketplace so that its products can be reused, while the majority of its products are made with recycled or organic materials. Patagonia tested the limits of their sustainable business model by running an advertising campaign urging customers not to purchase their products if it was not necessary to buy, to prioritise environmental and social impacts over a short-term success purchase. This sustainability-based business model results in higher customer loyalty, premium pricing opportunities, and competitive differentiators that justify a reduction in sales volume compared to conventional brands, demonstrating that sustainability can also be financially advantageous. Renewable-based business models, such as solar, wind, and energy storage, also create value by offering a competitive advantage with clean (non-fossil fuel-based) energy alternatives and benefitting from improved technology economics and growing supportive policies. Sustainable agriculture and food-based business models (for organic, regenerative, and plant-based production systems) create value for consumers by meeting consumer demand for healthy and environmentally friendly food options.

Selecting Fit-for-Purpose Strategy that is Aligned with Corporate Agendas

Strategic planning occurs in a governance context that shapes what is imaginable and accepted in terms of strategies. Corporate agendas, which represent the interests and expectations of shareholders, boards of directors, and other stakeholders, act as constraints and guides for strate-

gic options. The ability to strategically plan successfully will depend on the player's understanding of governance and stakeholders' expectations while also considering their long-term advantages. A fit-for-purpose strategy means choosing strategies that are fit-for-purpose with respect to governance contexts and stakeholder expectations rather than pursuing a theoretically optimal strategy lacking the opportunity for support.

Understanding Corporate Governance, Stakeholders' Expectations

Corporate governance is defined as the systems, processes, and relationships through which organisations are directed and controlled. Distinct governance environments create unique strategic imperatives. Publicly traded companies with dispersed shareholdings face pressures in terms of quarterly earnings growth, price appreciation of their stock, and dividend returns, which shape a strategy approach focused on delivering visible financial outcomes in a relatively short timeframe. To support their position, these companies need to be disciplined in communicating effectively with investors about their commitment to a long-term strategy "to maintain investors' support even when investing creates a suppression of short-term profitability". Amazon convinced investors for many years to accept low profits to pursue a broader marketplace position. Amazon had to provide periodic validations of profits when investment in a long-term strategy lessened by communicating the long-term logic of the strategy.

Privately held companies and family firms often face longer payout investment horizons and relative flexibility to pursue strategies that may sacrifice short-term returns for long-term positioning. However, they may face different constraints in seeking to balance family dynamics and the anticipated succession of leadership. State owners must consider political implications and public policy goals, where creating shareholder returns is not necessarily the only objective, impacting decisions beyond commercial determinants in strategy development. Nonprofit contexts must balance fulfilling missions versus pursuing financial sustainability, which contributes to organizational performance and the attendant pressures to maximise social impact to ensure sustainability. The governance context provides insight for strategists to consider which strategic options may be plausible based on stakeholder expectations and which will face barriers which cannot be overcome.

Stakeholder analysis involves identifying the individuals, groups, and institutions that have an interest in decisions regarding the organisation and have power or influence over the decision outcomes. Common key stakeholders include, but are not limited to, shareholders or owners (financial return and value creation), board of directors (oversight of a range of strategic risks and governance of compliance), executive management (growth of career with organizational success), the organisation's staff (receive fair remuneration for intensity of work, fair work environment, job protection; reaction to work done that is meaningful), customers (receive a quality product/service for a fair price; level of service, etc.), suppliers and partners (dependable

customer for the business and fair treatment), community (outsourced economic, employment, and environmental accountability), regulators (compliance with laws, cooperating with laws and regulations), and, in some instances, activists or nonprofit organisations (expect organisation's responsiveness and management toward social and environmental issues). Stakeholders have different and sometimes conflicting expectations, forcing strategic planning toward balancing or satisfying competing demands.

Aligning Strategy with Corporate Agendas

When selecting a fit-for-purpose strategy, it must be done explicitly with consideration of corporate agendas and stakeholder expectations to work during strategy development. This involves several key tasks. First, highly influential stakeholders and their strategic expectations, priorities, and concerns should be identified through direct discussions, surveys, or interpretation of their public positions. Second, assess what stakeholders must be in favour of the strategy for it to be successful and what stakeholders could preclude implementation if their view of the strategy is negative or heavily impedes implementation. Third, evaluate strategic options for alignment with key stakeholder expectations by identifying where stakeholder needs are satisfied and where options create conflicts for stakeholders. Fourth, for strategic options that create stakeholder conflicts, determine whether those conflicts can be managed through communication, compromise, or compensation, and whether those conflicts are essential and absolute.

Fifth, select strategies that will satisfy must-have stakeholder conditions and advance competitive objectives, recognising that stakeholder constraints may preclude fit-for-purpose options from consideration despite being objectively or strategically attractive. Sixth, develop stakeholder engagement and communication plans to describe the logic of the strategy, address stakeholder concerns, and build agreement to proceed with the selected strategy. Seventh, governance processes should be established to enable ongoing stakeholder engagement during the strategy implementation phase, allowing stakeholder concerns to be shared and issues to be addressed, as opposed to allowing them to build into opposition within an implementation delay.

For instance, consider British Petroleum (BP) trying to reposition itself as "Beyond Petroleum" in the 2000s with significant investments in renewable energy. The strategy reflects a legitimate acknowledgement of the trend toward an energy future and stakeholder expectations regarding climate change. However, the strategy encountered great adversity from key stakeholders, including investors who questioned the returns on renewable investments relative to traditional oil and gas assets, employees in traditional businesses who felt their work was being marginalised, and some environmental activists who dismissed the company's efforts as greenwashing given BP's continued fossil fuel focus. BP eventually moderated its commitments to renewable energy and shifted back to its core businesses of oil and gas after some leadership changes, illustrating how strategies that do not have sufficient stakeholder buy-in can struggle, even when they are sound strategies.

In contrast, Ørsted (originally DONG Energy), a Danish energy company, successfully transitioned away from fossil fuels to become the world's largest offshore wind-related developer. Ørsted's successful transformation was enabled, in part, by managing the alignment of stakeholders: the Government of Denmark, as a majority shareholder, supported the transition as fully consistent with national climate policy; employees were engaged through retraining programs and ongoing communication about the future of the company; credible business plans for offshore wind were in place to show investment and investors that offshore wind and future growth would be profitable; and environmental stakeholders appealed to stakeholders for public support that maintained (and enhanced) corporate reputation. Ørsted's experience highlights how the success or failure of similar strategic transitions is shaped by aligning stakeholders in a way that fits the corporate agenda.

Balancing Financial Objectives and Non-Financial Objectives

Organisations engaged in strategic planning today need to balance both financial objectives (revenue growth, profitability, shareholder returns) and non-financial objectives (sustainability, social impact, employee well-being, customer satisfaction) like never before. While financial performance is critical to the survival of organisations and stakeholder commitment to their respective organisations, an exclusive focus on financial performance to the exclusion of all other factors creates strategic risk for organisations. The challenge is to consider how these objectives may all fit

together in a coherent strategy and not as separate tracks for strategies.

Some organisations use a framework, such as the Balanced Scorecard, to intentionally bring multiple perspectives (financial, customer, internal process, and learning/growth) into the strategic planning process. Other organisations will create materiality assessments that identify which sustainability issues most materially affect financial performance and stakeholder expectations for their specific industry and company and focus sustainability strategy on those material topics while recognising an impact on the large slate of sustainability-related issues. A third group will employ integrated reporting approaches that communicate how organisations create value across various capitals (financial, manufactured, intellectual, human, social, and natural) rather than reporting only the financial performance of the respective organisations.

The common thread is to consider how financial and non-financial objectives are increasingly interdependent rather than conflicting. High customer satisfaction leads to customer retention and, thus, revenue growth (financial performance). Engaged and well-developed employees create and improve productivity and innovation for organisations (financial performance). Environmental sustainability lowers resource consumption costs and regulatory risks (financial performance). Conversely, financial performance enables organisations to invest in sustainability, employee development, and customer experience.

Strategic approaches mitigate the risk of added complexity through strategic analysis and planning of multiple objectives, including leveraging both financial and non-financial objectives. Strategic planning should promote opportunities for multiple objectives to complement each other and lead to multiple outcomes. Non-financial objectives should be viewed as facilitators of financial performance rather than detractors of financial performance.

Conclusion

Strategic choices and directions shape the nature of organisations and their competitive behaviour. It is important to make these choices deliberately and explicitly, following a systematic examination of strategic alternatives against a variety of criteria to set an organisation on the path to competitive advantage. Once these strategic choices are made, creating a real competitive advantage requires that all internal processes, structures, capabilities, performance management, and resource allocation are aligned to support the chosen strategy. One of the most frequent causes of strategic failure is the misalignment between strategy and organizational realities; therefore, achieving alignment is just as important as the process by which organisations formulate quality strategies.

Sustainability has advanced from a marginal concern to a central strategic imperative that must be incorporated into the strategic planning cycle. Organisations that incorporate sustainability into environmental analysis, strategy

formulation, implementation processes, and performance measurement will be positioned to create a competitive advantage in the long term in a context where environmental and social performance leads to changes in regulatory requirements, customer preferences, investor preferences, and talent attraction. Some organisations build entire business models around sustainability as their central competitive differentiator.

Sustainability can be built into an organisation's competitive advantage instead of being viewed solely as a cost. Strategic planning occurs within governance contexts that shape the possible and acceptable strategies. To select fit-for-purpose strategies, strategic planners must understand corporate agendas, stakeholder expectations and governance-related constraints. They can then select strategies that meet these conditions while also creating competitive advantages. Strategic planning also requires organisations to balance multiple objectives, including but not necessarily limited to financial performance, sustainability, stakeholder satisfaction, and social contribution. In connection with these balancing objectives, the reality is that organisations' financial performance practices a relationship with sustainability, stakeholder satisfaction, and social contribution to, increasingly, act less as competing objectives and more as interdependent objectives.

As you move further in your studies and perhaps toward a career in business, remember that ultimately, for organisations, strategic planning is about a deliberate choice intended to position organisations for sustainable success in competitive

environments. The frameworks and concepts provide structured ways to engage with these complex challenges: strategic direction evaluation, organizational alignment, sustainability, and stakeholder consideration. Accordingly, organisations that can exercise these strategic planning capabilitiesand pursue processes that provide clear choices guided by structured analysis, organizational alignment, and stakeholder supportwill greatly outperform organisations that drift aimlessly without strategic clarity or articulate their strategy but do not build the organizational capability to execute it. Your capacity to contribute to these strategic planning processes will become one of the most valuable capabilities throughout your career.

Learning activities :

EcoTech Manufacturing: A Strategic Decision-Making Challenge

You are the new Chief Strategy Officer at EcoTech Manufacturing, a long-standing manufacturer of industrial components which has operated successfully for 35 years in the manufacturing heart of England. EcoTech manufactures precision-engineered metal parts for automotive, aerospace, and industrial machinery-related end uses, primarily supplying customers in the UK and Europe. EcoTech employs approximately 850 people across two manufacturing facilities in Birmingham and Sheffield, has annual sales of approximately £120 million, and operates at approximately 11% margins per year. These margins and operating results

are respectable but lower than the leading players in the industry which operate at 15-18%, EcoTech has built its reputation based on engineering excellence, reliability in delivery, and customer relationships, especially with several long-standing automotive manufacturers who have purchased components from EcoTech for generations. EcoTech is privately owned by three founding families actively involved in governance through their board members. The company's stated philosophy has always been grounded in steady growth, job stability, and retention of jobs in the UK, not an aggressive philosophy of growth or cost-cutting through offshore production.

However, EcoTech recognises that it faces considerable strategic challenges and has undertaken to invest in dedicated strategic planning leadership for the first time in its history. The automotive sector, which accounts for 60% of EcoTech's revenue, is undergoing tremendous change as the industry pivots from internal combustion engines to electric vehicles, which require fundamentally different components and create uncertainty about the future demand for EcoTech's traditional products. Several of EcoTech's largest automotive customers announced plans to switch production to electric vehicles over the next five to seven years, and some of these customers reported that they were in the process of evaluating supplier relationships to find partners focused on electric vehicle components. Furthermore, competitive pressures from lower-cost manufacturers in Eastern Europe and Asia have resulted in EcoTech losing market share in price-driven market segments, and the company has had no choice but to refocus on technically

complex, lower-volume products where its engineering capabilities are more valuable.

Additionally, the rising energy costs associated with metal fabrication and heat treatment have vastly inflated EcoTech's cost structure, particularly as carbon pricing mechanisms in Europe make the energy consumption of large batch production more expensive. The company workforce is also aging; within the next five years, 40% of skilled machinists and engineers will be eligible to retire or have the possibility of retirement, which raises challenges in terms of succession of the workforce and knowledge transfer. Finally, younger employees and some customers have begun questioning EcoTech's environmental sustainability initiatives, focusing on its large carbon footprint and relatively ineffective impact on sustainability initiatives compared to new competitors that are now branding themselves as sustainable manufacturers.

The founding families that own EcoTech have different perspectives on the strategic direction which complicates governance. Specifically, one faction of ownership is supportive of aggressively investing in electric vehicle component capabilities by acquiring capabilities through a specialised technology company and converting one of EcoTech's facilities to focus on electric vehicle components. It claims that this change must be made for the company's long-term survival as the automotive market evolves. Another faction of ownership has taken the opposite position that EcoTech should be focused on aerospace and industrial machinery fields, where they feel traditional components will still have

relevance, and that the company should focus on their own traditional competences instead of investing in something they do not know much about.

The last faction supports EcoTech's transition to sustainable practices as a differentiator and argues that EcoTech should strive to be the leading sustainable manufacturer in its class in the UK with renewable adoption, implementing circular economy practices in manufacturing, and engaging carbon neutrality commitments, as a strong position to sell EcoTech to customers and the younger workforce, while also preparing for a future that will require more environmental governance from corporations. All three factions support, in principle, that EcoTech should remain in the United Kingdom and support our existing workforce, if they can, as a representative of their commitment to their workforce and its community.

The board has asked you to create a fully developed strategic management plan that addresses the issues identified and reconciles the different ownership perspectives, with an available budget for strategic investment of £25 million over the next three years and access to debt financing for compelling strategic investment opportunities.

Your mandate is to thoroughly develop potential options and complete analysis, provide strategic recommendations supported with justifications of preference, outline how the organisation will be oriented toward the applied strategy, articulate how sustainability will be supported in the strategic

planning, and describe how the applied strategy will meet the needs of multiple expectations of stakeholders and be positioned to create a competitive advantage.

Your job is to create EcoTech Manufacturing's strategic management plan using the frameworks and concepts from Chapter 10 and write your answer in clear, well-organised paragraphs that demonstrate a high level of understanding and professional strategic thinking. The entirety of your answer should be roughly 2,500-3,000 words and should meaningfully address all components in detail and demonstrate how these can be contained in a complete strategic management plan.

First, you must develop and evaluate three unique strategic direction options that EcoTech could consider, ensuring that they are distinct enough not to be variations on the same strategy. For each strategic direction option, determine what the central strategic idea and approach would be, what major initiatives and projects would need to be involved and investment made, which markets and customer segments would be the focus, what capabilities would need to be developed or acquired, what the expected returns would be if the strategy were to be successful (including financial and competitive analysis), and the primary risks and challenges (e.g. market risks, execution risks, and financial risks) to be aware of, and finally, the suitability and fit of the strategy with EcoTech's history, culture, and ownership values. After you have presented the three options for EcoTech, you will make a recommendation for which strategic direction EcoTech should pursue (in a larger context here you will

make a recommendation on which overall strategic direction EcoTech should consider) and fully justify your choice; essentially justifying why this strategic direction is the better of the three options, considering

EcoTech's specific situation, competitive environment, stakeholder considerations, and available resources, all of which demonstrates you are actively making a tough strategic choice with defensible rationale.The second step is to develop a comprehensive strategic alignment plan detailing how EcoTech will align its internal processes, structures, capabilities, and systems to support the recommended strategic direction.

