Chapter 1: The Concept of Strategy
Instructor Manual

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

The principal themes that we emphasise are:

- The contribution of strategy to the success of individuals and organizations
- The origins and lineage of strategy - the ways in which ideas about 'strategy' have developed over time
- Key questions and debates in strategy which include:
  - What is strategy?
  - What role does strategy play in business organisations?
  - How can we describe and identify a firm's strategy?
  - What role does strategy perform?
  - Whose interests does strategy serve?

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

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

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

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

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

Tutorial/Student-led activity

The mini-case that accompanies this session is 'King of Shaves'. It goes without saying that it is a good idea to get students to read the mini-case in advance but in one of the video clips accompanying this chapter Will King, the founder of King of Shaves talks about his business and reinforces some of the information contained within the case. King of Shaves was chosen as an introductory case, even though some students may be unfamiliar with the brand, because the product is easily understood and the industry context, where a small start-up enters an industry dominated by two multi-national players, is one that appeals to students.

The main aim of the case session is to draw out issues of business success, giving consideration to goals and values, the industry environment and organizational resources. The case allows the instructor to draw out both analytical aspects of strategy and also human and processual ones and invites us to pose the question 'did Will King have a strategy?' Suggested answers to the case questions are provided in the teaching and learning materials for this chapter.

Instructors that like to give students a more substantial case at the start of their programme may prefer to use the ***Madonna*** case which is available as part of the on-line materials accompanying this text. The Madonna case focuses on much the same issues as the King of Shaves case and examines Madonna's continuing success over three decades. Case questions and suggested answers accompany are available on the web site.

Teaching Note and Suggested Answers to the King of Shaves case questions

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

How would you account for Will King's success in building the King of Shaves business?

An obvious place to start is with a discussion of what constitutes success. Is success about profits, market share, survival, personal fulfilment or other factors?

Students usually offer a variety of reasons why King of Shave has been successful despite its unpromising starting position. These can be grouped under the four headings used in Chapter 1 Figure 1.1.
Clear, consistent long-term goals (King sets himself clear targets and establishes milestones; has had the long term aim of making King of Shaves a global, million dollar brand; has a sense of purpose and vision that is not wholly based on profit)
Profound understanding of the business environment (King developed the product because of his own frustration with existing products so had a appreciation of his target customers; he recognised the overarching importance of access to retail distribution; he critically appraised his competitors product portfolios and market positions)
Appreciation of own resources and capabilities (bootstrap financing; recognising and overcoming the problems with packaging; using viral and social media to market the product)
Effective implementation (active engagement with customers through blogs and social media; a step by step approach to product and market expansion; building a trusted team)

What role do you think luck played in Will King's success?

Some students will see King as having a number of 'lucky breaks' including:

- His chance discovery of the soothing properties of essential oils for shaving
- Meeting Hiten Dayal, who subsequently becomes a close business partner

- Getting Harrods to stock his product on an initial trial basis

Others will argue that he created his own luck by recognising and seizing opportunities when they presented themselves and by being tenacious in his pursuit of investors, suitable suppliers and retail distributors. Instructors may wish to draw students' attention to Barney's famous comment[1] that any competitive advantage that does not arise from 'special insights into the future value of strategies' must instead be a 'manifestation of a firm's good fortune or luck'. The problem, of course, for strategists is that linkages between strategy and performance are identified after the fact and it is difficult to establish whether the relationship between these variables is causal. If we seek to offer useful managerial prescriptions for strategy, by definition, we are assuming that managers are not the prisoners of fate.

Distinguish between corporate and competitive strategy and between strategy and tactics.

Corporate strategy is about where a firm competes i.e. the scope of its activities whereas competitive strategy (also referred to as business strategy) is about how a firm competes in a chosen market. In the King of Shaves example, the decision by King and his team to extend the firm's activities into shaving hardware as well as software is an example of a corporate strategic decision. His distinctive positioning of his shaving oil in the shaving software market illustrates the firm's competitive strategy.

Strategy is about winning the war whereas tactics are about winning a battle. Strategic decisions are important, involve a significant commitment of resources and are not easily reversible. King of Shaves decision to enter overseas markets is strategic whereas the decision to post a YouTube video using the character of Barbarella X to create a 'sexy' image' for King of Shaves products could be seen as tactical.

How would you describe King of Shaves strategy and the process by which it is formulated?

Figure 1.4 provides a template for describing strategy. The case provides some basic information on the company's geographic scope (moves into international markets), product scope (extensions to the product range) and, by inference, vertical scope (limited vertical integration). The firm's competitive strategy is primarily focussed on innovation and differentiation. In terms of future plan the case refers to King's aim for King of Shaves to become a global million-dollar brand.

King uses the phrase ' we don't really follow a strategy' which might be interpreted as we don't engage in a formal planning process but the instructor can use this as a way of discussing different perspectives on strategy and whether King of Shaves strategy illustrates 'planned emergence' or strategy as a pattern rather than a plan.

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[1] Barney, Jay, B. (1986) Strategic Factor Markets: Expectations, Luck and Business Strategy. *Management Science* 32(10), 1231-1241

In what ways might pressure for firms' to become more socially responsible affect the King of Shaves business?

