КАЗАНСКИЙ ФЕДЕРАЛЬНЫЙ УНИВЕРСИТЕТ
Институт управления экономики и финансов
Кафедра общего менеджмента

К.Р. ГАЛИНУРОВА
А.С. НАСИБУЛЛИНА
Х.А. ПАВЛОВА

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Рецензенты:

Кандидат экономических наук, доцент кафедры динамики процессов и управления Казанский национальный исследовательский технический университет имени А. Н. Туполева
Елизарова Н.Ю.

Доктор экономических наук, профессор кафедры общего менеджмента
Института управления, экономики и финансов
Казанского (Приволжского) федерального университета
Палей Т.Ф.

Галинурова К.Р.
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CONTENT

INTRODUCTION

The workshop contributes to the systematic study of the methods of strategic management by students studying in the direction 38.03.02 "Management".
The seminar is intended for practical training in strategic management and allows you to apply theoretical knowledge in the process of researching a strategic position and developing measures to improve this position using the example of specific organisations.
The teaching aid contains questions for study, control questions, practical tasks and cases, tasks for work in groups. Control questions and tests are designed to test the quality of mastering the lecture material, and cases and tasks allow you to assess the ability to apply knowledge and skills in practice, as well as master the skills of developing, analysing and justifying the management and financial strategies of an organisation, modelling planning and forecasting their activities aimed at creating competitive business models, technological and product innovations, making effective investment decisions, taking into account market and specific risks.

Topic 1. Strategic management in the management system. The essence of the basic concepts

Questions to study

1. The history of the formation of strategic management.
2. Treatise "Art of War" by Sun Tzu.
3. "About the war" K. Klausewitz.
4. 36 Chinese stratagems by Harro von Senger.
5. Characteristics, prerequisites and evolution of strategic management.
6. The difference between strategic planning and strategic management.
7. The essence of the strategy. The structure of the concept. Strategic process. Strategic horizons. Vision of the future. Strategic gaps.

Control questions

1. What is usually understood as a strategy?
2. What are the stages of strategic management?
3. What is the difference between "strategic planning" and "strategic management"?
4. What is the difference between strategic management and operational management?
5. What are the disadvantages of strategic management?

Assignments and case studies

Case 1

Apple: Once the World's Most Valuable Company.[1]

NOT LONG AFTER Apple became the world's most valuable company, signs of trouble emerged. Although Apple enforced its intellectual property in a legal dispute

[1] Strategic management. - McGraw Hill Education, 2015.

with Samsung, it entered into a licensing agreement with HTC, a Taiwanese maker of mobile phones. Some argue that Apple under Steve Jobs' leadership would never have entered any agreements that would allow direct competitors to benefit from Apple's proprietary technology. Despite Apple's court-room victory against Samsung, Samsung sold more smartphones than Apple in 2012. With its Galaxy S3 model running on Google's Android system, sales prove that Samsung has a viable competitor against Apple's iPhone 5. In 2013, Samsung introduced the new Galaxy S4 model, further intensifying the head-on competition with Apple.

Uncharacteristically, Apple botched the product launch for the iPhone 5. The embedded Apple map app was far inferior to Google maps, which was used in earlier versions of the iPhone. Subsequently, Apple's top management team also experienced sudden turnover, with some of its executives being forced out. In one instance, CEO Tim Cook asked Scott Forstall, vice president of iPhone and iOS Software and a Steve Jobs protégé, to leave after Forstall refused to sign an apology letter to customers for the shortcomings on the iPhone 5's mapping service. The head of Apple's famed retail operations was also forced out after only six months on the job.

After reaching $658 billion in market valuation and becoming the world's most valuable company, by March 2013 Apple's share price had dropped more than 45 percent, wiping out close to $290 billion in shareholder value. Clearly, while it is difficult to gain a competitive advantage in the first place, it is that much
more difficult to sustain it.

Questions:

1. Explain Apple's success over the last decade. Think about which industries it has disrupted and how. Also take a look at Apple's main competitors.
2. Is Apple's success attributable to industry effects or firm effects, or a combination of both? Explain.
3. Apply the three-step process for developing a good strategy outlined above (diagnose the competitive challenge, derive a guiding policy, and implement a set of coherent actions) to Apple's situation today. Which recommendations would you have for Apple to outperform its competitors in the future?
4. Why do you think it is so hard not only to gain but also to sustain a competitive advantage?

Strategy term project

1. Search for a vision, mission statement, and statement of values for your chosen firm. Note that not all organisations publish these statements specifically, so you may need to make inferences from the available information. Relevant information is often available at the firm's website (though it may take some searching) or is contained in its annual reports. You may also interview a manager of the firm or contact Investor Relations. You may also be able to compare the official statement with the business press coverage of the firm.
2. Identify the major goals of the company. What are its short-term versus long-term goals? What resources must the firm acquire to achieve its long-term goals?
3. Trace any changes in strategy that you can identify over time. Try to determine whether the strategic changes of your selected firm are a result of intended strategies, emergent strategies, or some combination of both.