The strategic alignment plan should cover structural alignment by describing which alternative organizational structure would best support the strategy, whether EcoTech needs to maintain, modify, or redesign the existing functional structure fully, what new roles or departments may need to be developed, which decision authority needs to be distributed, and the decision-making authority that should be distributed. The plan should discuss process alignment by identifying to 3-5 critical operational processes that need to be redesigned or improved to support strategy implementation, specifically explaining what will change about the processes and why the proposed changes will support the strategic goals.

The plan should cover the alignment of capabilities by identifying the critical capability gaps between EcoTech's

current capabilities and the capabilities required for the strategy, explaining how the new capability will be developed using specific approaches such as hiring, training programs, acquisitions, partnerships, and technology investment, and proposing realistic timelines for developing capabilities.

The plan should describe how EcoTech's performance measurement and reward systems should be modified to support the strategic priorities, identify performance metrics that should be added, modified, or eliminated, and describe how compensation and reward systems should be changed to encourage strategic behaviours.The plan should describe how EcoTech's strategic investment, a budget of £25 million, ought to be allocated to specific strategic initiatives over three years, and justify your decisions based on the strategic priorities, expected benefits, and risk mitigation considerations.

The third step is to demonstrate how sustainability will be comprehensively integrated into EcoTech's strategic planning process, instead of being viewed as a separate initiative. To integrate sustainability, your integration should begin with a sustainability-focused environmental analysis identifying the primary sustainability-related trends, risks, and opportunities affecting EcoTech's business, specifically investigating the influencing environmental factors (e.g. carbon pricing, energy costs, circular economy regulations, resource scarcity, and risks from climate-related physical events), social factors (e.g. workforce demographics, employee expectations, community relationships, and equity implications), and stakeholder expectations (e.g. customers,

investors, regulators, and employees) from a sustainability perspective on EcoTech's performance.

Next, you should explain how your consideration of sustainability influenced your recommended strategic direction, including which evaluated strategic options had higher or lower sustainability profiles, what sustainability criteria you applied during the evaluation, and how the recommended strategic direction achieved competitive advantage through sustainability performance instead of being viewed as just a cost or restriction.

Then, you should describe the specific sustainability initiatives that should be implemented as part of the strategy execution. You must provide examples of specific environmental sustainability initiatives (e.g. renewable energy implementation, energy-efficient improvements, waste reduction, or circular economy strategies), social sustainability initiatives (e.g. workforce development, diversity and inclusion, community engagement, or labour standards in the supply chain), and governance sustainability initiatives (e.g. reporting on ESG, stakeholder engagement mechanisms, sustainability performance metrics).

Finally, you should explain how EcoTech's sustainability performance will be measured and monitored. Identify 5-7 sustainability KPIs that will be tracked along with the financial and operational, and explain why each strategic sustainability metric is important to EcoTech. Finally, describe how the KPIs will be reported to stakeholders (board, employees, customers, and the public).

Fourth, consider the challenge of corporate governance and stakeholder alignment, address how your recommended strategy addresses ownership faction perspectives, and build sufficient support for successful implementation. Your analysis should begin with a direct discussion of how your recommended strategy addresses each ownership faction's concerns and priorities. We mean each ownership faction: the faction advocating for electric vehicle transformation, the faction prioritising an aerospace and industrial focus, and the faction advocating for sustainability leadership. Explain which components of your strategy will appeal to each ownership faction and where your strategy may not fully address the preferences of one or more factions. Next, develop a stakeholder communication and engagement strategy explaining how you would present your strategy recommendation to the board in ways that build ownership support, what messages will emphasise where ownership factions find shared values and desired outcomes, or how you will handle some ownership factions finding that their preferred strategies are not fully adopted.

Finally, what governance mechanisms will enable you to ensure continued engagement with important stakeholders throughout its implementation, such as board strategy committees, regularly scheduled review of strategy progress, stakeholder advisory groups, or something else?, employees whose job security and potential advancement are tied to strategic decisions; customers who need reliable suppliers able to effectively respond to their future requirements; the communities in which EcoTech manufacturing facil-

ities employ people; and suppliers and partners in local businesses who depend on EcoTech's strategic direction to inform their own decisions. Convey a developed sense of awareness that the best strategies must satisfy multiple stakeholder expectations rather than merely optimising for one stakeholder group.

Finally, provide a strategic implementation roadmap in paragraph form, outlining how EcoTech would employ your suggested strategy as an arrangement of its major initiatives in logical sequence across a three-year process. The roadmap should demonstrate clear sequencing across initiatives; explicit milestone indicators (or significant decision points) taking place each year, while providing clarity on the capacity for some initiatives to build on others; how individual themes build on each other to create a clear implementation pathway; a balance of strategic thinking around the pacing of initiatives; manage risk by not attempting too many changes at once; balancing quick wins that build momentum and credibility for the organisation with transformational initiatives investment that create sustainable advantage; and maintain continuity in delivery and operational capacity, while longer-term transformative initiatives above are introduced. After the summary and details, the section concludes by re-positioning EcoTech to achieve its long-term strategic objectives.

As an addition to your strategic implementation roadmap paragraph, describe the three themes lower (easy implementation and immediate benefits) to higher (more complex implementation and change) planning and strategic risks

(do not try to take on too many concurrent planned changes) throughout the three-year process. As with the overall paragraph, we maintain the three themes in the original order, but each theme has its specifics and developments over the three years to provide clarity around the importance of strategically using implementation pacing.

Lastly, throughout this writing task, demonstrate a mastery of chapter 10 examples and use of strategic management language appropriately. The delay in incorporating sustainability and stakeholder language overview assumes that the budget from last year's budget documents is not used by the organisation in an ongoing way. Use the criteria to evaluate the strategic direction and strategic alignment discussed later in the chapter. In summary, approach your implementation over the past three years and in process, board of directors at least one or two significant milestones usually yearly is important to clarify in relation to the business funding and funding information for at least two or three expected projects, in part related to the projects and the timeframe of a restructuring business year project three planned. If EcoTech and three years want a meaningful sustainability strategy for your recommendations, it will be expected and find order its strategy ever fun or the right approach rather than adding too many planned changes, so most likely quarter, about fourteen or fifteen.

What I think that I take away eventually along with my project this and three years details also show clarity in coherence theme, text of it being presented in your presentation to board of directors drafting, enquiry of transparency

or classes of good practice that does not separate the original three themes placement nor show key milestones, capacity etc.,and to show some risks from commitment for changing roles and requested expected outcomes or key accomplishments. At least, I hope you are helpful at some follow and respond to your request about not using expect strategic outcomes from complex adaptation issues, and lastly, included some, but engagement, in your writing, I wanted to respond through a complex progressive process. This review of your assignment in three sections in the feelings connect process amidst complex social visions captures the previous three sections. As it relates to the three-pronged objectives mentioned, interconnection through that with the shaping anything fully those cause and or demonstrate your case of EcoTech platform and industry in three years is in one's best one.

The range of challenges the assignment activity represents the type of strategic planning methods you will encounter in a professional role where the organisation endorses many methods for dealing with or, either being a new option and providing normal circumstances to a firm scope aspects for competitive and help this last summary follow-up similarity for type of scope aspect considerations. The quality of your assignment response will be assessed on the depth of your and strategic considering response; logic and feasibility of ideas reasonable; strategic mode of evaluation; integration and coherence or last clarity warmer as to form presentation or all compositions were more lower direction issues. All in worth at least note that better capture where complexity and clarification in view.

11

Chapter 11

Formulating Strategic Management Plans for Competitive Advantage

Introduction

In the fast-paced modern business environment, organisations must compete with other organisations and will need to make purposeful decisions about how they want to compete in a specific industry. Strategic management is how organisations assess their competitive environment, reflect upon their core competencies, and develop strategies to achieve a sustainable competitive advantage. The purpose of this chapter is to explain how organisations can develop an effective strategic management plan using existing models and strategy frameworks. Michael Porter's Generic Strategies provide a suite of successful strategies that propel an organisation towards market success.

A competitive advantage can be defined as the substantive capabilities of an organisation that result in outperforming its competitors. This favourable position may be based on a variety of factors, including lower prices, better quality, more service, or simply better capabilities defined by attributes that the customer finds valuable. However, we will learn that competitive advantage does not happen by accident, and organisations need to make plans, think strategically, and prioritise execution to achieve the appropriate sustainable competitive advantage. This chapter examines how various strategic approaches are practically applied, using examples in the field to illustrate key strategic management concepts. This chapter will help you develop a greater understanding of strategic management planning and provide you with some tools to begin developing a more thorough strategic plan for an organisation's sustainable competitive advantage.

Understanding Strategic Management and Competitive Advantage

Strategic management involves making choices. Every organisation, whether a small local café or a large multinational company, must decide how it wants to compete in its chosen market. Ultimately, these decisions will determine everything from product development, pricing, and promotions to marketing messages, customer services, and operational processes. Simply put, strategic management revolves around three basic questions: Where are we now? Where do we want to be? How will we get there? Answering these questions requires a thorough assessment and analysis of an organisation's internal capabilities and market conditions

external to the organisation.

A competitive advantage emerges when an organisation can create value for the customer in a way that other competitors in the market cannot easily duplicate. A good example of this is the European budget airline Ryanair, which has developed its business model around cheap fares that outcompete any airline charging higher fares. They do this by being ruthless on costs, flying to secondary airports with cheaper landing fees, describing their single type of aircraft in their ads, minimising regular scheduled maintenance, and charging their customers extra to use services that other airlines often include in the ticket price or in checks of luggage. Customers who want an affordable rate will choose Ryanair over more expensive airlines for their flights, creating an advantage. Unfortunately, we also learn that competitive advantage is not permanent. Changes in organisations, markets, competitors, and consumer preferences challenge almost all competitive advantages. This is why we say strategy is an ongoing activity and, as the term suggests, cannot be complete or finished as the external environment continues to change.

Strategic analysis is typically the first step in the process of strategic management, which means developing an understanding of the current position of the organisation. This naturally means looking at internal resources, including financial resources, employee skills, technological capabilities, and brand equity. Simultaneously, a complete consideration of external factors is necessary, which might include competitive behaviour, customer requirements, legal or

regulatory constraints, or shifts in general economic activity. For example, when Netflix decided to shift from a DVD rental business model to a streaming service, the company understood that fundamentally changing technology as well as customer preferences toward immediate entertainment meant even more opportunities on the horizon. The strategic analysis showed that Netflix was in a good position to leverage existing brand equity and customer relations to pursue a new model, despite the fact that doing so required significant investments in technology and licencing new content.

Strategic analysis is followed by strategic choice, where managers select the best alternative to fit their capabilities as an organisation and the respective market conditions at that time. This is particularly valuable when considering Porter's Generic Strategies, as they allow one to think more systematically about how to compete. Finally, strategy implementation is the process of translating these plans into actual work, such as resource allocation, restructuring, and performance management. During the implementation phase, monitoring and evaluation help organisations determine whether the strategy is still relevant and produces the expected results. If market conditions shift or implementation reveals unforeseen challenges, organisations will likely have to change their strategic direction.

Porter's Generic Strategies Framework

In 1980, Michael Porter, a professor at Harvard Business School, developed the Generic Strategies framework to

assist organisations in thinking clearly about competitive positioning. Porter believed that there was an elementary trade-off for organisations to make in how they compete, and attempting to be everything to every customer resulted in being average at best. As set out in this framework, Porter identifies three generic strategic alternatives: cost leadership, differentiation, and focus. Different approaches require different organisational capabilities, entail different risks, and target different customers.

The strength of Porter's framework is its simplicity and general applicability. It does not matter if you work in a manufacturing organisation, a retail business, or a professional services firm; these strategic options will transfer. Porter also stressed that organisations must make reasonably clear choices. While it is possible for an organisation to pursue several strategies simultaneously without variance from one to another, companies that try to apply these frameworks become "stuck in the middle" and do not enjoy the clear competitive advantages of competitors that are much more focused. This is largely because the organisational needs of different strategies can be conflicting in nature. For instance, if a company seeks to maintain premium quality and an associated brand image (differentiation), then it may need to invest in quality that detracts from cost efficiency, while a strong cost-cutting initiative may simply degrade the experience for the customers that ultimately forms the basis of the brand.

The starting point for understanding Porter's framework is simply to recognise the two fundamental dimensions

of competitive advantage in terms of cost and differentiation. The cost dimension is targeted at being the most efficient producer in the industry and the ability to lower the price point while still being of acceptable quality. The differentiation dimension is targeted at offering products or services that consumers see as unique and value added that can acquire a premium price.Porter also introduced the idea of competitive scope, referring to whether a company is focusing on the broader mass market or on individual segments. Considering both dimensions generates the generic strategies discussed in detail below.

Cost Leadership Strategy

The cost leadership strategy involves being the lowest-cost producer in the industry while still selling products/services within (close to) the industry's average price. The reasoning is simple: If you can produce at a lower cost than the competition, you can charge, at a minimum, the same price and make a higher profit (or a lower price and gain market share and still be profitable). However, cost leadership is much more difficult than merely cutting costs. It requires creating an overall business system intended for efficiency, which typically requires a very large scale, operational excellence, and often significant capital investment.

A company focusing on achieving a cost leadership position has an unrelenting focus on eliminating waste, increasing productivity, and leveraging economies of scale. Economies of scale occur when costs decrease on a per-unit basis with higher volume because fixed costs (i.e. factory building,

equipment, and administration) are spread across more units.

An example of a company that strives for a cost leadership strategy is IKEA, a Swedish furniture retailer. IKEA has an entire business model centred around the efficiency of the cost leadership strategy. IKEA designs furniture to be assembled by the consumer, reducing labour costs, and transports and stores the furniture flat when possible, reducing shipping and storage costs. IKEA locations are generally established on less expensive land on the fringes of cities, and their merchandising is designed in a warehouse format, requiring less employee assistance than other furniture retailers do. Product selection and access to the products are also achieved through self-service, where customers select their products and go to the warehouse area of the store to retrieve their furniture. Every aspect of the IKEA shopping experience emphasises cost, but IKEA also provides an acceptable level of quality and supports positive brand associations with modern design and affordable prices.

Cost leadership necessitates a set of organizational capabilities. First, efficient-scale production facilities are required at a scale of operation that allows investment for a meaningful market share to justify capital expenses. Manufacturing technologies, automated processes, and other streamlined activities lead to cost savings in the long run. Second, tightly controlling costs is an organisation-wide capability. This includes budgeting, the ability to manage suppliers for input cost savings, and ongoing process improvements to reduce waste and improve the cost position. Third, refined

capabilities develop cost savings in product and process design to achieve cost reductions from the outset. Budget airlines such as easyJet explain some of these capabilities by standardising airplane fleets, simplifying the booking process, and eliminating customer-friendly services, such as free full meals and assigned seating.