The company might be affected by:

- Pressures to be more environmentally responsible – in terms of its packaging, manufacturing processes, source of basic materials etc
- Pressures to be socially responsible – in terms of employment practices (particularly if it succeeds in expanding internationally), contributions to local communities, sales and marketing campaigns etc

Using links to King of Shave web sites the instructor could outline some of the initiatives in which the firm is already engaged (e.g. support for small business and entrepreneurship, charitable works etc) and elicit students views on firms' motives for engaging in CSR initiatives.

Suggested answers to self-study questions

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

Details of each of these characteristics and the role they play are outlined in the section 'The Role of Strategy in Success' (Chapter 1 pages 10-12). It is important to consider the criteria you are using to judge success, for example, is your chosen company deemed successful because it is highly profitability, innovative or is regarded favourably by the news media? You might also consider the extent to which it is possible to ascertain whether goals are 'clear and consistent'; resources and capabilities are 'objectively appraised' and so on. It is often difficult to establish whether there is a causal link between strategy and firm performance or whether we ascribe particular characteristics to successful firms after the fact.

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

In the section on a 'Brief History of Strategy' (Chapter 1 pages 12-160) we describe the transition from "corporate planning" to "strategic management." This can be attributed, in part, to increasing volatility and unpredictability of the business environment. The more unpredictable the external environment, the less able firms are to plan strategy in a precise way and the more strategy is defined around goals, vision, direction, and the creation of options.

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

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

Coca-Cola	Google
Medium term (e.g. 3-5 years) Precise operational and capital expenditure budgets Strong emphasis on short and medium -term performance targets Strategic planning based on narrow market focus: soft drinks Emphasis on design with top management exerting strong hierarchical control	Short term (12 months?) Budgetary processes flexible Little emphasis on performance targets; focus on 1st mover advantage and creating options Strategic planning based on broad market focus: What is our core business? Emphasis on emergence with top management orchestrating bottom-up

3. *Select a firm and use internet resources to identify and describe strategy. Use the template provided in Case Insight 1.4 to structure your answer*

The sections 'How do we describe a firm's strategy' (Chapter 1 pages 19-20) and 'How do we identify a firm's strategy' (Chapter 1 pages 20-21) are a good starting point for this question. Being able to gather and synthesise appropriate data is a key skill for students of strategy and it is worth reflecting on the limitations of data that are publicly available. Much published material is designed for public relations purposes and it is important to cut through the rhetoric and explore your chosen firm's strategy by looking at the decisions it has taken and the activities in which it is engaged as well as its published mission and vision statements. The investor pages of corporate web sites are usually good sources of information. If you are seeking inspiration about which firm to select, lists of the top 100 firms in your country might provide you with some ideas.

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

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

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

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

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

- Resources and capabilities: What are your resources and capabilities? What are your strengths and weaknesses in relation to intelligence, skills and aptitudes, financial resources, qualifications, experience, contacts, etc.?
- Strategy: On the basis of these considerations outline the principal elements of a career strategy in terms of:
- Where? What type of job? In which sector? Where located?
- How? How will you acquire your next job? What will be your approach to performing in that job? What kind of job sequence do you anticipate? What kind of additional training or personal development do you see as desirable?

5. *Firms abandon shareholder value maximisation in favour of some woolly notion of stakeholder satisfaction at their peril'. Discuss, explaining the benefits and drawback of firms acting primarily in the interests of shareholders.*

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

The case for shareholder value maximisation.

- Any decision can be justified as maximising stakeholder (as opposed to shareholder) value. For example paying staff at above-competitive rates can be justified as creating value for employees; paying suppliers at above-competitive rates for goods bought-in can be justified as creating value for suppliers. In this sense the notion of satisfying stakeholder as opposed to shareholders is 'woolly'.

- Taking the interests of multiple stakeholders into account vastly increases the complexity of decision-making and opens the door to political wrangling and management paralysis

- In competitive markets firms that do not maximise shareholder value get taken over or are driven out of business.

- Active investors put pressure on boards of directors to improve shareholder returns so few companies have the luxury of pursuing goals that diverge from shareholder value maximisation.

- Managers who sacrifice profit for the common good are imposing a tax on their shareholders and arbitrarily deciding how money should be spent

- In the long run stakeholders interests converge with those of owners. Profitability over the long run requires loyalty from employees, trusting relationships with suppliers and customers and support from government and communities.

The case for a stakeholder approach

- Businesses have an ethical duty to serve the interests of multiple constituencies -employees, customers, society and the natural environment and management's role is to balance the competing interests of multiple stakeholders.

- Management decisions that maximise shareholders' value are frequently detrimental to other stakeholders

- Shareholder value maximisation is associated with short-term decision-making financial manipulation and excessive risk-taking

- Companies that do 'good' do 'well' i.e. the public interest and the private interests of shareholders are often in line with each other. Fast food outlets have benefitted from providing healthier options to consumers, car producers have benefitted from offering more fuel-efficient cars

The featured example of Kraft's takeover of Cadbury (Chapter 1 pages 29-30) can be used to illustrate aspects of this debate.