Small-group exercise

Form small groups of three to four students. Search the Internet on the following topic and debate your Findings. Nassim Nicholas Taleb, author of The Black Swan, has argued that policymakers and decision makers need to focus on building more robust organisations or systems rather than on improving predictions of events. This notion is reflected in the response to the predicted increase in powerful storms and storm surges. Hurricanes Katrina (which devastated New Orleans and parts of the Gulf Coast) and Sandy (which wreaked havoc on the New Jersey coast) have stimulated discussions about how to not only build a more resilient infrastructure and buildings, but also develop more flexible and effective responses.

Each group should search the Internet about options and plans to (1) build more sustainable communities that will help threatened areas cope with superstorms, storm surges, or drought conditions, and (2) organise responses to black swan events (such as natural disasters or terrorist attacks) more effectively. Brainstorm additional recommendations that you might make to policymakers.

Tests

1. Strategic planning horizons:
1.1. Annual
1.2. Five-year with annual adjustment

1.3. Annual adjustments
1.4. In real time
1.5. Organisation life cycle

2. Tasks of financial planning:
2.1. Budget management
2.2. Foresight of market changes
2.3. Reaction to external changes
2.4. Using strategic windows

3. Reengineering is:
3.1. Reorganisation of production
3.2. Cost reduction
3.3. Quality improvement
3.4. Staff reduction
3.5. All of the above together

4. Tasks of long-term planning:
4.1. Budget management
4.2. Foresight of market changes
4.3 Reaction to external changes
4.4. Using strategic windows

5. At the level of corporate culture, the business model is described using the following characteristics:
5.1. Customer value, quantity, time, price
5.2. Strategies, processes, results, organisations
5.3. Leadership, vision, values, mission

Topic 2. Schools of Strategic Management

Questions to study

1. How the strategy should be formed: design school, planning school, positioning school.
2. How the strategy is formed in practice: school of entrepreneurship, cognitive school, school of learning, school of power, school of culture.
3. Viewing strategy as something fickle, depending on the circumstances: the school of the environment and the school of configuration.

Control questions

1. Describe the advantages and disadvantages of an entrepreneurial school.
2. Describe the tools of strategic management schools.
3. Which of the schools of strategic management is by far the most effective and adaptive in a rapidly changing market environment.

Assignments and case studies

Practical task 1

Examine the toolkit shown in Figure 1 and determine which of the schools includes the instrumentation in each segment.

Tools of the school of strategic management	Name of the school of strategic management
1. BCG matrix, the Porter model is used to identify one's position in the market.	a. Entrepreneurship School
2. Balanced Scorecard, controlling.	b. Positioning School
3. Intrapreneurship is a dilatation of vision, entrepreneur represents the image of the future of the company.	c. Cognitive School
4. This school is characterised by micropower, which is based on constructive conflicts, which are the basis for	d. Planning School

developing effective management decisions and choosing the best specialists.	
5. The parameters of the external environment are taken into account, but we are able to influence the environment itself.	e. School of Power
6. An important competitive advantage of this company is the corporate culture.	f. School of Learning
7. Self-learning organisation as the basis for company development	g. School of Configuration
8. The life cycle of a company's development is configuration and transformation.	h. School of the Environment
9. Strategy is a cognitive process that uses the Brainstorming method, cognitive and causal maps	i. School of Design
10. Uniqueness and simplicity of the strategy, management values, marketing audit, Swot analysis.	j. School of Culture

Answers:

1 - , 2 - , 3 - , 4 - , 5 - , 6 - , 7 - , 8 - , 9 - , 10 - .

Case 2

The Virgin Group

The Virgin Group of businesses is a collection of over 100 private companies, operating in a variety of unrelated industries and markets. They all use the Virgin brand. Each one has the central Virgin Group as a major shareholder. The central Group encourages individuals and companies to research and enter new markets with new products and gives a large degree of flexibility and autonomy of them. The setting of specific objectives for the whole group supports this overall strategy. These objectives are then translated for each division of the Group and ni turn each company. The objectives will be different for each company and specific to its market and its situation. Each company has to maintain its commitment to the Virgin brand and has a large degree of control over how it does this. For instance, each company can have a different marketing strategy and a different way of structuring the roles of employees.Virgin stresses the commitment to the brand and the transformational leadership style, with managers setting an example, being innovative and encouraging employees to be the same.

Questions:

1. Using the above as a starting point research the objectives, strategy and structure of the Virgin Group of companies.
2. To what extent does the Virgin Group confirm Chandler's assertion that "structure follows strategy"?

Case 3

Unilever[2]

Unilever, a large transnational corporation with a focus on food, home care and personal care products, has always operated in competitive markets with major rivals including Procter &Gamble. Since 2002 these rivals have been more successful in terms of introducing new products and in percentage increase in sales and profits per year. Unilever realised that a different approach was needed. Initial research led the business to focus on personal care product markets as a priority. It identified competition as a key difficulty in an economic context of rising raw-material costs, poor exchange rates and low economic growth in key markets. Inb2009 Unilever produced The Compass - a document setting out a new strategy.
The vision and mission is to "develop new ways of doing business with
the aim of doubling the size of the company while reducing our environmental impact" and inspire people to take small, everyday actions that can add up to a big difference for the world.