However, a cost leadership strategy presents risks. Price competition can be fierce, and when many companies pursue cost leadership, profit margins can drop to unsustainable levels. Technology can also render particular production methods obsolete, removing a cost position built over the years. Additionally, a laser focus on cost reduction can cause a company to miss key changes in the market. For example, if consumer preferences move toward features that consume less material or emphasise sustainability in organisations' production methods, companies that have implemented cost leadership will face key difficulties in selling a product if they are off consumer demand. Traditional discount stores have struggled as consumers now value convenience and experience in shopping, and the marketplace has created online discount retailers, plus more premium experiential formats brought to market by Aldi and Lidl which sell discounted items with fewer premium perceptions than traditional discount stores.

Differentiation Strategy

The differentiation strategy creates products and services that consumers see as unique, valuable, and worthy of a premium price. Unlike cost leadership, which focuses on

efficiency and price, differentiation emphasises innovation, quality, brand image, customer service, and other attributes that differentiate a company. The ultimate purpose is to create such strong customer loyalty that customers will pay more and resist switching to less expensive competitors. Successful differentiation creates an emotional connection with customers, making purchases more than just functional benefits.

Companies can be differentiated in several ways. Some companies may emphasise the better quality and performance of their products, such as Dyson and their range of vacuum cleaners and hand dryers, which sell at a premium price because of their advanced technology and design. Other companies may use superior services to create differentiation, such as Ritz-Carlton hotels, which train their staff to anticipate guest needs in a way that creates an experience their guests will remember and is worth the luxury pricing. Companies can use their brand image and prestige as a differentiation point, similar to Apple, where their products represent status and innovation, and they can charge much higher prices than competitors for phones and computers that are very similar in specifications and function. Companies may also differentiate by their ability to provide customisation, speed of innovation and time to market, extensive combination of products, or reliability and dependability around known expectations that will give customers some level of comfort.

Starbucks is a good example of this, as it has engaged its customer base by differentiating coffee from being a

commodity to an experience. They created a "third place" between home and work for people to find a comfortable place to gather, sip a consistent beverage, and feel like they are part of a lifestyle brand. They differentiated by atmosphere, customisation (size, type of milk, added flavouring, heat of beverage, etc.), training employees to be knowledgeable about the experience, and ethically sourced product messaging to appeal to socially conscious consumers. As a result, Starbucks gets paid significantly more money than most other coffee shops or fast-food chains for the exact same coffee, but people will pay the price because they are not only getting the drink, they are getting the experience of Starbucks.

Differentiation strategies require organizational capabilities and resources for implementation. To innovate and improve products, a company must develop research and development (R&D) capabilities.

To create brand awareness and promote a unique value proposition, an organisation needs to have some marketing functionality. The engineering and design of the product must offer superior value in the product offering (not only differentiation). Manufacturing processes, usually denoting an overall higher quality of input or product, require skilled labour, and the company needs to ensure consistency in all aspects of coordination across the organisation to recreate a differentiated process into the experience. Premium fashion brands, such as Burberry, invest in the creation of their products, acquire expensive inputs (i.e. materials from designers), control inputs during the manufacturing process to ensure quality, sell in high-end locations, and develop

marketing campaigns, including celebrities, to maintain their differential position against rivals.

The primary risk within a differentiation strategy is that customers' tastes and preferences change, causing what was previously valued or important to the customer to become less so. To expand on this point, if competitors can create or offer what is unique about your company in the same manner, it will reduce differentiation. Another risk arises when the price of a differentiated offering versus competitors value increases significantly. In this case, even if customers pay a premium for differentiation, they may still think that other things and options are superior in value (again, particularly during recessions). Organisations want to be aware of the pressure to lower the differentiator differences to add benefits that increase the selling price. This is why innovative and renovated differentiation companies continue to engage in research about their customers and competitors to ensure that they are researching and including updates that matter, are still a differentiator, and are able to push back or defend when their products are imitated. A great example of this is BlackBerry. At one time, BlackBerry was the market leader in phones; however, their differentiation was the security of email and a physical keyboard on the device. The two aspects of their differentiation became increasingly less important when touch-screen devices started gaining market traction, due to the improved function of act of a text message (as opposed to texting as a pad application), using a screen to maintain portability, and usage options. BlackBerry quickly fell behind because it did not apply or integrate

enough functional and organizational resources to change the product offering in the device and push the existing product and business.

Focus Strategies: Differentiation Focus and Cost Focus

Focus strategies are employed when a company targets a narrow market segment rather than competing across the entire industry. Companies that use focus strategies identify a customer group, product line, or geographic market segment and adopt an entire business model attuned to that choice to provide a comparable configuration of value proposition to that particular market segment more effectively than competitors wishing to compete across the broader market. The rationale behind the focus strategy is that by concentrating resources and capabilities on a narrow niche market, a company can create a competitive advantage that is not available to companies positioned to compete in broader markets. Focus strategies can either be focused on cost or differentiation.

The cost focus strategy is based on being the lowest-cost provider for a particular narrow market segment. A cost-focused company does not try to have the lowest cost across the industry but rather optimises costs for a narrow customer group. This strategy works if the narrow-focus segment has cost drivers that are different from the broader market segment or if the company is optimised for the narrow market segment, thus allowing it to focus on specialisation that creates lower costs. For example, regional budget

airlines such as Ryanair would have originally flown between secondary airports on specific European routes and achieved lower costs than a traditional national host carrier because regional budget airlines did not service the same aircraft routings, have the same support and infrastructure, or the customer service standards that traditional airlines had. Similarly, Aldi and Lidl utilise a cost focus by appealing to consumers buying groceries on price with greatly limited selections (about 1,400 products versus 30,000+ in traditional supermarkets), resulting in the ability to reduce the costs of inventory for the items they do stock, reducing operations overall, and bulk purchasing inventory that results in lower supplier costs.

A differentiation focus strategy involves providing differentiated products or services to a target market segment. The company will become a specialist provider, knowing more than anyone else about the niche needs of that market segment. A luxury manufacturer of sports cars, such as Ferrari, is a great example of a differentiation focus. Rather than competing in the mass automobile market, Ferrari focuses on wealthy customers looking for prestige, performance, and exclusivity. The company produces fewer than 10,000 cars each year to maintain its differentiation capability. By limiting the number of cars in the marketplace, it creates scarcity as a way to further brand value.

Every car must be manufactured to provide top performance, made from high-quality materials, and sold only through specific dealerships. The brand Ferrari means more than cars and transportation—it symbolises success, passion, and

belonging to an exclusive club. Customers pay upwards of £200k comfortably because Ferrari's focused differentiation creates extreme value in comparison to mass-produced automobiles.

Consider also a differentiation focus in a more local and commodity-like example in the specialist outdoor retailer Cotswold Outdoor. Rather than selling all types of sporting goods like larger competitors, Cotswold Outdoor is specifically focused on outdoor sporting goods for activities such as hiking, climbing, and camping. All store staff are lifestyle outdoor enthusiasts with specific product knowledge and the ability to advise customers on specialised equipment. The range of products offers specialist brands surrounding outdoor activities and adventures rather than just mass product alternatives. Additionally, Cotswold Outdoor offers services such as boot fitting, testing equipment, and advice about routes/destinations. This allows Cotswold Outdoor to have a preference over a generalist retailer, in both products and experience, when a customer is looking for specialist outdoor clothing/equipment- even if it is higher value than the specific product purchased at a generalist like Sports Direct.

Focus strategies have several positive attributes. Even smaller corporations can effectively compete against larger competitors when they do not have to compete directly in the mass market. Focused companies develop a strong sense of their targeted segment and develop stronger loyalty and repeated purchases among customers. A focus strategy allows a corporation to allocate resources more efficiently,

as every decision and investment can be analysed on whether it serves the chosen segment better. Additionally, focused companies may face less intensity from competitors if they select segments which larger competitors are unwilling to serve, either because the segment is too small to attract an investment threshold or because it is positionally inconsistent with the broader positioning of the competitor.

However, focused strategies can pose risks. The target segment may ultimately be too small to operate profitably. The target segment may disappear altogether through changing consumer preferences. A target segment, even if perceived as profitable, may attract unnecessary competition from large market players looking to serve financial opportunities. The differences between the target segment and the broader market may decrease over time, resulting in the erosion of the competitive advantage of specialisation.

A company can also become so niche in its focus strategy that it creates struggles for future growth if broader success requires the company to advance into a new market segment. A regional bank may serve the local area well for small businesses but does not follow the size or additional capabilities required to advance into larger corporate clients or more geographically diverse clients. Careful area selection is required for successful focus strategies. The area should not be too small to offer a substantive financial opportunity but also be defendable against any nearby competitors.

Hybrid Strategy: A Blend of Value and Price

In earlier views of Porter's Generic Strategies model, the popular view was that firms are either in the low-cost or differentiated market; taking steps toward both led to being 'stuck in the middle' because firms would not have a distinct advantage in the marketplace. Nevertheless, changes in markets and organisations have shown that sometimes more sophisticated firms successfully combine elements of value and low pricing—a hybrid strategy. Hybrid strategies can be considered as offering differentiated products or services at price points lower than those of traditional premium providers to provide exceptional customer value. Hybrid strategies are becoming more common in today's markets but are executed with increased difficulty.

Hybrid strategies are challenging because they involve rethinking the price-quality trade-off through innovation. Hybrid strategies are generally undertaken by firms that identify opportunities to reduce costs without sacrificing the quality/differentiated aspects of a product or service that customers are willing to pay for. The hybrid strategy can be re-generated by implementing either process or business model innovation or adopting emerging technology that can provide a premium product or customer experience at a lower cost. For example, consider Japanese automobile manufacturers such as Toyota, who changed auto manufacturing with lean production techniques that allowed companies to provide a superior product through quality improvements and reduced costs. The Toyota Production System eliminated waste by providing workforce workers or teams the ability to identify and quickly fix issues on the assembly line as they occurred and built quality checks

into each stage of production, and therefore throughout the process versus simply inspecting for quality after the production process.

This manufacturing process allowed Toyota to produce a well-built, dependable car at a price comparable to American and European auto manufacturers, who produced a less dependable product. H&M, the Swedish fashion retailer, exemplifies a hybrid strategy in today's market, providing trendy, fashion-forward clothing with high-end fashion design features at prices closer to those of discount retailer items than traditional clothing retailers. By adopting a hybrid strategy, H&M can combine low-cost offerings with fashionable, current designs through various mechanisms. H&M employs excellent fashion designers who can take current runway fashion trends and quickly modify them into less costly, simpler clothing using lower-cost materials. The company's low-cost strategy is also realised through the efficient management of its supply chain and logistics, the scale of its purchases, and limited staffing of stores. Partially, H&M maintains this image through investment in the presentation of its stores, marketing campaigns featuring models and celebrities, and collaboration with exorbitantly priced, high-end fashion designers that reaffirm H&M's fashion credibility. Customers perceive H&M clothing as trendy and fashionable, yet at a fraction of the price of a luxury fashion retailer.

Technology has facilitated many hybrid strategies by reducing costs for companies, without negatively impacting customer experience. Online retailers often represent

this hybrid rationale for consumer behaviour. For example, Amazon has a greater product selection, developed algorithms that provide great product recommendations, good customer reviews, and a shipping/delivery method that rivals and often exceeds market-based retailing options, and ust fulfils online processes at competitive, often lower price levels of national brands. Amazon achieves this process because it does not operate physical retail stores, employs a well-automated warehousing logistics process, scales volume, and uses data analytics to leverage the processes of completing value-, inventory-, and pricing-based studies. Correspondingly, online education models representing similar hybrid strategies provide high-quality learning experiences well below the marketplace pricing levels of traditional brick-and-mortar universities, instructors, and/or TAs via analytics through recorded lectures, automated assessment procedures, and student engagement.

Realising success with hybrid strategies requires exceptional operational capabilities in two knowledge areas: cost-based savings and providing differentiated clarity in value. Achieving both types of success requires companies to use sophisticated management systems, substantial investments, and technology systems. As supply chain efficiency is key to both costs and differentiating value, avoiding operational issues that affect speed and efficiency is paramount. Additionally, companies must innovate both business processes and dedicated product design capabilities around hybrid strategies. Companies must also continue

to manage and measure customer perceptions carefully, ensuring that customers do not associate lower prices with lower quality. IKEA continues to follow a similar operational strategy, emphasising Scandinavian-modern design and function and communicating that its value is not worse than that of lower-price quality.

The main risk associated with hybrid strategies is sustainability. Competitors are unlikely to replicate the hybrid strategy at first once the hybrid strategist establishes a position as the first mover. While hybrid strategies may build first-mover advantages that competitors cannot deliver or will initially take time to replicate, if competitors build out with either the same capabilities and capacities or imitate the attribute capabilities of a hybrid strategy, the hybrid strategy, in time, will soften into either a cost leader strategy or develop a focus around runaway brand pricing. If either of these shifts occurs, the hybrid conditions for success deteriorate.

In addition, hybrid strategies have the risk of vulnerability if a competitor or customer decides to swing their preferences one way or the other - either towards ultra-low pricing without much consideration of specifications or accepting high-value specifications for a premium price. The hybrid strategy market position of value is likely to wither in a polarised market. Finally, organisations providing hybrid strategies must be careful about complexity. In an attempt to offer benefits across too many combinations of segments and prices, offering the benefits of price and specifications almost always leads to an operational failure to deliver at all costs and differentiate.

Building a Strategic Management Plan

To build a sound strategic management plan, there needs to be a disciplined understanding of the current condition, a rationale for what that means for the future of the business, and, importantly, there needs to be a recognition of what the realistic delivery will be.The process begins with an analysis of the situation: where does the organisation actually find itself, and what matters for the future? In conducting this review, consideration must be given to an organisation's internal capabilities and external market conditions. Internally, managers must conduct an honest assessment based on various success factors: financial strength, efficiency of operations, technology capabilities, employee capabilities, brand equity, and the organisation's own culture and climate. From an external perspective, the analysis must factor in competitive strategies and capabilities related to a specific market, customers' unique needs and preferences, potential suppliers' bargaining power, possible new entrants into the market, alternative substitute products or services, and a long list of other conditions, including trends in technology and regulations/regulatory requirements and market conditions included in the current economic landscape.

To illustrate this, we consider a mid-sized hotel chain in the UK as it develops its strategic management plan. The internal analysis of the organisations exhibits a number of internal strengths: their locations in historic market towns, customer fidelity and sustainability of repeat clients, staff capabilities with well-trained employees with low turnover,

and financial stability with limited levels of debt. The review of internal conditions of the organisation has also identified some weaknesses, including the furnishings, age of the rooms (there are several with old furnishings in properties), limited capabilities of marketing efforts (particularly on-line), and less sophisticated reservation systems than larger hotel chains. In analysing the external situation, the hotel chain considered some key trends: there is a continued movement away from standard hotels to boutiques with bespoke experiences instead of chains, increased importance of online reviews and booking opportunities, increasing competition from Airbnb in accommodation markets, and most importantly, the resurgence of leisure travel after the turbulence of the last few years.

In addition, the hotel chain faced competition from national organisations with significant financial backing that were starting to enter and develop markets in some of the market towns to gain a legitimate and well-recognised mark.

These organisations provided a standard and more homogenised product for customers that was not particularly attractive to its core groups or customers looking for original local characteristics. In this situation analysis, the hotel chain must assess its generic strategy options relative to its capabilities and market context. Cost leadership seems unachievable since the chain will not reach the needed scale for budget hotel chains (like Premier Inn), and the prime locations will mostly consist of greater property costs; thus, ultra-low pricing will not be possible. This leaves the travel chain pursuing pure differentiation

focused on luxury traveller demand, which is likely to entail a need to invest capital to improve the physical product and service, which may not be viable. However, pursuing a differentiation-focused strategy seems plausible when leveraging its existing capabilities (location, customer loyalty, and quality workforce) and potentially meeting the market trend for experiential travel and boutique hotels. Implementing a differentiation-focused strategy requires organisations to take several actions. The action items are outlined in the strategic plan.

