Chapter 2: Analysing business strategy: creating value

This chapter contains many important issues. In particular, it highlights the view that understanding the creation of value – for customers *and key stakeholders* – is in many ways the essence of business strategy. Creation of value is not well understood. This chapter highlights how to think about 'value', how to analyse it and how to analyse and develop business strategy around that.

The concept of 'value' serves as a precursor to identifying and analysing a business strategy.

There are many ideas of what constitutes a business strategy such as vision, mission, strategic intent, core purpose, goals, objectives and values. Each instructor (organisation and consultant) tends to have their own views about these concepts, but the chapter demonstrates that there is a lot of fuzzy thinking here and strategic clarity is rare. It offers a simple framework of 'five questions' for analysing and understanding the key elements that constitute a good business strategy. The five key questions (5Qs) of business strategy are:

- What amount of growth and level of profitability does the organisation seek?
- What products and services does it plan to produce?
- What customer and geographic markets does it plan to service?
- What generic strategy does it plan to follow to position itself uniquely against competitors?
- What position in the industry does it plan to hold in the future?

This framework is important, because most texts simply talk about the various concepts, but do not make it clear how this actually works in practice or provide good examples that might be used as models. The chapter also provides a practical set of questions (Table 2.1) to 'test' for a good business strategy. This is a good set for consultants, instructors as well as students for projects.

The more general concept of creating 'value' – for customers – is then dealt with. The T-shirt example in Strategy @ work 2.3 works well in class to demonstrate this. 'Value' is then expanded into the value chain concept and the important concept of the value proposition. The business model used to deliver the value proposition is discussed using the very recognisable brand of IKEA as an example. Again, these concepts are easily understood in general terms, but rarely properly understood unless students go through an exercise to try to develop them. Figure 2.6 in conjunction with the IKEA example in Figure 2.7 and Table 2.2 could be used as a class exercise with great benefit.

The chapter then goes on to develop the concept of **key** stakeholders and how an organisation might create value for them. Many students – and other texts and instructors – confuse this concept with 'stakeholders'. The difference is critical and consequently, this concept is not well understood or applied. Instructors would do well to focus on this point. The 'expectations' of key stakeholders are discussed. Note that 'expectations' are essentially 'value' for key stakeholders. Table 2.3 is worth considering in some depth here.

Other issues in developing a business strategy are explored:

- The chapter discusses how business strategy might vary for public sector organisations, for not-for-profits, for start-ups and for small businesses. Fundamental issues between the public and private sectors are highlighted and the implication for business strategy analysis (Table 2.4). Not-for-profit strategy, start-up/entrepreneurial strategy and small business strategy are covered briefly.

- It also discusses how sustainability principles are likely to influence business strategy formulation in the future. It argues that in recent years, greater focus has been applied to the role of sustainability, ethics and corporate responsibility. The chapter includes a number of tests that might help an organisation decide if its strategy and the behaviours that it expects individuals to follow to carry out that strategy are ethical.

- While we have talked about 'a' (single) business 'strategy', some authors talk about many 'business strategies'. This is clarified. The value of 'planned' business strategy and a rational planning process is discussed; and the importance of strong and supportive leadership in implementing strategy is highlighted.

- Strategy 'fit' or 'stretch' emphasising changing requirements and defining a long-term future is covered. See Strategy @ work 2.8 concerning 'stretch' at Google. The concept of clear and fuzzy strategy is discussed, highlighting the paradox of organisations that have clear strategic direction and at the same time, they have the flexibility to take advantage of incremental opportunities for growth as they arise.

- A related criticism that organisations are often pulled towards achieving short-term performance at the expense of focusing on long-term strategy is addressed. Organisations that concentrate exclusively on internal efficiencies, short-term performance and their current strategic position leave themselves open to being overtaken or outflanked by competitors with a longer-term perspective.

- The recognition of the importance of organisational culture in implementing strategy has led to the rise of values statements to sit alongside vision and mission statements, suggesting that values are now seen as having an important and aligned relationship to the strategy of the organisation. This is demonstrated with an example from Hilton Hotels.

- The importance of communicating business strategy to the organisation is discussed – an often overlooked issue, but very important in practice.

- The dynamic nature of the competitive environment is an important factor that has major effects on strategy. The strategy that an organisation chooses must itself be dynamic if it is to remain appropriate into the future. Several concepts relating to the dynamic nature of strategy are discussed.

    - The roles of innovation and learning are covered, emphasising that while an organisation is outperforming, competitors will be trying to 'close the gap' and, as such, strategy is dynamic.

    - Mintzberg's concept of emergent strategy– a very popular view and certainly one that is borne out in practice – is discussed as an alternative view about strategy, for those wishing to take this view or simply provide students with a

different view to think about. Consistent with this approach, financial theorists apply the 'option theory' to strategy.

- The final element relating to dynamic strategy is the competitive environment. Strategic positioning is likely to lead to competitive reaction, and the nature of that reaction is in part dependent on such things as the competitors' and industry life cycles.

- The chapter concludes with a discussion that strategy can be seen as a series of options, where various strategic options can be tested and, if worthwhile, developed further.