Objectives

Unilever has a range of objectives relating to sales, costs and profits. These include 50 contained within the Unilever Sustainable Living Plan. These include:
- We will help 1 billion people improve their health
- We will halve the environmental footprint of our products
- We will source 10 percent of agricultural raw materials sustainably by 2020

[2] BUSINESS for Cambridge International AS&ALevel. - Oxford UniversityPress, 2015.

The business has "put the Unilever SustainableLiving Plan at the heart of our business strategy".

Analysis

Unilever carried out detailed studies of the markets it operated in, the production and supply processes it uses and what customers thought of its brands. It identified an increasing unhappiness with multinationals only seeking profits and saw an opportunity for its unique commitment to sustainability to also act as a marketing tool.

Strategy

From this Unilever formulated a strategy focusing on building great brands that deliver superior performance so customers will prefer them to others. These brands are built on innovation fromR&D and continuous market research to see exactly what customers desire.

Developing economies like Vietnam and Thailand were identified as areas with high market growth. Products would be varied, from"trading up" premium brands in more beauty markets, "reaching down" ni developed countries to shoppers with less income and "reaching wide" through expansion into new markets Africa, male grooming and e-commerce), sometimes facilitated by buying existing businesses - acquiring Alberto Culver made it easier to enter the large Brazil hair care market ni 2010.

Consistent global marketing for each brand is tailored to individual countries - e.g. using small shops in India. The strands of this strategy are underpinned by a commitment to growing sustainably and this key value appeals to consumers. Unilever was one of the first large multinationals to use sustainability and an "environmental approach" to business in a significant way. This gave it a head start over its competitors and a direct appeal to an increasing number of consumers. This head start over competitors has been consolidated and built into the brand image, increasing its appeal.

• Examplesinclude working with retailers in Mexico to improve distribution, and the Shakti programme in India expanded direct distribution via very small businesses at village level.

• Production is increasingly sustainable; examples include the Indonsa factory in South Africa that will have gas emissions, be water neutral and produce no landfill waste.

The strategy also streamlines the structure of Unilever, reducing 11 product categories to four and 22 geographical units to eight, with six focusing on developing economies where markets are growing faster. HRM policy has become focused on training, leadership and developing a "performance culture" with employees working together for the values of the business. Some targets have been met (100 percent electricity from

renewable sources in Europe), others partially. Personal care products have become the largest category. In 2013 sales revenue grew by 4.3 percent, higher than any of its competitors.
All product categories show increased sales revenue in developing countries as increasing numbers of consumers become conscious of the need for sustainability.

Questions

1. How does the vision and mission of Unilever relate to its business methods? Illustrate with examples.
2. Explain why Unilever has made sustainability such a feature of its strategy.
3. Strategic planning involves the whole of a business. Show how this applies to Unilever.

Tests

1. Which school of SM is the earliest among the listed
1.1. School of Entrepreneurship
1.2. School of Planning
1.3. School of Power
1.4. School of Culture

2. Formation of the prospects for the development of the organisation as an analytical process is the main idea of the school
2.1. planning
2.2. positioning
2.3. entrepreneurship
2.4. Authorities

3. G. Simon, D. March - the ideologists of the school
3.1. cognitive
3.2. authorities
3.3. culture
3.4. Configuration

4. Strategy the result of negotiations - the motto of the school
4.1. authorities
4.2. culture

4.3. learning
4.4. external environment

5. In which SM schools is the development of a strategy the lot of the leader
5.1. entrepreneurship
5.2. cognitive
5.3. design
5.4. Positioning

6. Which SM school describes the process of transformation of an organisation from one state to another?
6.1. culture
6.2. learning
6.3. development
6.4. configuration

Topic 3. Initial components of strategy development: analysis of the external environment

Questions to study

1. The structure of the organisation's external environment.
2. Macroenvironment concept. Major global and Russian trends.
3. PEST analysis and development of PEST analysis ideas. DRETS analysis.
4. Immediate environment. Stakeholders concept.
5. Competitive environment analysis methods: competitor analysis, market analysis.
6. Porter's 5 force model, industry analysis.

Control questions

1. Evaluate the relationship between stakeholder strategy and sustainable competitive advantage.
2. Conduct a stakeholder impact analysis.
3. Apply Porter's five competitive forces to explain the profit potential of different industries.
4. Generate a PESTEL analysis to evaluate the impact of external forces on the firm.
5. Explain how competitive industry structure shapes rivalry among competitors.

Assignments and case studies

Case 4

The Rise of Samsung Electronics[3]

In 2012, SAMSUNG, with $248 billion in revenues, was one of the largest conglomerates globally and the largest chaebol in South Korea. A rough comparison would be the U.S. conglomerate General Electric, which had $147 billion in revenues in the same year. Established in 1938 by Lee Byung-chul as a trading company selling noodles and dried seafood, Samsung has since diversified into various industries, such as electronics, chemicals, shipbuilding, financial services, and construction. In

[3] Strategic management. - McGraw Hill Education, 2015.

particular, Samsung is widely diversified with 83 standalone subsidiaries. The conglomerate accounts for a fifth of all South Korean exports. In 1987, Lee Kun-hee, the youngest son of the founder, took over as chairman of the conglomerate after the death of Lee Byung-chul. By that time, Samsung had become an industry leader in many of its markets.