First, the hotel chain will possess a clear brand identity that focuses on authentic local experiences that leverage the unique character of each property and its location, town, heritage, and culture. The marketing strategy will focus on digital platforms (especially various social media, such as travel blogs), which outline its unique room design and local supplier and guest experiences by conveying a narrative with supporting pictures. The second initiative would be to upgrade physical properties, but it will emphasise constructing their uniqueness relative to the town itself. They will partner with local artisans or suppliers to create interiors that express the town's story, rather than employing a corporate standardised design. This differentiation creates a memorable experience, and the hotel will continue to support a price premium above budget hotels, which are still more affordable than luxury hotels.

Third, the overall strategy would tackle service delivery by training staff to become local experts who could recommend attractions, restaurants, and hidden gems that the average

tourist would not find. Hotel staff would now be positioned as value-adding concierges rather than simply check-in clerks. Fourth, the chain should foster partnerships with local businesses, attractions, and experience providers to market packaged deals that provide both accommodation and experiences such as food tours, craft workshops, or historical walks. These partnerships reinforce hotels' positioning as deeply ingrained in the local community.

Fifth, the strategy should plan for systematic gathering and publication of customer reviews. Hotel advisors and managers know that travellers increasingly rely on peer reviews to book accommodations versus reading about each travel product—training hotel staff to proactively ask for reviews from satisfied guests would be essential.

The strategic plan also identifies the resources/inputs, timelines, and metrics for success. For example, a hotel may invest £500,000 into property renovations over a two-year period, considering the level of tourism in each location as the rationale for the staged implementation. For example, the marketing budget could increase by 30% to reallocate funds to create more digital content and set up a social media account for hotel staff to manage content posts regarding the hotel. The hotel would want to bring someone onboard internally and/or train an existing employee that has a moderate level of understanding of digital marketing, preferably hiring a full-time content creator and social media specialist. For hotels, some measures of success could include occupancy rates, average daily rate (ADR), revenue per available room (RevPAR), online rating scores,

website visits, social media followers, and the number of likes/engagement, and at the end of the day, profitability by location and overall effective profit measures.

Contingencies must also be incorporated into the strategic plan. What would happen if the focus on differentiation did not produce a sustainable volume of customers who were willing to pay a premium? The plan would need to identify thresholds of performance that would trigger a review of the option for a differentiation strategy. For example, if RevPAR did not improve 15% better than the previous RevPAR on a rate basis over an 18 month period, then management would need to correlate a different approach. The contingency scenarios would include downscoping of those differentiation strategies applied to hybrids, being prepared to implement some differentiation while aggressively competing on a pricing level or selling and consolidating through sales of properties to consolidate operations while generating a maximum profit.

Finally, throughout the process of implementation, monitoring, and adjustments will be critical. If tracking is embarked on monthly or quarterly diligence, assessing the progress of objectives and barriers or unexpected challenges and corrections need to happen to set the path straight. Overall, strategic management is not a one-time exercise but a cyclical analysis and planning, acting, and reviewing, noting that market design and competitive threats generate a parallel hope for all traction toward each target.

Successful organisations build flexibility into their overall long-term strategic management while still ensuring that they stay the course of direction over time—pivoting one way for tactical flexibility requires many feeds into the evaluation, revision, and changes in strategic directions.

Achieving and Sustaining Competitive Advantage

Competitive advantage is not permanent. Markets are constantly changing, and when a company is successful, others will want to imitate it. Thus, strategic management must address how to establish and maintain competitive advantage over time. The sustainability of any competitive advantage depends on three interconnected factors: the value and distinctiveness of the competitive advantage, the extent to which competitors can imitate it, and the company's ongoing ability to innovate and adapt to changing conditions. A company may achieve a sustainable competitive advantage if it develops valuable and rare capabilities and resources that are imperfectly imitable and structured into the cultural and social systems of the organisation, rather than being reliant upon individuals who can easily be poached or technology that can easily be purchased.

For instance, consider how Southwest Airlines in the United States has been able to sustain its cost leadership advantage for decades despite numerous competitors trying to copy its low-fare model. Southwest Airlines' sustainable competitive advantage does not rest on any single structural feature but rather on an integrated system of mutually supportive components. First, Southwest Airlines only flies Boeing

737 aircraft, giving it the ability to simplify maintenance, training, and operations. In addition, Southwest Airlines operates point-to-point routes instead of a complex hub-and-spoke routing system, allowing consumers greater choice over complexity and delays. Southwest Airlines maintains quick turnaround times at airport gates, allowing the aircraft to fly more flights in a day. In addition, employee productivity is high due to a unique corporate culture that nurtures teamwork, proactive working initiatives, and customer service. The culture is sustainable because, over decades, it has been nurtured through careful hiring, thorough training, and engaging workers by allowing them to solve customer problems rather than simply following the policy. Competitors can replicate an individual feature (i.e. buy the same airplane, or offer point-to-point routes, etc.); however, it is very difficult to replicate an integrated system of connecting elements (i.e. organizational culture and employees engaged in a common purpose towards customers).

Dynamic capabilities are the ability to constantly adapt to the use of relevant internal and external resources, integrate resources, and reconfigure resources. Dynamic capabilities have been acknowledged as another dimension of sustainable and competitive advantage. In rapidly changing environments, competitive advantage is often less about optimising the use of existing operations/resources and more about successfully sensing changes, seizing opportunities, and transforming the organisation. Amazon

is often cited as a firm that built dynamic capabilities. Although it began as an online bookstore, it has continuously transformed and grown into a multitude of businesses: its e-commerce marketplace, cloud-based services (AWS), entertainment streaming services, smart home devices, and, most recently, grocery retail. Amazon's transformation entailed establishing new dynamic capabilities, working in areas where it already had dynamic capabilities and areas where it did not have dynamic capabilities for some time, and occasionally undercutting or rivalling its existing business units.

The dynamic capabilities Amazon embodies - a willingness to experiment, a customer-focused organisational culture, its technological framework, and a long-term investment view–afford it the ability to maintain a competitive advantage even though its products and operations change over time. Innovation is critical for sustaining competitive advantage, whether it involves developing new products, improving processes, creating better service delivery mechanisms, or developing new business models. Organisations that stop innovating are likely to see their competitive advantage erode, while competitors provide more value or alternative solutions. Innovation requires more than a one-off investment in R&D; it requires an organizational culture of experimentation, accountability for failures along the way, and creative problem-solving. 3M, a diversified technology organisation, is well known for allowing scientists and engineers to dedicate up to 15 percent of their time working on projects of their own choice, some of which have led to the creation of thousands of innovative products from Post-

it Notes to materials used in reflective road sign solutions.

Developing a competitive advantage goes hand in hand with the careful consideration of core competencies—the learning and coordination abilities exhibited across the organisation that differentiate them from one another. Core competencies often lie below the surface and exist within an organisation's routines and culture rather than being embodied in its products or technology.

For example, Honda has developed a core competency in engine design and manufacturing, which has allowed it to be successful in all the industries it competes in—automobile, motorcycle, lawnmower, generator, and marine engine. Honda's vast knowledge in designing and making efficient and reliable engines is applicable to each product line, but competitors cannot copy this idea because there is 30 years of accumulated knowledge stored throughout the entire organisation.

Strategic alliances/partnerships can also develop a sustainable competitive advantage if they incorporate capabilities that the organisation cannot build independently. An example of this is the partnership Starbucks developed with Nestlé for distribution in grocery stores. This partnership allowed Starbucks to use Nestlé's large grocery retail relationships, relationships with grocery distributors, and global scope to sell Starbucks products in grocery stores. Starbucks was able to extend its brand into grocery stores, despite its limited expertise in this space. Nestlé gained a premium coffee brand that it could sell while using coffee

grown from organisations it supplied. Strategic alliances and partnerships can accelerate the pace of developing capability or access to the market with an understanding that this requires managing the relationship/platform to satisfy both parties and protect proprietary knowledge.

Finally, to establish a sustainable competitive advantage, organisations must appreciate customer orientation, including ongoing customer value creation. Organisations must be routinely held to the theory that their products or services meet customer needs better than alternative options. Advantages over competitors will erode as the market shifts, customer preferences change, and competitors enter with superior products. The worst consequence of complacency in establishing a competitive advantage, believing that the current advantage scenario will not change, is the dramatic displacement of the complacent organisation by one that is much more responsive to customers and changes in its respective market. Nokia provides a good example of an organisation that was dominant in mobile phones but failed to identify how quickly smartphones would displace traditional handsets and had no capacity as an organisation to offer a smartphone competitor, even though it was the leader in the industry. It takes diligence and humility to recognise the need to disrupt the organisation on its own volition to maintain competitive advantage before someone else does.

Conclusion

Strategic management encompasses both art and science. Analytical rigor is required to assess both market and organizational capabilities, and creative thinking is required to examine an organisation's unique competitive position. Porter's Generic Strategies provide organisations with sage advice on their aspirational objectives to achieve competitive advantage in a market by proposing core strategic options. Should we compete on the basis of low-cost leadership, differentiation, or focus? Should we target broad market segments or specific segments? Although the research and resulting publication on Generic Strategies were published over 30 years ago, they remain relevant, valuable, and applicable to the competitive environment. Regardless of industry or organizational size, generic strategies are useful for pursuing competitive advantages.

To achieve successful strategic management, organisations must do more than simply select a generic strategy; they must also do the extensive planning necessary to align every organizational activity with that strategy. Every decision made—product development, pricing, hiring, and even marketing—should reinforce the competitive advantage that the organisation is trying to pursue. Consistency and focus in these decisions often separate successful organisations from those that become stuck in the middle of having it all and not excelling in anything. In addition, strategic management is an ongoing process and not an endpoint. Markets change, technologies develop and change, and consumer preferences shift. Organisations must continuously evaluate their competitive position to assess their performance and respond strategically when the situation calls for it.

As you create strategic management plans throughout your career you should remember strategy exists to produce value for customers, employees, owners, and society.The most effective strategies are not just those that get you competitive advantage; they do so in an ethical, environmentally sustainable way that benefits all stakeholders. In a world where we are increasingly joined together and transparency reigns, short-term competitive advantages through less-than-ethical ways are typically disadvantageous. To develop a competitive advantage that will last, you must understand the customer very well, develop specific organisational capabilities, make strategic choices, implement your strategy, and then have enough flexibility in your organisation's strategy to bend a little when everything around you changes. These important principles based on Porter's Generic Strategies will help you regardless of the industry or type of organisation that you ultimately join.

Learning activities:

Debate Activity: The Best Strategy

Purpose: This activity is designed to give you a chance to put into action your understanding of Porter's Generic Strategies by debating your team's case as to what strategy is best to achieve competitive advantage in the relevant market.

Activity Instructions

1. The students were divided into four teams.

• Team A: Cost Leadership Strategy

• Team B: Differentiation Strategy

• Team C: Focus Strategy (cost or differentiation focus)

• Team D: Hybrid Strategy (low cost and differentiation combined)

2. Team Debate Statement:

• "In the fast-paced, ever-changing world of business, the most effective way for a business to establish and maintain a competitive advantage is through [your assigned strategy]."

Instructions

• Each team will come to the front of the class or group and present their argument for 3-5 minutes explaining why their strategy is the best to achieve sustainable competitive advantage using key models, concepts, theories, cases, and examples, etc. as cited in chapter readings.

•Teams should discuss the strengths of their strategy, then talk about the weaknesses of the other strategies, and respond to rebuttal arguments to strengthen their team's argument.

•After each group has argued their strategy, the teachers will

open up to questions from other teams and see if they want to offer rebuttals.

Wrap Up

• As a class or group, reflect on your consideration of the debate,

•Which teams/strategies were the most convincing and why?

• Are there industries or sectors that favour one strategy over another?

•Would one strategy be better or more effective if you combined strategies as the marketplace develops?

Reflection Question: Which strategy do you personally think is the most sustainable for long-term competitive success when considering debate or even reading?

12

Chapter 12

Creating a Strategic Management Plan for Competitive Advantage

Introduction

Strategic management planning is the procedure in which organisations plan, enact, and review long-term plans that allow them to develop a competitive advantage within their target market sectors. In today's fast-paced business climate, organisations cannot simply stand on the premise that their products or services are good; they must examine their competitive stance in the market and make decisions that demonstrate wisdom in terms of growth or expansion and make strategic choices, such as mergers or acquisitions, to surpass their competition. This chapter explores the necessary models, theories, and concepts that underpin strategic management planning and how organisations

gain and maintain a competitive advantage. Competitive advantage is the lever that allows an organisation to have superior performance over value-creating rivals through lower costs, superior products, good customer service, and/or idiosyncratic (unique) positioning relative to the competitor.

This chapter examines the concept of strategic positioning through the lens of Bowman's Strategy Clock, growth opportunities through Ansoff's Matrix, consideration of integration choices, and an assessment of mergers and acquisitions as part of a comprehensive approach to strategic management planning. These strategic tools are designed to provide direction to an organisation, whether applied individually or collectively, to enable informed decision-making that enhances the competitive capability of the organisation and its long-term viability in its market sector.

By coming to understand and work through the structures and concepts in this chapter and how individual concepts relate in practice, you will be able to develop strategies for organisations where competitive advantage is significant in enabling the organisation to operate successfully in constantly evolving and competitive environments.

Strategic Positioning and Bowman's Strategy Clock

Strategic positioning refers to the key choices an organisation makes about how it intends to compete in the market with a double edge to what it expects the key balance will be

with respect to the price an organisation charges customers and the perceived value that they offer to those customers. An affirmation of what I mean by 'strategic positioning' the question you are to answer at this point is "What will make these customers choose us as opposed to our competitors?" It is never an easy choice as an organisation would typically never want to choose an option that was not consistent, as part of the overall strategic context, with their capabilities and resources, and sometimes the organisation's target customers, and of course make effort to attract customers based on the competitive market environment.

Bowman's Strategy Clock, put forward by management theorists Cliff Bowman and David Faulkner, in 1996 to a management audience, helps provide rationale and structure for understanding these choices, positions and implications of backgrounding these questions and making sense of them from a marketplace view. The model is more comprehensive in nature than many strategic models, as in many other models, only a few positional options are defined and effective. Bowman's Strategy Clock is arranged in a circular manner with eight different positional strategies. One axis represents the progress of relative price levels, and the other represents perceived value (customer benefit). This circular model allows organisations to have a different visual perspective on their competitive position and choose a strategy suited to their circumstances.

The visual representation allows a manager to (1) understand their organisation's current competitive position and see more than one other competitive position they may consider

moving toward if they want to improve their current position, and (2) provides some insight into what can actually be considered a more favourable positional choice. The model is also valuable as it demonstrates interesting and viable positional strategy choices considered inviting regarding some organisation success, while identifying structural downward risk to their position regarding competitor emergence, referenced here as positional risk measures that may lessen the organisations relative competitive advantage.

The Low Price/Low :

Low price added Value position on Bowman's Strategy Clock is the first position, located at the bottom left of the clock, where both price and perceived values are at the lowest ends of the spectrum. Organisations following this low-price, low-value position will make only very basic products/services at very low prices that primarily appeal to customers who are highly price-sensitive and price-conscious and who have very low expectations related to quality, features, service, or experience. The low price/low added value strategy works because it narrowly targets a specific segment of the market: customers who simply cannot afford a product at a higher price point and are willing to settle for the very basics. Businesses that adopt this strategy operate at very low profit margins, which gives them leeway between price and cost to enable them to operate. In this case, the low-price strategy means that businesses must sell enough volume to not only cover costs but also generate profits.