ANSWERS TO DISCUSSION QUESTIONS (p. 61)

Question 1: What is the difference between a business strategy, a vision statement and a mission statement?

This is a question of considerable importance and should not be dismissed as a matter of semantics. A complete answer should be based on a thorough understanding of the material covered in the section 'Identifying the current business strategy'. An abbreviated differentiation is:

- *Vision* – how an organisation sees itself and wishes to be seen by others.
- *Mission* – how an organisation intends to achieve its vision.
- *Business strategy* – a comprehensive statement of the actions an organisation intends to take to meet the goals/objectives it has set to achieve its mission.

Students could be encouraged, given adequate preparation time, to find examples from an organisation that illustrates these.

Question 2: Do you agree with the authors that values are not part of the business strategy?

This is a 'personal perspective' question as both sides of the argument have merit. The authors argue that strategy should be developed first and that culture and values may need to be changed to support the new strategy. As values are an important component of organisational culture, it is important to recognise that an old, established culture may be well aligned with the current strategy, but if a new strategy is to be implemented, then that same culture may become an impediment to successful implementation. Collins and Porras argue that the underlying purpose of the organisation, and therefore its values, is basic to its strategy. The question allows students to explore the idea of values, and how they relate to strategy.

This question could also be used as the basis for a class debate, but some preparation might be required so that students have a better understanding of the relationship between values and culture, and between culture and strategy.

Question 3: Construct a hypothetical '5Qs' for your local cafe/university bookshop/the leading internet provider in your country. How easy was this to do?

This question gives students the opportunity to explore the meaning behind the five questions of strategy, and how they can be combined to give a cogent picture of an organisation's strategy. In this exercise, students are able to discuss the way that

the nature of the business affects the strategic position that it might take in relation to each question. Students may discover that many assumptions may need to be made about the strategic intent of each organisation, and yet, a concise statement of strategic intent can be generated for each type of business.

Question 4: What is the difference between stakeholders and key stakeholders? When might a stakeholder become a key stakeholder and vice versa?

Stakeholders are those individuals or groups that *are affected by* the business strategy of the organisation. *Key stakeholders* are those individuals or groups that can *influence* the business strategy of the organisation. Typical *stakeholders* include owners, employees, suppliers, customers, government, the local community and the wider society. Typical *key stakeholders* include majority or substantial shareholding owners and any directors they may appoint, the CEO and senior managing employees, a critical or sole supplier, a dominant customer, a government regulatory body, a local community lobby group and a national consumer or other association such as a trade union.

Circumstances under which a 'stakeholder' becomes a 'key stakeholder' include:

- a shareholder reaches a position that entitles it to nominate a director
- an employee is promoted to senior management
- a supplier becomes a sole supplier due to the takeover or collapse of its competitor(s)
- a customer becomes dominant due to the takeover or collapse of its competitor(s)
- a new regulatory body is created or an existing one is given new powers
- a particular incident causes a lobby group to form
- a shift in public opinion occurs or a labour dispute is precipitated.

Key stakeholders either become or revert to simple stakeholder status when she/he/it/they lose control of the power that enables them to influence the business strategy of the organisation.

Question 5: What value do you think customers get from buying from McDonald's/KFC restaurants? How does this differ from individual non-franchise shops?

This is a 'personal perspective' question suitable for a tutorial discussion and requires little preparation since it may be assumed that students have first-hand knowledge of the product and so a ready-formed opinion or prejudice. It is interesting to see how they articulate the concept of difference between the derived value of two 'name brands' of food product when compared with the difference between a name brand product and a generic substitute.

Question 6: How much is the most expensive hamburger you can buy? How much is the least expensive? What value is delivered by each?

This is a 'practical research' question that should prompt valuable discussion but only if adequate warning has been given to allow appropriate preparation. Students should be required to produce some evidence of the prices quoted and a reasoned statement justifying their assessment of value delivered. It should be possible to draw out the many different ways, both tangible and intangible, in which even a

relatively simple product like a hamburger can deliver value, including its nutritional content, how appetising it is, whether it is visually appealing, the convenience of its packaging, the convenience of its purchase, the popularity and recognition of its brand, the confidence in consistency of quality, how widespread and readily available it is and, finally, its price.

Question 7: How do you think sustainability will affect the business strategy of farm organisations/coal miners/airlines/banks?

This is a personal perspective question that allows students to explore the idea of sustainability from a strategy perspective. Some guidance may be required regarding the particular sustainability issues that are pertinent to these organisations. Obviously the issues faced by banks are quite different to those faced by coal mines, e.g. environmental sustainability.

Question 8: Consider the leading supermarket organisation in the country. Construct three alternative business strategies which it might hypothetically pursue. What has it chosen to pursue and how does this compare with those you constructed?

This is a 'practical research' question that should prompt valuable discussion but only if adequate warning has been given to allow appropriate preparation. Students should be required to produce some publicly available evidence of the strategic intent of their chosen supermarket organisation as well as their own observations as a customer. Students may need guidance in constructing plausible alternative, hypothetical business strategies that would be within the repertoire of their chosen organisation.

This could be run as an individual or team activity. Furthermore, students could discuss the relative merits or otherwise of the hypothetical strategies proposed by classmates.