Samsung Electronics, the flagship subsidiary of Samsung (and best known in the U.S. for its Galaxy line of smartphones and tablets), was initially set up in 1969 to produce home appliances. In 1988, Lee Kun-hee merged Samsung Electronics with Samsung Semiconductors to integrate manufacturing. By 1992,

it had become the worldwide market leader in DRAM (dynamic random access memory). Samsung Electronics, however, aspired to be more than a leading supplier and OEM (original equipment manufacturer). Its strategic intent was to be the leader in branded consumer electronics.

Samsung's image, however, was overshadowed by Sony and Motorola, the undisputed world leaders in consumer electronics and mobile phones during this time. In 1988, Samsung Electronics launched its first mobile phone in the South Korean market. It flopped because of the phone's poor quality. In the early 1990s, Samsung Electronics' market share in mobile phones in South Korea was a mere 10 percent compared to Motorola's 60 percent.

The pivotal moment in redefining Samsung Electronics' strategic focus came in early 1995. Samsung's chairman, Mr. Lee sent out mobile phones as New Year's gifts to hundreds of key business partners. A public embarrassment occurred when Mr. Lee later learned that the phones he had send out as personal gifts didn't work properly. Mr. Lee ordered drastic changes. In front of Samsung's Gami factory with 2,000 employees watching, Mr. Lee set fire to a pile of 150,000 mobile phones to show his disappointment and determination alike. Many Samsung employees credit this day as the beginning of a successful turnaround.

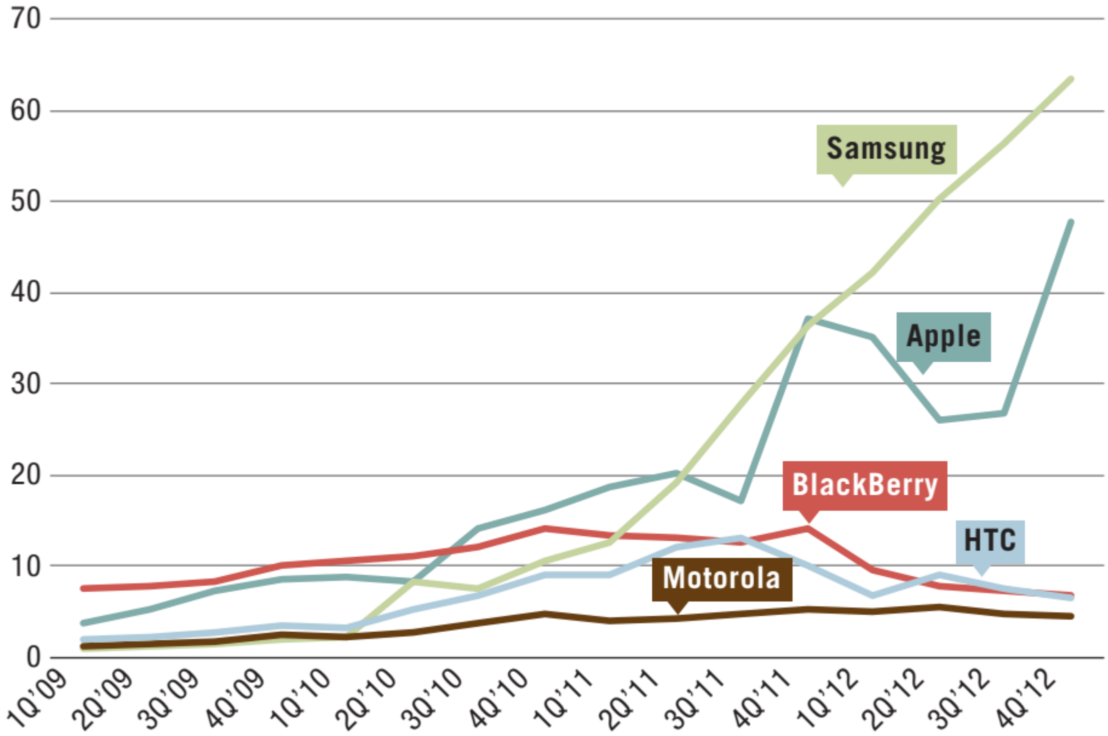
Samsung Electronics increased spending significantly on R&D as well as on marketing and design. Meanwhile, Mr. Lee was undertaking a complete overhaul of the conglomerate's structure in order to change Samsung's culture. To a culture that deeply values seniority, Mr. Lee introduced merit-based pay and promotion. Mr. Lee (who holds an MBA degree from George Washington University) hired Western managers and designers into leading positions and sent home-grown talent to learn the best business practices of other firms around the globe. Mr. Lee also set up the Global Strategic Group to assist non-Korean MBAs and PhDs with a smooth transition into their positions in a largely homogenous cadre of employees.