To illustrate this position, consider a very basic discount store that sells generic products in plain packaging with no customer service, no returns policy, and no curiosity about store presentation; customers visiting the store do so purely because the prices are cheaper regardless of the simplicity or lack of service. While the low price/low adding value position can prove to be highly profitable in niche market segments, where customers truly have no other alternative and have very limited budgets, it is often highly unstable and associated with a degree of risk. The low-price, low-added-value model does not provide a strong competitive position, as emerging competitors will quickly enter the market with a lower price offering and entice customers away from the original business. In addition, if customers' income increases or expectations change, they will likely move to competitors who provide better value, making this Customer Offer vulnerable to economic and social changes.

Position Two:

Low Price represents a radically different proposition from Price/Low Added Value, although it is also focused on price competitiveness. Low Price/Low Added Value is directed at a specific niche market willing to accept a value allocation in their quality. This low-price strategy targets becoming a cost leader, the supplier with the lowest production and operating costs in the entire industry, and therefore makes their offer competitive in price broadly and generates an acceptable profit by selling in high volume. An important distinction is that low-price strategists do not present objectively low-quality goods. They represent

acceptable quality for which rivals cannot produce and sell for the price provided by the low-price strategist because the organisation is more efficient in operations. Walmart is an excellent example of this positional strategy and has built its entire global business model around operational efficiency, sophisticated supply chain management, huge economies of scale, and disciplined cost exploitation, which all allow it to sell at everyday low prices widely, while running a profitable enterprise.

Walmart does this in several critical ways: through its enormous purchasing power it can negotiate extremely favourable arrangements and pricing terms with the supplier base; through or particular expertise invested in distribution technology, uses logistics to broker efficient distribution circuits and processes, which fosters a minimized distribution cost, in the customer offer and also in each service element of logistics processing of each sales transaction; through highly organized stores, Walmart keeps labour costs, i.e. operating costs tightly controlled; and finally, by using business and marketing analytics to inform its products classifications, levels of stock, and distribution to minimize waste. The Low-Price Strategy relies on significant upfront capital and systems, technology, and infrastructure investment, plus ongoing commitment to continuously improve and invest in efficiency sustainability over time.

However, if the low-price strategy remains in place for an extended period, it can provide a significant sustainable competitive advantage for the organisation as a low-cost leader. The low-price strategy and all other competitive strategies

are only viable long-term if the organisation can maintain the cost advantage under which the strategy operates, as eventually rivals will develop or enhance their operating efficiencies or discover lower operating assets, and the low-price strategy sustainability collapses, leading to destructive price wars, resulting in deteriorating profitability across the industry. Furthermore, a low-price strategy is also vulnerable to destructive value erosion if the organisation responds to low-priced demand and procurement based on product quality, as many low-price strategies tend toward Low Price/Low Added Value if the customer perceives a lack of quality in the products relative to their competitors.

Position Three, or the Hybrid strategy:

Position Three, or the Hybrid strategy is one of the most appealing and successful strategic positions, as it combines moderate prices with moderate to high perceived value, essentially offering good value for money to customers. Organisations in the Hybrid Position generally seek to offer consumers much better value than a pure low-price competitor at moderate prices while not charging the premium price associated with differentiated and optional luxury brands. The Hybrid Position is particularly effective for organizations that cannot compete purely on price, such as large-scale, high-volume, low-price retailers (e.g., Walmart), but also cannot realistically position themselves as luxury or premium brands because of product perception, product features, or target market limitations. IKEA is a valuable and widely studied example of the successful implementation of a hybrid strategic position in practice.

The Swedish furniture retailer sells decent, stylish, and functional furniture and home goods at reasonable prices.

IKEA's business model generates meaningful value propositions for customers of all market segments, including young professionals, working-class and middle-class families, and those who are budget-conscious but still want good quality and aesthetics. IKEA can provide decent design quality and functionality at prices substantially below traditional furniture retailers because it cleverly uses strategies such as its flat-pack packaging to minimise transportation and storage costs, stores in a warehouse format, a self-service model, and highly efficient global supply chains combined to provide IKEA customers with reasonable quality and features at prices traditional standard furniture and home goods retailers simply cannot match. Research has demonstrated the potential effectiveness of the Hybrid strategic position: one mid-sized retailer that appears to have successfully implemented a Hybrid strategy in a short period. When it transitioned from a low price/low value to a hybrid business model, it achieved significant results.

The ceo's decision to implement a hybrid strategy was accomplished through a series of deliberate strategic business actions: (1) optimising the supply chain for cost reduction with zero compromise on overall product value, while making better product quality and feature improvements; (2) implementing targeted marketing campaigns that effectively articulated the newly enhanced value proposition to customers, while better training service staff to deliver better customer care and service recovery; and (3) a comprehensive

set of strategic actions

harvesting a 27 percent increase in market share within a year of program and business model implementation. The successful application of a hybrid business model depends on achieving very similar levels of operational productivity for price competitiveness, combined with value delivery perceptions closer to differentiated competitor products—a challenging but achievable blend of operations requiring committed managers and competent oversight from buying operations and marketing.

Position Four, Differentiation, requires the company to provide products or services that have a significantly higher perceived value than competitors' offerings. The company charges moderate to slightly higher prices that represent a higher perceived value and are still affordable to the typical consumer. Companies pursuing a differentiation strategy seek to create and build emphasis around features, quality characteristics, customer service experiences, a reputation for quality products, and/or innovation that distinguishes them from competitors in ways that target customers care about and are willing to pay for.

Differentiation requires ongoing significant investment across a number of areas: research and development for innovative features or product enhancements, systems or processes to ensure product performance and consistent brand promise delivery, quality assurance systems to assure the delivery of superior quality products, marketing and branding processes to build awareness and favourable

perceptions of differentiated attributes, and customer experience design to deliver on brand promises and create positive feelings about the value provided. The company's success in differentiationon strategy requires understanding what attributes/motivators customers in the target segment value the most. Some examples of attributes are product reliability, innovative features, superior aesthetics/design, service, ease/convenience of the purchasing process, and brand equity. Samsung is an excellent example of the effective use of the differentiation strategy in consumer electronics, offering innovative features in smartphones, such as high-tech camera systems that people will pay for, superior display technology in televisions, quality build and materials in their products, and a brand reputation built on this continued quality and innovation across a broad range of products that meet a range of consumer needs and desires.

Samsung establishes its distinctiveness from its low-price competitors in the market, factoring in quality and innovation (though price rests below ultra-premium brands, such as Apple), serving a middle-market segment that is usually willing to pay more for the best technology at a price that is squarely in line with competitive pricing. A critical success factor for any differentiation element is ensuring that the added value is the true value for customer needs; differentiation alone adds cost without driving customer preference. Certainly, any differentiation elements must be both sustainable and harder for competitors to take advantage of. If a competitor can easily mimic the differentiating elements, your competitive position will quickly evaporate, and your differentiation strategy will fail. This means that

adapting to and mimicking your differentiating elements should be a never-ending process.

Focused differentiation (position five) is the premium-luxury section of the marketplace when an organisation is serving a highly differentiated and superior product or service at a premium price that can be significantly higher than the average price. This is a specific element addressing a market segment of consumers that has the means to pay significantly more for premium price, features, exclusivity, status, and overall experience that may warrant a premium price, often a point of differentiation to have consumers (or organisations) spending considerable price just because the consumer believes that the status, quality, experience, etc. is worth it.

Focused differentiation differs from regular differentiation because you will need organizational segments that are willing to pay the premium price for the differentiating elements, while regular differentiation serves a mass market. Apple Inc. does an extraordinary job executing focused differentiation with several reinforcing elements: producing a uniquely designed product that has quality materials and quality aesthetics, innovating with relevant technologies that deliver an actual superior difference in performance, creating an overall integrated ecosystem that backs the products up with underlying value as the consumer progressively adopts a number of products, shopping experiences in Apple Stores and on the web that have a unique design and knowledgeable people to assist, and extraordinarily strong brand equity that identifies innovation, creativity, and status. All of

these elements serve a value proposition that then allows a barrier to entry of extreme price points above competitors such as Samsung, and to gain customer loyalty reflected in acquisition retention. Apple has consistently demonstrated that a premium price point can be successful, but only when the organisation is detailed in delivering the delivered values, measured through brand management. Luxury brands across all consumer sectors should follow a focused differentiation strategy. Rolex is an organisation that builds its business model and messaging around precision craftsmanship, history, exclusivity and status. Louis Vuitton is a brand that builds around precision craftsmanship, designs that align with exclusivity, and heritage and associations as luxury brands.

Ferrari focuses on extreme performance in elite markets with the exclusivity of modest production, racing history, and status value. To achieve true long-term focused differentiation and premium pricing sustainably, the organisation must be able to consistently deliver values that demonstrate and support premium pricing and manage the brand such that any consumer receives the perception of the premium product's exclusivity, avoiding discounting or excessive consumer purchases. To afford advisory pricing in consumer products, focused differentiation generates higher profit margins per unit; however, they rely on fewer customer volumes and must make operational decisions with very accessible market and customer engagement management compared to organisations that directly target a mass market.

The three final positions of Bowman's Strategy Clock—Positions Six, Seven and Eight—are progressively more risky or unsustainable strategies that, in most cases, organisations should not pursue as they will never provide competitive advantage and lead to eroding market share and business failure. Position Six involves an organisation charging higher prices for ordinary products with no added value for the higher price from the customers' perspective.

This may be successful for short timeframes in very specific circumstances, such as in a monopoly situation when customers do not have a supplier alternative in a market, or if they will not easily switch to a competitor because switching costs are too high, or if it is for a limited time, such as during a supply shortage, and can raise prices. Position Six will almost never work successfully in the long term in a competitive situation because customers will naturally gravitate to other competitors offering better customer value once options are available. Organisations sometimes end up in Position Six by chance, as part of their offering strategy, such as by raising prices without changing any value, and usually for either of two reasons—due to unavoidable cost increases they have to charge customersand believe they are passing on no choice to customers, or sometimes as an overestimation of brand strength when there has been no improvement in customer perceived value.

Position Seven, Increased Price/Low Value, is even riskier and fundamentally unsustainable in terms of improved customer value, as an organisation offers poor value at

a high price that has low quality, limited features, poor service, or some other failure to create value. This Position is only advantageous if customers have no alternatives or are locked in by switching costs, such as long-term contracts or proprietary systems without alternatives. However, even then, Position Seven will only create customer dissatisfaction, a negative perception of the brand, and ultimately a catastrophic loss of market share whenever a competitive alternative emerges. Some utility companies or monopoly providers have historically been in Position Seven, and deregulation and market capacity often lead to dramatic changes in market pricing or positioning strategies. Position Eight signifies a total loss of market share, and although organisations may feel pressure for that position to be the case, it represents strategic failure at any price point when an organisation cannot provide adequate customer-perceived value to create competitiveness. Disgraced organisations often find themselves in Position Eight through strategic drift—a gradual degradation of competitive position without adaptation to changing market dynamics, either through failure to advance value or, in the worst case, when an organisation fails to meet any level of effectiveness at innovation to improve customer perceived value in similar products to competitors.

Learning the risky positions and identifying indicators of possible Position Six or Seven, or before position eight is an important takeaway of Bowman's Strategy Clock, such as declining customer satisfaction, increased customer complaints, poorly converted market share, or inability to attract new customers. Understanding the risk positions

and identifying ephemeral indicators allows managers to fix the position before it becomes unsustainable.

The core message of Bowman's Strategy Clock is that to earn business in a competitive position, leaders must create an intentional strategy with a reasonable choice point among viable defining boars or Strategy Clock positions (Low Price, Hybrid, Differentiation, or Focused Differentiation)—based on the capabilities of the organisation and the needs of the target market; Step Two is staying aligned and consistent with the organisation's execution of the intended position. The last step is to continue to evaluate and monitor the organisation's positioning to prevent drift into positions from which it cannot return.

Diversity and Ansoff's Matrix

While Bowman's Strategy Clock allows organisations to clarify their competitive position based on the assumption that they sell their existing products in existing markets, Ansoff's Matrix provides an additional way to investigate opportunities to grow through the systematic development of products, markets, or both dimensions simultaneously.

A tool for strategic planning created by management theorist Igor Ansoff that was published in the Harvard Business Review in 1957, Ansoff's Matrix outlines four basic growth strategies within a two-dimensional matrix based on a fundamental distinction: whether the organisation is focusing on existing products or new products (horizontal axis) and whether it is focusing on existing markets or new markets

(vertical axis). To understand and implement Ansoff's Matrix, strategic management planning is essential because it allows organisations to systematically assess and evaluate their options for growth, evaluate and assess the risks associated with each option, and assess the considerations required for resource investment and priority for strategic decisions. The matrix lays out alternative paths for growth, which is very helpful in clarifying from a growth perspective that organisations have fundamentally four paths for growth (each with their own capabilities), clarifying the growth choices in each of the four quadrants of the matrix, which also lays out (high to very high risks), investment of resources (high to intermediate), and factors for success.

The key point to understand about Ansoff's Matrix is that the further away an organisation is from what they know, the more risk involved: the least risky strategy is associated with existing products and markets, while the riskiest approaches are identified as strategies involving existing products in new markets and new products in new markets. This relationship between risk and return influences strategic decision-making by providing a framework through which organisations can reconcile their aspirations for growth with acceptable levels of risk and available resources.

The Market Penetration quadrant is the lowest-risk option for organisations to grow, as this approach is simply about selling more products to the organisation's current customers or winning-over customers from competitors in the existing markets; therefore, the organisation is operating completely within familiar products and market territory.

Organisations pursuing a Market Penetration approach will seek opportunities to drive growth in the share of existing markets using a range of tactical options. Examples of tactics include increasing marketing intensity and frequency to drive brand awareness and encourage purchases. Adjusting the pricing strategy to become more price-competitive or provide greater value over competitive products. Extending and investing in distribution channels to ensure that the product becomes more widely available to customers; Enhancing (not fundamentally changing) product features or packaging to increase product appeal.

Developing loyalty programs that reward more regular purchases by customers and reduce customer switching to competitive products. Coca-Cola provides an example of a successful Market Penetration approach over a long sustained time frame. Coca-Cola has consistently invested in extensive advertising campaigns, advertising across television, social media, billboard advertising, and sponsorships to maintain the brand's extremely high visibility. Furthermore, during these advertising campaigns, Coca-Cola runs promotional activities, such as price promotions or bundles, to encourage consumption. Coca-Cola has invested in extending its product distribution so that Coca-Cola products are available in an enormous number of venues, in addition to supermarkets or restaurants, vending machines, and product placements in entertainment or media to strengthen brand presence.

In addition to all the above activities, Coca-Cola has sustained Market Penetration activities to drive existing cus-

tomers to consume more of its products, attract customers from competitors such as Pepsi, and gain customers by branching out further among existing segments such as young people entering into beverage consumption. Market Penetration is a particularly strong strategy to employ in environments where the overall demand for a category is growing, where an organisation has identified a market for more consumption occasions among its existing customers, or in competitive environments where it is possible to gain customers away from competitors where competitors are weak in product quality, distribution, or brand reputation.

Market penetration remains a relatively low risk as it is synonymous with products already known within the organisation, established production capabilities, familiar distribution channels are already in place, and customer segments that are already known and understood. However, developing the strategies needed to penetrate an existing market requires significant investment in marketing efforts, and in some instances, these returns may not be proportional. Penetration also faces natural limits when the market reaches saturation or becomes highly competitive to the level of brands competing in price promotions and other promotional activities that take profitability from an entire industry.

Ultimately, price and promotional activity should not be used to defend and protect market share, as competitors may respond aggressively to protect their investments and profitability through price reductions, where a price war is negotiated, market share wars that use competing

engagement strategies, or greater reduction in profitability and/or brand value.

The second strategy within Ansoff's Matrix is Market Development, which involves taking existing products and selling them in new markets or market segments. This means that the organisation is taking established products and existing production capabilities and expanding them into new customer groups or geographic locations. New markets can be defined in several ways: geographic, which means the organisation is entering new locations (new regions, cities, states, or countries the organisation has never had a presence or has not previously sold); demographic, which means targeting different age groups, income groups, ethnic groups, or lifestyle segments that have never been primary or secondary customers; institutional, meaning there are differing types of organisations the organisation sells to, such as moving from consumer to business or business to consumer markets; and new distribution channels, such as moving from physical retail to online retail, or direct to distributors.

Market Development enables organisations to leverage accessible product strengths and existing production capabilities while developing new market knowledge, customer relationships, and the overall market. An excellent and relatable example of Market Development exists within Starbucks as a recognised and evidenced example happens to be the company's expansion into the country of China, where Starbucks has managed to take the country from tea-

drinking to coffee-drinking, and has subsequently become the company's second largest market after the United States, with over 6,500 Starbucks locations planned by 2024. When Starbucks entered the market in China, it introduced the idea of a coffee shop and its offering of espresso-based beverages, along with its comfortable in-store customer experiences that Starbucks developed its existing café positioning strategy around. They faced challenges because China was a tea-drinking country with little coffee consumption and few actual coffee shop chain establishments to speak of, if any. Starbucks undertook Market Development through a number of strategic initiatives, including an extensive commitment to infrastructure by opening thousands of stores in major Chinese cities (such as Beijing, Shanghai, and Guangzhou) and eventually beginning to venture into smaller cities to reach additional customer segments; extending a product mix to include tea-based beverages and food to local taste preferences while still maintaining the core coffee product; establishing itself as a premium aspirational brand to target China's growing middle class and young professionals; and making adaptations to its store design to embody elements of Chinese aesthetics while still creating a recognisable Starbucks brand atmosphere.

Overall, this Market Development strategy not only created revenue growth for Starbucks but also added geographic diversity to its revenue base to decrease its reliance on the United States and build a strong international brand presence. However, Market Development has moderate risk because organisations are often unfamiliar with consumer preferences, behaviours, and needs; organisations must also

adapt to potentially different competitive dynamics and market structures; there may be a need to adapt products for local preferences or government regulations; and there will be a need to market and distribute that is specific to the market. Successful Market Development relies on conducting thorough market research that allows the organisation to better understand new customer segments; segmentation of the market to better utilise limited resources, target customers, and focus marketing efforts towards one or more identified segment(s); openness to adapting to the marketing messages while possibly making minor product changes to enhance local relevance; and an understanding that entering a new market may take time to develop to receive any return on investment.

Product development or quadrant three involves more risk in the strategy pursued, as this is where organisations develop a new product or evolve their existing products to sell to their existing customers, relying on their existing customer relationships and market knowledge to act on their opportunity to create or innovate a product. It is a rational strategy for an organisation to deploy if they identify customer requirements that have changed and/or that the existing product offerings do not address, and/or because of technological advances they are now able to provide a new or improved product, and/or that competitors have introduced innovations that may threaten the competitiveness of their existing products, and/or customer research suggests their existing customer segments have unmet customer needs that could generate new revenues for the organisation. Product Development allows an organisation to expand

its relationships with its existing customers by expanding its range of solutions available to that group of customers and/or increasing customer lifetime value by selling multiple products through a single customer and/or addressing changing markets to remain relevant.

An example of sustained Product Development is McDonald's consistent ability to introduce new menu items that touch on changing preferences of their existing consumers while simultaneously promoting dining habits among existing customers who frequent McDonald's locations. A prime example of a continuing and strategic direction of Product Development is their recent feature of plant-based menu items designed to showcase their responsiveness to a growing consumer base regarding vegetarian or vegan options and growing health consciousness and environmental concerns. Recent examples include the McPlant burger developed in conjunction with the company Beyond Meat, which showcases McDonald's commitment to menu development and sustainability, while successfully attracting the health market and younger consumers that are exploring a plant-based diet, and increasing their existing patrons' visits and spending through the introduction of variety into the menu.

McDonald's also consistently seeks opportunities to provide limited-time offers, seasonal product introductions, and regional specialties that maintain customer interest and encourage more frequent visits to their restaurants. Product Development requires high cash investments based on several factors: the current or future research and development

efforts focused on developing an understanding of customer needs and then developing products to meet that need; validating market tests and pilots once a product has been developed prior to full launch; the acquisition of required production and supply chain capabilities that are sufficiently adjusted and in place when locked in the production of a product; and the marketing and promotional effort once a new product is launched with the intent to generate trial sales from existing customers while introducing new existing customers.

Product Development carries a moderate to high risk because even organisations that have been in the market or are the dominant player in the market have difficulty predicting which, if any, of their new products will meet a market need that resonates with their current customers. A key risk in product development is the requirement of significant cash investment by the organisation due to R&D and product launches, without assurances of generating new revenue through new products if the product does not resonate with a new customer.

Another risk of product development is the prospective cannibalisation of existing products on existing products and/or revenues. Finally, because a substantial part of product development occurs in existing food service markets, the swift competitiveness and ability to copy product development is another risk, as competition seeks to replicate product developments to limit whole product sales/segments and jeopardise additional profits. However, despite the associated risks, Product Development is a key component for

any organisation in a dynamic market or product category where the preferences of customers continually evolve, when technological advancements present new product opportunities, or product franchises are typically short cycle and completely reliant on continual product innovation to maintain category and/or market dominance.

Diversification is located in quadrant four, representing the riskiest growth strategy, as it entails entering wholly new industries with entirely new products simultaneously, meaning the organisation does not have experience with product development or market behaviours. Despite the risks, organisations diversify for several reasons, including lessening reliance on existing products or markets that have matured or are declining, utilising core competencies, such as technology, manufacturing, or distribution capabilities in a new context, pursuing new opportunities in a growing industry, spreading risk across varying market cycles that may operate independently, or responding to saturation or decline in an existing industry.

There are two fundamental types of diversification that differ in risk and rationale. Related Diversification (sometimes called concentric diversification) occurs when synergies exist between the existing business and new venture, for example, shared technology, distribution channels, customer types, or transferable levels of expertise, that allow the organisation to extend into new areas, leveraging existing capabilities. Unrelated Diversification (sometimes conglomerate diversification) occurs when the organisation enters entirely different industries that have little connection with existing

operations, which will spread risk but without the potential for operational synergies that related diversification may provide.

The introduction of Amazon Web Services (AWS) by Amazon exemplifies successful Related Diversification that changed the company from its traditional low-margin e-commerce retail business into cloud computing services—an entirely new market with completely different products but benefitting from the technical abilities Amazon had developed. Amazon built enormous technical infrastructure, data centres, and know-how to support its retail operations and recognised that this operational capacity and technical expertise could be utilised to serve customers external to Amazon looking for cloud computing, data storage, and computing services. This strategic diversification enabled Amazon to leverage its significant infrastructure investments and technical know-how to enter a high-growth, high-margin industry and dramatically change the perception of the company from an online retailer to a technology business. AWS has become Amazon's most profitable division, generating substantial revenue and profits that subsidise and support the low-margin retail operations, illustrating how diversification can lead to a transformational organisational strategic position and financial performance.

A similar example of Related Diversification occurred when Uber expanded into food delivery with Uber Eats, where it entered a new market with a new service offering while leveraging its existing capabilities with logistics, a current

driver network, its established technology platform for connecting supply and demand, and brand awareness of being a reliable on-demand service. This Diversification was particularly valuable during the COVID-19 pandemic when demand for ride-hailing services abruptly dropped when lockdowns took place and travel was severely limited, while demand for food delivery spiked, reinforcing that diversification limits risk to businesses arising from weather-related impacts or other external shocks as it presents income-generating opportunities that respond differently to business disruption. Tesla is an additional example of Related Diversification because it diversifies beyond electric vehicles into entirely new markets related to solar energy systems and battery storage products, leveraging its core knowledge in battery technology, energy management systems, and sustainable energy innovations while bringing new products to market. These products promote synergies when technology improves in one area and benefits from technological advances in other fields, as in the fact that improvements in batteries for vehicles can enhance battery storage products'. Diversification represents a growth opportunity with substantial benefits, as it represents a growth opportunity by supports goals for growth, reduces risk through portfolio effects, and creates income generation opportunities in markets with significant growth potential.

However, diversifying markets is expensive and time-consuming and involves significant resources, including capital for investments in products and to enter the market, the development of new capabilities and expertise, which may include recruiting or acquiring experience,

management attention to balance existing operations and lead new businesses or areas of the business, and time, as diversification tends to take several years to develop products and establish commodity products. This strategy requires careful management because organisations face two variables of uncharted territory: first, in the development of a product, where the organisation lacks experience in the context of creating or refining a new product category; second, the environment where the organisation develops and grasps customer behaviour, competitive intensity in the market, distribution of products or services, and regulatory context in the new market. These two areas of uncharted territory contribute to the justification of why diversification has the highest risk in Ansoff's growth strategies and why so many attempts at diversification have failed because the organisation did not appreciate the complexity of these variables or is guilty of overestimating how capabilities will translate into other businesses or markets.

Vertical and horizontal integration strategies

In addition to organic growth strategies represented in Ansoff's Matrix, whereby an organisation grows through its own development efforts, organisations can pursue growth and competitive advantage through integration or acquisition strategies involving the purchase or merger of other businesses that operate within or along their production line or value chain. Integration strategies differ fundamentally from diversification because they involve businesses that are connected to and complement an organi-

sation's existing business domain, as opposed to diversifying into completely unrelated sectors or markets. Integration strategies are also valuable for organisations because they can present alternative forms of achieving competitive advantages distinctly through control, efficiency, and market power, rather than investing solely in expanding product or market placement through diversification.

There are essentially two primary types of integration strategies with somewhat fundamentally, albeit different strategic purposes and implications: vertical integration, which involves the purchase of businesses at different stages of the production or distribution process, either upstream towards the supplier, or downstream towards the customer; and horizontal integration, which involves the purchase of competitors or competitors along the same stage of the value chain and same market level. Integration strategies are designed to achieve different strategic objectives and, therefore, create somewhat different forms of competitive advantage, face different challenges, and require different types of management styles or methods of accommodating the integration process. Therefore, the selection of each type is a significant strategic element for the organisation. Both vertical and horizontal mergers focus on purchasing or merging with existing businesses instead of trying to create or build a capability organically, therefore presenting a timing advantage but also a variety of unique challenges.

Vertical integration occurs when an organisation purchases or merges with companies at different levels of the supply chain or value chain: backward into suppliers, raw materi-

als, and the manufacturer of components or forward into distribution, retail, and ultimately the end customer. There are multiple and interrelated strategic reasons for vertical integration which include reducing costs by removing the supplier's mark-up or the distributor's margin and earning the value at each stage of the supply chain; increasing supply chain efficiency by coordinating different stages of the production stage and reducing transaction costs; improving quality control by managing inputs or inputs directly and consistently along the value chain; creating greater supply certainty and avoiding potential supply disruptions or shortages, especially if the service provided by the supplier of raw materials is critical; increasing margins by capturing the value previously paid to suppliers or distributors; and building sustainable competitive advantages through the ability to integrate, coordinate, and sustain competitive advantage.

To understand 'vertical integration' more concretely, consider an apparel or clothing manufacturer who buys fabric from textile suppliers and then sells finished garments to retail stores. An apparel manufacturer may start backward vertical integration by purchasing a textile producer which gives the manufacturer direct control over fabric production, provides reliable (assuming you produce fabric with some frequency) fabric without the reliance on a textile supplier's reliability, creates a certainty over quality control regarding the characteristics of the fabric (content, weight, colour, etc.), mitigates the cost of fabric by eliminating the supplier's markup, and develops the potential for innovating new textiles as an opportunity to create competitive differen-

tiation. Alternatively, the same producer can pursue a different approach to vertical integration by acquiring retail outlets to achieve end-user access without the typical store front retailer, manage its own brand presentation directly, control the overall customer experience at retail, retain the retail margin paid to the retailer, gain user feedback to inform product/service decisions, and have an opportunity to coordinate vertically in managing demand.

The benefits that can be realised through vertical integration can be significant and will depend on how successfully the integration period is managed, including increased operational efficiency gained through redundant activities being eliminated and improved coordination gain through better collaboration; improved quality through the process of the entire supply chain with the consumer engaged through the process; reduced transaction costs associated with negotiating and managing external suppliers or distributors; developing stronger and more reliable production and distribution channels; improved flexibility for the organisation to adapt to changes in market conditions or disruptions; opportunity for proprietary integration that would not be replicable by existing competitors; and reduced exposure to potential disruptions of supply or supplier's potential opportunistic behaviour.

Apple is often cited as a case study and analysed as a vertically integrated company in the technology sector. Apple has gained tremendous benefits from this practice by designing its own processors and operating systems, retail distribution directly through Apple Stores, and controlling the overall

experience and quality throughout the value chain. Apple designs its own A-series and M-series processors completely rather than depending on outside component suppliers and vendors, operating systems for all its products, manufactures products through contract manufacturers that it owns, with distribution solely through company-owned and controlled, both physical and online, Apple Stores. Apple obtains unique opportunities to develop optimal performance across hardware and software innovation in ways that competitors that rely on third-party products are not able to, while also maintaining quality control throughout its operational processes, including sourcing and distribution and providing the best possible customer experience while capturing the retail margin simply and directly in the Apple Store, and being directly engaged with the user as well as retaining brand control with direct relationships.

However, vertical integration might also create substantial challenges and disadvantages that organisations must seriously consider: the capital report for acquiring and managing businesses throughout the supply chain cascading vertically upward; increased complexity in managing an organisation and the increased skills and resources as well as additional attention needed in managing 'diverse' operational verticals; alternative costs needed to adequately manage control, coordination, and efficiency that may be needed to account for the links down the supply chain and maintain a quality adaption into all business verticals or business linkages; the possibility of losses of held personal through acquisition or the integration, who may resist an evolve or augment ethos; the hurry and risk of problems

developing a potential ' clash' in organizational culture and business ethos; a reduced state of flexibility that exists in a vertically integrated organisation, as any vertical in the supply chain must be able to operate on inputs that may have higher fixed costs, and compete as substantiated; and the potential for inefficiencies to exist relative to traditional external suppliers that could go unnoticed without the external management pressures to be more efficient in all verticals. Some of the challenges mentioned imply that vertical integration is not necessarily the preferred alternative despite the merits of having it in theory; thus, organisations must be 'clear and certain' if strategic integration is the relevant decision for their needs and consider the costs or risks associated with that reasoning.

Horizontal integration differs from vertical integration.In horizontal integration, an organisation acquires or merges with another company or competitor at the same level in the supply chain, primarily a company that provides a similar product or service to a similar market or customer segment. The strategic focus and reasons for horizontal integration are distinct from those of vertical integration because horizontal integration is about expansion, combining with another business to increase market share and market power while eliminating or decreasing competition, to achieve economies of scale by determining which parts of a business are most efficient to combine and consolidate, or solely to expand their geographic footprint or customer segments that are adding customers or value to the company, rather than controlling the supply chain or obtaining more equity in the value chain at multiple points in production.