Mr. Lee appointed a new CEO for Samsung Electronics in 1996, Yun Jong-Yong. Mr. Yun aggressively trimmed costs and sold off unproductive assets during the Asian Financial Crisis in 1997, making the company leaner and more agile. Subsequently, through improved operational efficiency and an integrated manufacturing process, Samsung Electronics shortened the time needed to respond quickly to changes in market trends. It chose to be a fast follower, investing only after a new product category had proven market traction. Once such categories were identified, however, Samsung vastly outspent competitors in order to develop leading electronics products. For example, the company started making batteries for digital gadgets in 2000. Ten years later, it became the world's largest producer of this critical component. In 2001, Samsung started to invest in flat-panel televisions. Just four years later, Samsung was the world's leader in flat-panel TVs. In 2002, Samsung Electronics bet on flash memory, the technology that runs Apple's iPads and iPhones. Providing not only batteries but also flash memory, Samsung is Apple's largest supplier today.

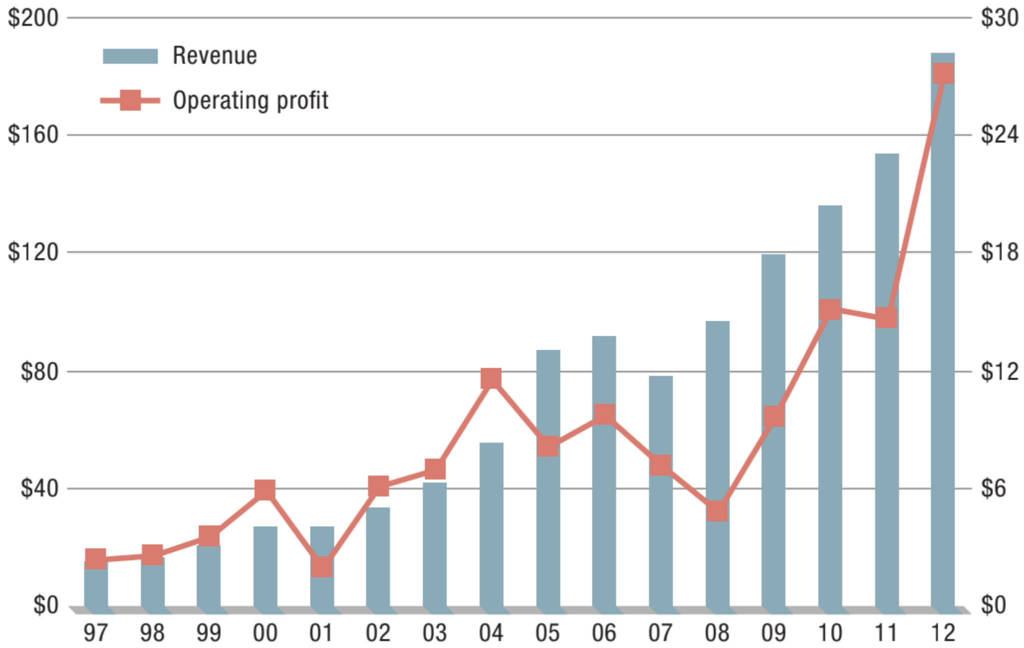
Samsung Electronics applied the same "follow first, innovate second" rule to smartphones. Being a key component vendor to other leading technology companies including Apple, Samsung was able to see easily what directions other companies were taking. It made a range of smartphones tailored to customers in different price categories. Within two short years, it had overtaken Motorola, HTC, BlackBerry, and eventually even Apple to become the number-one vendor of smartphones in the world and the largest technology company by revenues globally (see graph 3.1 and 3.2).

Although Samsung has gained a temporary competitive advantage, sustaining it will be even more difficult for a number of reasons. First, Samsung's competitive advantage was built in large part by following its "follow first, innovate second" rule. To keep its number-one spot in the world's technology industry may be a challenge for a company that intends to be a follower rather than a leader. Second, Chinese technology companies such as Lenovo and Huawei are also looking to join the battlefield in smartphones. Third, Apple and Samsung have been locked in ongoing court battles about who infringed the copyrights of whom and in what type of smartphone models. Samsung has already lost a high-profile case against Apple in a California court, where damages were reduced later to some $500 million.

To provide new avenues for future revenue growth, chairman Lee laid out five new business areas in which Samsung plans to invest some $20 billion by 2020. The five areas include (in order of size of investment): LED lighting, solar panels, e-vehicle batteries, biotech drugs, and medical devices.



Graph 3.1[4]



Graph 3.2[5]

Succession planning is another challenge Samsung is facing. The family of the late founder, Lee Byung-Chul, still controls a majority of the shares. At 71, Lee Kun-hee has

[4] "How Samsung's rise is reshaping the mobile ecosystem," Business Insider, March 14, 2013.

[5] Author's depiction of data from Samsung's Annual Reports, 2008–2012.

long-groomed his eldest son Jay Y. Lee to be his successor as chairman of Samsung. It remains to be seen whether the younger Mr. Lee, as grandson of the founder, can maintain Samsung's momentum.