A good example is when Facebook acquired Instagram in 2012 for about $1 billion, which was very much a straightforward example of horizontal integration.Essential ly, both companies were engaged in social media or photo-sharing to help engage their customers with overlapping users while also catering to relatively distinct use cases and demographics.

Facebook's acquisition of Instagram ultimately enabled Facebook to eliminate Instagram as a rapidly growing potential competitor with a particularly strong younger users and mobile user segment, allow Facebook to gain access to Instagram's vast and engaged consumer base while at the same time putting some controls on consumers that may have been considering the move away from Facebook, obtain Instagram's innovated mobile sharing technology along with their development team, and gain hold on a social network that was becoming increasingly important in helping Facebook navigate that potential transition as users moved from desktop to mobile. It is fair to say that the acquisition of Instagram proved to be even more successful than expected, while it sustained Facebook's (Meta) control of the social networking platform. At the time of acquisition, Instagram's user base was roughly 30 million and had grown to over two billion monthly active users by 2024, while also securing a massive revenue generation opportunity for advertising as social networks continued to capture users' attention.

Key motivations for horizontal integration are to enhance market power and share through the pooling of customer

bases and elimination of competition; reduce competitive intensity by reducing the number of significant market competitors; obtain economies of scale by merging aspects of operations and processes, including shared manufacturing facilities, distribution networks, administrative functions, and marketing; access customer segments or geographic markets served by the acquired firm; acquire important assets, including technology, intellectual property, talent, and brand equity; and create additional barriers to entry for other competing firms through a dominant position in the marketplace. When conducted thoughtfully and effectively, the benefits of horizontal integration can be substantial: significantly larger market share and position; increased bargaining power with suppliers because of larger purchase volume; increased bargaining power with distributors and consumers because of a stronger market position; operational synergies created through combined or merged functions that eliminate redundancies in labour and operations; increased barriers to entry that make it more difficult for other firms to challenge the new, larger firm; economies of scale that reduce costs per unit across functions of operations, labelling, marketing, distribution, and administration; and reduced competition may ultimately provide the potential for overall pricing power and profitability.

Nonetheless, horizontal integration presents distinct challenges and limitations that can undermine its success: complex and often hard-to-implement post-merger integration plans; tough decisions about which systems, processes, and people to retain when combining two similar organisations;

tighter government control and regulatory scrutiny due to competition concerns because horizontal mergers reduce market competition; a challenge with different management styles and corporate cultures even though they are in the same business; possible requirement to eliminate certain products or facilities to minimise overlap and achieve cost savings; a high risk that an acquiring company pays too much for the acquisition, particularly with competitive bidding driving concern over the acquisition price; and possible customer or employee resistance if the integration is seen negatively.

Competition authorities and regulatory agencies, such as the Federal Trade Commission in the United States, the European Commission in Europe, and national competition authorities worldwide, closely review horizontal mergers because they reduce market competition and could harm consumer welfare by virtue of higher prices or less innovation. Moreover, they can prevent mergers that might create monopolistic or dominant market power in the public's interest. As evidence that these regulatory challenges exist, horizontal integration strategy requires a thoughtful competition law analysis and may require divestiture of certain assets or operations to gain regulatory approval.

The strategic2 differences between vertical and horizontal integration have important implications for strategic planning, resource allocation, and approach toVertical integration fundamentally connects and unites companies engaged in different stages of the supply chain that complement each

other and enhance supply chain efficiencies, while not being direct competitors, whereas horizontal integration unites companies that are direct competitors, or operate within the same market space and value chain stage. In terms of main strategic purpose and objectives, vertical integration seeks to primarily lower supply chain costs, improve coordination and efficiency of operations, improve quality control and management of the supply chain value chain, and secure supplies and/or distribution, whereas the primary objective of horizontal integration is to gain market share and market power, eliminate competition, realise operational economies of scale, and/or to extend market reach.

In terms of post-acquisition independence and integration requirements, vertical integration can allow acquired companies to retain considerable operational independence, as they perform separate functions and operate in separate market segments and therefore require coordination rather than full integration. Horizontal integration, however, usually requires deeper and more complex integration to allow the acquirer to realise synergies, eliminate redundancies, consolidate overlapping functions, and/or create a unified market presence. Concerning regulatory scrutiny and competition risks, vertical integration typically does not face intense regulatory scrutiny because it typically does not re-enter and reduce competition in specific programming markets, although regulators may assess the competitive landscape regarding potential foreclosure effects. Horizontal integration faces scrutiny in regulatory analysis because it directly reduces competitors and may impair competition.

It typically undergoes a more rigorous economic analysis and considers structural remedies to enhance market competition. In terms of risks and success factors, vertical integration risks are the challenge of managing many various businesses within the context of the organisation, regional or state regulation of capital intensity, and the organisation may be less efficient without a competitor present, whereas horizontal integration risks include the complexity of integration, potential culture clash, and risks of regulatory prohibition of the merger. These basic differences are critically important for planning any strategic management effort because they will influence financial and managerial resource requirements, integration plans and timing expectations, benefits to be realised timeframes, and risks, which lead to the planning of mitigation strategies, regulatory approval processes, and requirements.

When organisations are planning their comprehensive strategic management plan, they need to consider, among other factors, whether vertical or horizontal integration provides better strategic alignment towards competitive market objectives given their desired outcomes, financial and managerial resource capabilities and constraints, integration capabilities and experience, strategic market position goals, and competitive traction relative to the regulatory environment. Some organisations can successfully pursue either strategy after or at the same time, as deemed appropriate which creates a complex integrated structure that will control their value chain vertically and dominate the market horizontally. This is a significant challenge that requires advanced and skilled management

capabilities and substantial resources.

Mergers and Acquisitions: Strategic Methods and Planning Considerations

While approaches to integration outline the nature of business combinations, whether vertical or horizontal, it is important to understand the core difference between a merger and an acquisition, as well as how the various directives for engaging in these transactions influence strategic planning stages and outcomes, and therefore are important considerations for strategic management.

Although the terms "mergers" and "acquisitions" can be mixed as similar terms in either the business media or personal conversation, and the phrase "M&A" conflates the two terms, mergers and acquisitions are two separate strategic methods with markedly different connotations vis-à-vis organisational structure and governance, corporate culture, strategic goals, and strategic plan implementation considerations. The distinction between pursuing a merger versus an acquisition materially affects how organisations process their strategic plans, manage resource allocations, integrate their businesses, interact with employees, customers, stakeholders, and the community, and ultimately seek to gain competitive advantage. Understanding these differences enables organisations to make better strategic decisions while developing integration plans specific to the dynamics of their chosen merger or acquisition process. The differences matter in practice and theory: mergers and acquisitions require different negotiations, exhibit different

organisational dynamics, have different management approaches, and yield different outcomes even when industries, organisational size, and strategic goals look the same.

A merger occurs when two companies of relatively equal size and market power voluntarily agree to combine their business operations and form a new singular organisation, often with a great deal of joint agreement, collaborative sharing, and collective decision-making with respect to the future direction of the organisation. In true mergers, both organisations 'distinct identities may be stripped away partially or entirely, creating a new organisation under a new name compatible with the combined entity, a new leadership team which includes senior executives from both original organisations, and a new organizational structure that consolidates both organisations' operations, cultures, and strategies. The phrase "merger of equals" is used to describe the ideal merger in which both organisations have contributed, have equal power in the new organisation, and have equal influence on the leadership and strategy of the organisation.

The strategic goals and objectives that cause an organisation to consider a merger typically focus on achieving synergy, which is the idea that the combined organisation is worth more and is more capable and competitive than the two organisations would be if they were separate. Some common merger objectives include expanding market reach by merging both organisations' geographic and customer segments; enhancing operational efficiencies through shared resources, eliminating redundancies, and economies of scale; harness-

ing complementary strengths in which each organisation brings different skills, expertise, and resources to the merger that enhances the new organisation; diversifying products and services by merging two organisations' original product and service portfolios to provide more comprehensive service delivery and improved customer satisfaction; entering new market areas through the combined organisation's ability to access markets neither organisation could effectively access alone; and sharing risks and investing in substantive initiatives such as technology development or continued market expansion.

Mergers focus on collaboration and relative equality between merging organisations, with a careful balance and shared distribution of leadership roles, board representation, and decision-making authority by representatives from both original organisations. The strategy within merger activity inherently values crafting a merged corporate culture that synthesises both organisations' attitudes and beliefs, rather than imposing the culture of one organisation on the other. This strategy seeks to agree a strategic direction that respects both organisations' objectives through timely consultations and negotiation, and seeks to establish an ethos of respect and valuing both organisations' stakeholders including employees, customers, and shareholders, within the new organisation, whilst also working to galvanise commitment from both organisations' leadership and employees through what can often be a tumultuous and stressful integration process.

This collaborative approach pervades strategic thinking

because it demands extensive consultation with both organisations' stakeholders before making decisions, inevitably elongating decisions either from the time taken to develop a consensus or in coming to an agreement in relation to overlapping interests and priorities to maintain commitment from both organisations, negotiating and compromising with each other, in developing plans that demonstrate value from each organisation's perspectives and capabilities, and then developing shared accountability for the outcomes associated with implementing those strategies because the outcomes are often dependent on both organisations' willingness to invest their strategic resources and act jointly, rather than in the direct management control of one organisation. For example, when two similarly sized pharmaceutical companies merge to strengthen their drug research and development capabilities, gain market share, and reconstitute some operational efficiencies, the strategy will need to be carefully planned for merging both organisations' drug development pipelines and giving consideration to which drug projects are to be prioritised, paused, or stopped altogether; will need to consolidate or merge their scientific research teams and/or redistribute access to the respective facilities to ensure there is scientific buy-in to the newly created research teams and departments to avoid losing scientific engagement and productivity from either organisation; and/or to merge or consolidate their respective commercial operations, which will include their sales force(s) as well as the marketing capabilities across both organisations.

Furthermore, the strategy must consider developing a uni-

fied corporate structure that allows for fair governance representation of both organisations, as well as a set of strategic directions that equally represent the therapeutic focus areas and goals of both organisations in the long-term vision of the new entity.This intricate process requires significant planning, careful change management, and sustained leadership attention to be successful. The collaborative merger approach involves consensus-building. Consensus building takes more time but creates greater commitment.

In contrast, a merger is an acquisition which occurs when one company buys another company and takes control. In an acquisition, the acquiring company can maintain its separate identity, management structure, and strategic direction, while the acquired company is integrated into the acquiring company or operates as a subsidiary. While a successful merger should ideally involve reciprocal collaboration, an acquisition can involve a parent company obtaining a subsidiary without equal or reciprocal collaboration or mutual decision-making.

An acquisition involves negotiations between the acquirer and the target company, where the acquiring company establishes the terms, offers a price, and determines the next steps for integration and strategic direction. An acquisition can be friendly relief, whereby the target company's management and board support the acquisition and negotiate in good faith, or a hostile takeover, where an acquiring company pursues acquiring a target company without the support of the management and board of the target company but directly solicits votes from shareholders.

The strategic goals and objectives that motivate acquisitions generally have an immediate market share focus, as a result of the acquirer essentially obtaining a customer base and market presence through purchase; gaining particular capabilities or technologies that would take years to develop within the organisation; entering new markets quickly through an established presence acquired through purchase versus building up gradually; eliminating competitors to reduce competitive intensity and increase market power; obtaining valuable assets, such as intellectual property, brands, customer data, and facilities; and finally, achieving financial objectives, such as improving return on investment or increasing shareholders value. Acquisitions have a clearly defined acquirer and target and are characterised by an asymmetric power relation, with the acquiring company serving as the decision-maker regarding how deeply to integrate the acquired company, the allocation of resources between the legacy and acquired businesses, retention of leadership in the acquired organisation or replacing it, continuity or elimination of the acquired company's brand, and finally, the strategic direction of the acquired company.

A strategic approach to acquisitions will typically favor the accomplishment of the specific objectives that motivated the acquisition original motivations: goals of market share gains, capability gains, or elimination of competition, where there is less inherent focus on preserving the identity or culture of the acquired company, or pride in the organization. The strategic approach largely shapes the strategic plan of the acquiring company because they can more directly execute the inside the comparative strategic vision and priorities

of the acquiring company without requiring contingent considerations and consents from the acquired organisation.

However, while acquisitions provide flexibility for the acquiring company, careful planning remains critical in successful acquisitions to effectively manage change and be intentional about retaining valuable talent who might otherwise leave, maintaining operational continuity in the acquired function to avoid disrupting customer relationships or organizational performance, integrating systems and/or processes effectively into the acquirer organisation in a timely manner to be positioned to realise operational synergies, and as importantly, managing cultural differences with respect and recognition of the importance of culture prior to acquiring the company, regardless of the fact that the acquiring organisation's culture ultimately prevails. A good example of spending well over $71 billion to acquire a company with specific strategic objectives in mind is Disney's acquisition of 21st Century Fox in 2019. With the acquisition of Fox's entertainment assets, Disney gained a major competitive advantage in production and streaming services, reflecting Disney's strategic direction to position itself competitively in a rapidly shifting media landscape of competition and distribution as streaming services like Netflix disrupted traditional media business models.

While Disney purchased and obtained a multitude of Fox-specific assets, such as the library of content with thousands of films and television shows, Fox's film and television studios and filmmaking places, and business partnerships in streaming services, the acquisition was clearly not intended

to create an equal partnership or a merger of equals, but an acquisition by Disney to obtain strategic specific assets to internally build a strategically competitive position in streaming and production. Disney was not looking for an equal partnership to compete with Fox Media; it internally justified a strategic acquisition and executed an acquisition of Fox's assets to absorb Fox into Disney's corporate assets through their corporate structure brand and corporate strategic direction. The acquisition by Disney clearly represents the inherent character of acquisitions - one company acquires another entity more directly to achieve its own defined strategic purpose with an asymmetric, unfavourable power imbalance throughout the employing organisation.

The distinctions between mergers and acquisitions have serious implications for strategic planning in several important ways that organisations must consider carefully. First, related to strategic authority and control of decisions and commitment to strategic planning, mergers involve shared governance structures and collaborative strategic planning processes, which require not only input but also a consensus from leadership in both organisations to reach an agreement on significant decisions made at different levels of the organisations. Alternatively, acquisitions allow the acquiring organisation to retain strategic decision authority and implement its strategic plans with greater decisiveness without requiring the same balance of input or consensus from the acquired organisation. This difference has a significant impact on timelines and the planning phases involved because the build-in-a-consensus approach in

mergers is much more time-intensive than the we-direct-the-decisions approach in acquisitions.

Stakeholder engagement processes are impacted in a similar way because determining stakeholder engagement in a merger requires planning for balance with both organisations, while an acquisition stakeholder engagement plan is primarily concerned with the acquirer's priorities and timetable for engagement or communication to keep the acquired organisation engaged. Furthermore, the implementation processes flexibility and responsiveness will be more orchestrated and slower in the merger context because of the need to renegotiate a new model of consensus, whereas the acquired model has the flexibility to pivot its initiatives much faster based on the acquirer's implementation timelines and agenda. Second, related to cultural integration, which is often the most difficult piece of any business combination, mergers require a careful blending of two corporate cultures with equal participation, and values, practices, norms, and traditions from both organisations are considered and incorporated, while acquisitions most often involve the acquirer's corporate culture significantly influencing the final culture of the acquired organisation. However, if the acquired organisation is structured as a subsidiary, it may maintain some level of organizational culture to operate separately from the acquiring organisation.

Culture carries significant implications for human resource planning, including final decisions about retention of the model/adopted leadership, talent development plans, compensation models and banding plans, communica-

tion strategies—in-and-out about identity and values, approaches to change management plans, and employee engagement and retention because employees from either organisation may feel diluted or undervalued by the change or decision. Third, in terms of financial structure and implications for shareholders, while both mergers and acquisitions involve equity transactions, mergers create a new entity with stock exchanges by shareholders of both firms of shares of the new firm as they agree on negotiated exchange ratios based on relative valuations to put equity values (pre-merger or -acquisition) on an equal footing; acquisitions, however, involve the acquirer fully purchasing shares of the target company by paying cash, stock, or both. The financial structure implications of these approaches impact capital structure planning as market participants respond to the additional leverage in the case of mergers and how the new organisation may weigh debt equity or another structure more heavily.

Shareholders must also be communicated with to inform them about changes in the ownership structure, expectations of benefits, and what it means for them as owners, as well as the consequential expectations of disclosures in financial reports for the new organisation, including how the combination is to be accounted for and the presentation of that accounting view. Fourth, regarding branding and identity management which are influenced by market signal implications, while mergers may create entirely new branding for the entity by combining entities requiring large-scale rebranding strategies, a merger or acquisition may combine existing brands in whole or in part under a singular brand

(and potentially brand architectures). However, would likely would preserve the acquirer firm's brand supremacy and related strategic discussions of branding as further isolating the acquisition brand completely, partially integrating it into the acquired firm's brand, or completely absorbing it into the acquirer's brand. Brand-related elements influence the overall marketing strategy, which is impacted by how and what customers and target markets will see and know about the product or service; integrating with communication support, marketing strategies, and return on brand equity from a strong acquired firm in the case of acquisition.

The strategic decisions surrounding merger or acquisition end to weigh on the planning of the firm achieving competitive advantages and strategic objectives.When organisations look into mergers, their strategic management plans need consideration of synergy creation by identifying and realising complementarities in which the combined capabilities exceed the individual capabilities, culture alignment through intentional attempts to create a single culture combining the strengths of both organisations, and collaborative advantage - how organisations through cooperation and collaboration create value that neither could achieve separately. The planning process of mergers requires discussing extensively about input from leadership from both organisations, functional experts, and key stakeholders, longer timelines for decision-making because achieving consensus across the two organisation takes time and patience, managing the interests of both parties to not allowing one organisation to dominate or for the other to feel marginalised, transparent communication about how teams make decisions and why,

ongoing commitment mechanisms to facilitate engagement from both organisations throughout the integration process.

When organisations pursue acquisitions, their strategic management plans can more directly consider specific competitive objectives, such as market share growth by consolidating customer bases and decreasing competitors, capability acquisition/utilisation to obtain specific technologies, expertise, or other resources, or competitive elimination by not tolerating competitors in the market. The strategic priorities of the acquiring firm shape strategic management planning more directly because the acquirer leads the efforts. Nevertheless, successful acquisition plans still need to consider key integration challenges, such as talent retention in particular key roles, as the loss of talent threatens the overall value extracted from the acquisition effort. Operational continuity must be maintained, as operational disruptions can weaken customer relationships and business performance during the integration's start-up phase. Integration must bring together technology platforms, processes, and data usage during the integration phase with minimal disruption to the business.

Cultural respect between organisations is key, although the acquirer's culture will dominate; otherwise, personnel are lost due to alienation and resistance, especially during integration. Corporate capability and support for integrating a merger or acquisition stem from understanding whether the merger or acquisition approach fits the strategic objective. Therefore, corporate capability and support to integrate a merger or acquisition strategy goes beyond ensuring fit to

incorporate an evaluation of the organizational capability it requires and the organizational factors that contribute to effective support, namely, resources, integration capabilities, cultural fit or flexibility, and professional practice environments, including the regulatory context. Other organizations may find neither a pure merger or pure acquisition works for them and adopt hybrid structures that incorporates both, requiring even greater sophistication of the organization's managerial cohort.

Once the decision to pursue a merger or acquisition is made, there are several more critical considerations for an effective strategic management plan focused on competitive advantage through a business combination process. Due diligence clearly represents a systematic and comprehensive investigation into the target organisation rather than its client or competitor, as a means to understand the organisation's financial position, legal obligations and risks, operational capabilities and challenges, the degree of strategic fit with the acquiring or merging organisation, and the integration approach necessary to realise value. Effective due diligence significantly reduces the overall risk associated with a merger or acquisition for the acquiring or merging organisation. By using due diligence to identify risks or potential problems before making a commitment to merge or acquire an organization, due diligence validates an organization's strategic assumptions about value creation, informs integration planning when discovering organizational realities, and compliments valuation offers by grounding discussions and price negotiations in factual

data.

Tesco as a business organisation matches this theory in practice, where it can easily identify strategic positioning and growth strategies in relation to Bowman's Strategy Clock and systematic market penetration and expansion. Specifically, Tesco has positioned itself to deliver good value, distinguished from its low-cost competition, such as the discounters Aldi or Lidl, as it offers a much better in-store experience, operational quality, and overall product variety than its discounter competitors while maintaining a price position below the premium-based competition. This hybrid positioning has enabled Tesco to appeal to a broad customer base, including price-conscious shoppers who still see value, families who prefer a lot of choice, and middle-class income shoppers who seek value without sacrificing quality, family shopping experience, and convenience.

Tesco further reinforces its hybrid position through a range of operational mechanisms: efficient supply chain operations that keep them competitive on cost; product range by ensuring they offer a value (of sorts), standard, and premium/quality tier of the same products; value-add service offerings (online shopping) and customer loyalty programs; a clean, well-organised store environment that promotes a positive shopping experience; further establishing operational capabilities with specific and systematic department roles that feature sign-posted/marked cues, value-add customer brand partnerships, and staff engagement levels that contribute to the shopping experience and value delivery to Tesco customers. Through Tesco, one can conclude that if

consistently delivered through the organisation's managerial cohort capabilities, an understanding of customer behaviour, and everyday practice of continued improvement, a hybrid strategy can sustain their competitive advantage.

Conclusion

Formulating a thorough strategy management plan for competitive advantage requires an understanding and application of several strategic models, theories, and concepts that work together to improve decision-making for an organisation and manage its resources. The Bowman's Strategy Clock is important for facilitating understanding of strategic positioning by assisting an organisation to comprehend the underlying relationship between price and perceived value in order to select competitive positions aligned with strengths, opportunities, and to consciously avoid unsustainable strategies leading to competitive failure.

The model's eight positions illustrate the spectrum of viable options from Low Price, Hybrid, Differentiation, and Focused Differentiation to high-risk alternatives that organisations should avoid and create a complete tactic for positioning analysis and strategic decision-making. Case studies support the examples of Walmart's low-price strategy driven by operational excellence, IKEA's Hybrid that manages similar trade-offs of efficiency to design quality, Samsung's innovative and quality differentiation strategy, and Apple's premium designed ecosystem Focused Differentiation strategy to support success, which all clearly

demonstrate that organisations can execute clear strategic positions and achieve success when they make a conscious decision to do so.

The Ansoff Matrix is also valuable for evaluating growth opportunities through four strategies of increasing risk the organisation is willing to take: Market Penetration, meaning expanding current business in existing market with existing products; Market Development, meaning creating new markets for existing products; Product Development, meaning creating new products for the existing market of existing customers; and diversification, meaning creating and opening new products and markets simultaneously. Grasping and applying these pathways to growth allows organisations to strategically make decisions about the order of priority for expansion in light of lifestyles around risk, cash flow, and their overall strategic goals.

These pathways to strategy for example (although there are many other in each of these approaches) Coca-Cola's market penetration by investing heavily in promotion, Starbucks' market development by entering China, McDonald's product development menu innovation to attractiveness to its product offering, or Amazon diversification into cloud computing (AWS). These pathways to growth create substantial competitive advantages for each organisation. Vertical and horizontal integration pathways provide powerful options for competitive advantage and growth through fundamentally different routes. Vertical integration achieves control or leverage over the supply chain once control or ownership is established with suppliers to reduce costs, improve quality,

or reduce supply risk with increased control over suppliers or distribution resources.

Horizontal integration achieves negotiated power or franchise gains, economies of scale, and completes efforts to eliminate competition upon the acquisition of another competitor operating in the same source, component resources, or value chain. Each of the vertical and horizontal integration approaches has different strategies, with vertical integration being oriented toward efficiencies or risk contingencies and horizontal integration being oriented toward market share.

They also provide different resource benefits, with vertical integration providing improved coordination and horizontal integration with a shared market position expanding to achieve credible source competition. These also represent different benefits with integration risk associated with vertical integrating complexity or horizontal integrating regulatory scrutiny from anti-competitive/anti-trust laws. The difference between a merger and acquisition. This is not a simple semantics. It reflects two fundamentally different strategic approaches to a business transaction that has implications for the entire planning, providing planning, structure, culture, relations, power, and ultimately competitive advantage. A merger implies a joint or operating shared governance and consensus-building strategy, while an acquisition takes a controlling perspective with the added advantage of efficiency for the success of implementation, often because of speed. Successful acquisition should expect a well-planned change management strategy to be carefully

communicated to all stakeholders. Recognising when the best approach to align with your strategic objectives is important for developing realistic plans that reflect the realities of the transaction and domestic and international integration. Implementing successful strategic management requires more than understanding these concepts or frameworks in their singular form and can incorporate their nuances when they are connected.

When a firm determines positioning choices for its operations, only then can it begin to determine any growth strategies that may make sense for growth objectives achieved through organic development, through or against integration, or the position of a predetermined merger or acquisition. Organisational success for strategic management will be attributed to decision-making using strategic tools, discussing a competitive context, using realistic assessments of capabilities or capacity for resource determination, being prepared to clearly articulate plans while being comprehensive, and documenting development governance that spans through to the alignment of strategic choices ultimately across the competitive objectives of the organisation. The illustrations in this chapter provide representations of real-world examples to promote the consideration of multiple diverse perspectives in an array of contexts, from business strategy based around differentiation such as with Apple (e.g. focused differentiator), Walmart's successful cost leadership, through '' Amazon strategy of differentiation, Disney acquisitions or merger strategy, and Tesco's hybrid position that reflects positioning throughout its value chain. These examples highlight that successful organisations will demonstrate

layers and consistently undertake their strategic framework to achieve operational success within the business's value concept while navigating through operational environments, often described as complex competitive environments, while creating and ultimately achieving a sustainable successful outcome.

As you develop your own strategic management plans for the organisation you selected in different contexts, keep in mind that these models and theories should not be memorisation exercises, but in fact practical and whatever the terminology used, if engaged with all levels of stakeholders, the essential implementation, awareness, and applications will be layered, and each stakeholder will be involved appropriately, all to help enable the organisation to make strategic thinking quickly to help create sustainable advantages for customers, shareholders, and stakeholders in their accessibility. The discipline of strategic management continues to develop as the environments in which it operates become more dynamic, technology provides and enables disruptions and opportunities, globalisation expands opportunities and competition, and stakeholder expectations change. However, although these antecedent frameworks of models remain, every approach benefits and reflects simple logic for framing thinking through decisions made by an organisation toward strategic and operational competitive success.

Learning activities :

Activity 1: Case Study Analysis

Instructions: Read the following case and respond to the questions directly below. Be sure to use the strategic concepts you have been studying to support your answers.

Case Study: GreenTech Electronics

GreenTech Electronics is a mid-sized consumer electronics company that has been successfully operating in the UK market for 15 years, offering inexpensive 'smart home' technology, including smart speakers, security cameras, and home automation systems. GreenTech sells through large retail chains and its website. Although mostly reliable, affordable, and useful, GreenTech's products do not perform as well as Apple or Google, which occupy the premium product market of affluent customers.

GreenTech faces several strategic options:

- Sales growth in the UK market is nearing its saturation point, indicating that it is now a mature market.
- A key competitor has just released what is considered a new smart home product with innovative features using AI technology, and it appears to be attracting customers.
- A large retailer in Europe recently made an approach to sell its product offering in France and Germany
- The Board may consider acquiring a small AI voice recognition technology software company as part of its business model.

- Some members of the executive team are enthusiastic to explore the concept of owning its retail stores as a way to gain better brand control and to enhance the customer experience of its products
- The company now has additional production capacity and may be able to produce other related product types.

Questions

1. Strategic Positioning: From the perspective of Bowman's Strategy Clock, what is GreenTech's strategic position? Justify your answer with examples from the case study. (150-200 words)
2. 3. Growth Options: Based on Ansoff's Matrix, analyse and identify THREE distinct growth strategies that GreenTech could implement. For each type of growth strategy, what steps will GreenTech take, and what are the potential risks and benefits of this particular growth strategy? (300-400 words)

4. Integration Strategy: If GreenTech decides to purchase a software company that specialises in AI voice recognition, would that be considered vertical or horizontal integration? Justify your reasoning and discuss how this acquisition can benefit GreenTech's competitive advantage. (150-200 words)

5. Strategic Recommendation: Based on your analysis, which ONE growth strategy would you recommend for GreenTech as the company's primary strategic focus? Jus-

tify your recommendation, given current circumstances, resources, and competitive landscape. (200-250 words)

Activity 2:

Merger vs. Acquisition Scenario Analysis Read through both scenarios below and answer the questions.

Scenario 1: Two pharmaceutical companies of similar size, PharmaCo and MediLife, announce plans to merge into one company. They are creating a new company name called "PharmaMedi" and a brand logo. One of the founders from each original company will serve as co-CEOs, reporting to the new board of directors, which will equally represent each original company. The shareholders of both companies own shares in the new company based on a negotiated exchange ratio.

Scenario 2:

TechGiant, a large software company, announces that it will buy out StartupInnovate, a smaller company with innovative AI technology, for $500 million. In this case, the seller will get paid for their company but will not own shares in the new one. For the company's benefit, justify and analyse your selection of the strategic planning process, making clear connections to the analysis and your rationale for the strategy selection. Be sure to comment on all aspects of the planning process: decision-making power and authority; acknowledge the importance of culture in strategic tasks; and how you would engage stakeholders in that process. (200-250 Words)

Activity 3 Development of a Strategic Plan

Instructions: This is an extended activity that ties all the concepts together from this chapter. You will work in groups of to 3-4 students.

Task: You are a strategy consultant who has been hired by "BrewBetter Coffee", an independent coffee company that runs coffee shops in London. They have done very well and own 25 coffee shops now. They have done a wonderful job producing really good quality coffee, creating comfortable shops, and offering reasonable prices. In short, they have performed well to this point. The company has a CEO who would like them to create a strategic plan to grow the company over the next three years.

Your consulting team must:

1. Periodically assess the company's strategic position using Bowman's Strategy Clock (200 words)
2. Propose THREE characteristics of growth using Ansoff's Matrix, providing detail for each (400-500 words)
3. Evaluate ONE opportunity for an integration (vertical or horizontal) opportunity, that could provide support for the growth opportunity (250-300 words)
4. Recommend if any growth options could be pursued through merger or acquisition, and if so, which one would be more appropriate, and why (200-250 words)
5. Provide a recommendation for an overall strategic situational recommendation plan that brings in analysis and gives a clear reasoning for which strategy to prioritize and why (300-400 words)

Final Deliverable: You will create a strategic plan document that is either 1,500- 2,000 words which may be developed

into a professional report format. Alternatively, you may present your overall assessment and recommendation using a presentation that will include 15-20 slides.

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Chapter 13

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