Questions

1. Describe Samsung as a conglomerate. What type of diversification does Samsung pursue? Identify possible factors such as core competencies, economies of scale, and economies of scope that might underlie its success as a diversified conglomerate (chaebol). Which do you consider its key success factors?
2. How did Mr. Lee turn Samsung Electronics from a sleeping and bureaucratic company into a world leader?
3. What type of global strategy is Samsung Electronics pursuing?
4. What can Samsung Electronics do to sustain its competitive advantage in smartphones? Should Samsung change its "follow first, innovate second" approach as it seeks to build a competitive position in new product areas other than smartphones?

Case 5

Tesla Motors and the U.S. Automotive Industry[6]

ALTHOUGH TESLA MOTORS has been successful in entering the U.S. automotive market using innovative new technology, its continued success will depend on other firm and industry factors. While industry forces have been favourable for a long time in the U.S. automotive industry, recent dynamics have lowered the profit potential of competing in this industry and thus reduced its attractiveness. Now that Tesla Motors has demonstrated how new technology can be used to circumvent entry barriers, other new ventures may soon follow. Moreover, the incumbent firms are also adopting the new technology by introducing hybrid or all-electric cars, further increasing rivalry in the industry.
Another external industry force that Tesla Motors must address is the bargaining power of suppliers. Lithium-ion battery packs are key components for Tesla's electric engines. They are supplied by only a few technology firms such as Panasonic in Japan. Given that these sources are few, the bargaining power of suppliers in the electric car segment is quite high, further limiting the industry's profit potential. As a consequence of the

[6] Strategic management. - McGraw Hill Education, 2015.

strong bargaining power of suppliers, combined with the weak demand for its $100K sports car, Fisker Automotive, another American automaker of plug-in hybrid sports cars based in Anaheim, California, filed for bankruptcy.

In this segment, the bargaining power of buyers is also strong. Individual buyers have many choices, and electric cars tend to be priced at a steep premium due to low production runs. Large-scale buyers such as rental car companies Avis and Hertz or the New York City taxi fleet all have significant purchasing power, further driving down profit potential.

In addition, when demand is slowing, excess capacity tends to develop in the automotive industry, and the incumbent car companies begin to initiate a cut-throat price competition to move inventory. Although both GM and Chrysler went into bankruptcy, neither exited the industry but rather restructured, causing excess capacity to remain in the industry. Finally, complementary products and services such as battery charging and service stations, which are not yet ubiquitous, are needed to help consumers overcome anxieties concerning electric vehicle ownership.

Questions

1. Which PESTEL factors are the most salient for the electric vehicle segment of the car industry? Do you see a future for electric vehicles in the U.S.? Why or why not?
2. Looking at Porter's five forces of competition, how would you assess the profit potential of the U.S. car industry?
3. Using the five forces model, what implications can we derive for how Tesla Motors should compete in the U.S. car industry? What would be your top three recommendations for Elon Musk? Support your arguments.
4. Draw a strategic group map for the U.S. automotive industry. What are your conclusions?

Small-Group Exercise

One industry with an impact on both undergraduate and MBA students is textbook publishing. Traditional printed textbooks are being challenged by the growing demand for electronic versions of these materials. E-readers such as the Amazon Kindle and Apple iPad are examples of devices that are likely to drive industry convergence. Millions of e-readers are sold each year. Use the five forces model to think through the various impacts such technology shifts may have on the textbook industry. Include in your response answers to the following questions.

Questions

1. How should managers of a textbook publishing company respond to such changes?
2. Will the shifts in technology be likely to raise or lower the textbook industry–level profits? Explain.

Discussion questions

1. Why is it important for an organisation to study and understand its external environment?
2. How do the five competitive forces in Porter's model affect the average profitability of the industry? For example, in what way might weak forces increase industry profits, and in what way do strong forces reduce industry profits? Identify an industry in which many of the competitors seem to be having financial performance problems. Which of the five forces seems to be strongest?
3. What is a strategic group? How can studying such groups be useful in industry analysis?
4. How do mobility barriers affect the structure of an industry? How do they help us explain firm differences in performance?

Tests

1. Characteristics of management decisions - consumer segment that purchases homogeneous products, releases provided by the enterprise.
1.1. SZH is a strategic economic zone
1.2. SZV - Strategic Zone of Influence
1.3. SZR - Strategic Resource Zone
1.4. SZK - Strategic Competition Zone

2. The set of organisations supplying the enterprise with raw materials, materials
als and components, information, human resources:
2.1. SZH is a strategic economic zone

2.2. SZV - Strategic Zone of Influence
2.3. SZR - Strategic Resource Zone
2.4. SZK - Strategic Competition Zone

3. Industry - a set of enterprises located in the territory a certain state that produces homogeneous products, renders performing the same services, performing similar public functions - from point of view:
3.1. National economic approach
3.2. Competitive Approach by Michael Porter
3.3. Strategic zones by I.Ansoff

4. It manifests itself through a decrease in the cost of a unit of production giving the transition to higher design capacities of the enterprise
4.1. Economies of scale effect
4.2. Volume savings effect
4.3. The effect of learning from experience
4.4. Size saving effect

5. Sustainable competitive advantages are associated with a unique ability to respond to emerging market opportunities using them effectively and fully in the opinion:
5.1. Porter
5.2. Kay
5.3. Prahalada and Hamela
5.4. Stolka, Evans, Shulman

Topic 4. Initial components of strategy development: analysis of the internal environment

Questions to study

1. Strategic analysis: necessity and essence.
2. Analysis of the internal environment of the organisation and methods of implementation.
3. The internal environment of the organisation: production, technological base, marketing, organisational structure, personnel, finance. Negative and positive strategic potential.
4. VRIO analysis.
5. SNW analysis.
6. Model 7 S.
7. SWOT Analysis.
8. Blue ocean strategy.

Control questions

1. Differentiate among a firm's resources, capabilities, core competencies, and activities.
2. Compare and contrast tangible and intangible resources.
3. Evaluate the two critical assumptions behind the resource-based view.
4. Apply the VRIO framework to assess the competitive implications of a firm's resources.
5. Evaluate different conditions that allow firms to sustain their competitive advantage.
6. Outline how dynamic capabilities can help a firm sustain competitive advantage.
7. Apply a value chain analysis to understand which of the firm's activities in the process of transforming inputs into outputs generate differentiation and which drive costs.
8. Conduct a SWOT analysis to combine external and internal analysis and derive strategic implications.

Assignments and case studies

Case 6

Nike's Core Competency: The Risky Business of Fairy Tales

A ALTHOUGH NIKE'S CO-FOUNDER and chairman Phil Knight declared that scandals surrounding its superstar endorsement athletes are "part of the game," its marketing strategy is not without risks. 40 In some instances, Nike continued to sponsor its athletes involved in various scandals, while in others it terminated its lucrative endorsement contracts. Nike continued to sponsor LA Lakers' Kobe Bryant who was cleared of alleged rape charges. After Tiger Woods was engulfed in an infidelity scandal, Nike continued to sponsor the golf super-star. In 2007, Nike ended its endorsement deal contract with NFL quarterback Michael Vick after a public out-cry and his subsequent felony conviction of running a dog-fighting ring and engaging in animal cruelty. In 2011, after serving a prison sentence and restarting his career at the Philadelphia Eagles, Nike signed a new endorsement deal with Michael Vick. In 2012, Nike terminated its long-term relationship with disgraced cyclist Lance Armstrong. Just before Armstrong's public admission to doping in an interview with Oprah Winfrey, Phil Knight answered "never say never" when asked if Nike would sponsor Lance Armstrong again in the future. In 2013, Nike removed its ads with Oscar Pistorius and the unfortunate tag line "I am the bullet in the chamber," after the alleged homicide charges against the South African track-and-field athlete.

Time and time again Nike's heroes have fallen from grace. Clearly, Nike's approach in building its core competency of creating heroes is not without risks. Too many of these public relations disasters combined with too severe shortcomings of some of Nike's most celebrated heroes could damage the company's reputation and lead to a loss of competitive advantage.

Questions

1. The case indicates that Nike's core competency is to create heroes. What does this mean? How did Nike build its core competency? Does it obey the VRIO attributes?
2. What would it take for Nike's approach to turn from a strength into a weakness? Did this tipping point already occur? Why or why not?
3. What recommendations would you have for Phil Knight and Nike? Can you identify a way to "reframe" the competency of creating heroes? Or a new way to think of heroes that would continue to build the brand?

4. If you are a competitor of Nike (such as Adidas, Under Armour, New Balance, or Li Ning), how could you exploit Nike's apparent vulnerability? Provide a set of concrete recommendations.

Case 7

The Environment of Nortel Networks

Nortel Networks is a global company that connects people to the information they need through advanced communication technologies. With customers in more than 150 countries, Nortel designs and instals new networks and upgrades and supports and manages existing systems. Nortel's complex external environment directly influences its operations and performance. The Canadian-based company began in 1895 as a manufacturer of telephones and has reinvented itself many times to keep up with changes in the environment. In the late 1990s, the company transformed itself into a major player in wireless technology and equipment for connecting businesses and individuals to the Internet. In 1997, the company was about to be run over by rivals such as Cisco Systems that were focused on Internet gear. Then-CEO John Roth knew he needed to do something bold to respond to changes in the technological environment. A name change to Nortel Networks symbolised and reinforced the company's new goal of providing unified network solutions to customers worldwide. Today, Nortel's purpose is clear—to create a high-performance twenty-first-century communications company leveraging innovative technology that simplifies the complicated, hyperconnected world. To achieve this goal, Nortel adapts and responds to the uncertainty of the external environment. One response to the competitive environment was to spend billions to acquire data and voice networking companies, including Bay Networks (which makes Internet and data equipment), Cambrian Systems (a hot maker of optical technology), Periphonics (maker of voice-response systems), and Clarify (customer relationship management software). These companies brought Nortel top-notch technology, helping the company snatch customers away from rivals Cisco and Lucent Technologies. In addition, even during rough economic times, Nortel kept spending nearly 20 percent of its revenues on research and development to keep pace with changing technology. Internationally, Nortel has made impressive inroads in Taiwan, China, Brazil, Mexico, Colombia, Japan, and Sweden, among other countries. China's Ministry of Railways selected mobile communications railway technologies from Nortel to provide a secure, wireless network for trains travelling up to 350 km/hr. It also won customers by recognizing the continuing need for traditional equipment and offering hybrid gear that combines old telephone technology with new Internet features, allowing companies to transition from the old to the new. Bold new technologies for Nortel include 4G broadband wireless, Carrier Ethernet, optical, next-generation services and applications, and secure networking. Nortel is considered a leader in wireless gear and won contracts from Verizon Communications and Orange SA, a unit of France Telecom, to supply equipment that sends phone calls as packets of digital data like that used over the Internet. Nortel also capitalises on strategic alliances by teaming with Microsoft, Dell, and IBM. Companies moving in a Net speed environment risk a hard landing, and when the demand for Internet equipment slumped in the early 2000s, Nortel's business was devastated. The company cut more than two-thirds of its workforce and closed dozens of plants and offices. An accounting scandal that led to fraud investigations and senior executive dismissals made things even worse. At one point, Nortel's stock was trading for less than a dollar. By early 2006, however, positive changes in the economic environment, along with a savvy new CEO, put Nortel back on an uphill swing. Bright spots for the company in 2007 included improved earnings, a boost in orders, and improved profitability. But Wall Street sceptics want to see more strong quarters before they are convinced of a turnaround.As one analyst said, "It's a tough business," and Nortel's managers have to stay on their toes to help the organisation cope in an ever-changing, difficult environment.

Question

1. Describe Nortel's complex external environment.

<u>Strategy term project</u>

In this section, you will study the internal resources, capabilities, core competencies, and value chain of your selected firm.

1. A good place to start with an internal firm analysis is to catalogue the assets a firm has. Make a list of the firm's tangible assets. Then, make a separate list of its intangible assets.

2. Now extend beyond the asset base and use the VRIO framework to identify the competitive position held by your firm. Which, if any, of these resources are helpful in sustaining the firm's competitive advantage?
3. Identify the core competencies that are at the heart of the firm's competitive advantage. (Remember, a firm will have only one, or at most a few, core competencies, by definition.)
4. Perform a SWOT analysis for your firm. Remember that strengths and weaknesses (S, W) are internal to the firm, and opportunities and threats (O, T) are external. Prioritise the strategic actions that you would recommend to your firm. Refer to the Implications for the Strategist section on how to conduct a SWOT analysis and provide recommendations.

Tests

1. External analysis in SWOT analysis involves:
1.1. Building a competitive profile
1.2. Exploring Opportunities and Threats
1.3. Exploring Strengths and Weaknesses
1.4. p. 2 and p. 3 together
1.5. p. 1 and p. 2 together

2. Analysis of the company in the SWOT analysis involves:
2.1. Building a competitive profile
2.2. Exploring Opportunities and Threats
2.3. Exploring Strengths and Weaknesses
2.4. p. 2 and p. 3 together
2.5. p. 1 and p. 3 together

3. The main disadvantage of SWOT analysis:
3.1. Difficulty in development
3.2. Coverage
3.3. inaccuracy
3.4. Subjectivity
3.5. Long development period

4. Core competitive advantages
4.1. Benefits of Product Distribution Channels

4.2. Additional organisation location options
4.3. Additional non-economic opportunities of the organisation
4.4. Distinctive capabilities of the sales departments of the organisation
4.5. Distinctive features that determine market advantages organisation

5. Core competencies
5.1. Powers of the "top" management of the company
5.2. The main elements of the company's strategy
5.3. The set of skills and abilities of the organisation that ensures its con-competitiveness
5.4. The concept of the company's functioning for a long period
5.5. Justification of the organisation's development priorities

6. Strategic analysis is:
6.1. Study of the external environment, internal environment, resources and potential organisation
6.2. The system of preparation of long-term plans of the organisation
6.3. The relationship between strategic analysis, strategic choice and real strategy
6.4. How to develop a business plan for an enterprise
6.5. The relationship of short-term, medium-term and long-term plans enterprises

Topic 5. Strategy Development

Questions to study

1. Tasks and role of defining the mission of the organisation. Examples of company mission statements. Approaches to defining a mission in Russian companies.
2. Methodology PIMS (Profit Impact of Marketing Strategy).
3. Abel's model. The interdependence of the mission and goals of the organisation. The basic goals of the organisation.
4. Classification of the goals of the organisation, the firm by levels of the organisational hierarchy.
5. SMART principle of goal setting.
6. Competitive advantage concept.

Control questions

1. Describe the roles of vision, mission, and values in the strategic management process.
2. Evaluate the strategic implications of product-oriented and customer-oriented vision statements.
3. What are the most common directions for developing goals in an organisation?
4. Basic requirements for the correct formulation of the goals of the organisation?
5. Structure of the Balanced Scorecard

Assignments and case studies

<u>Case 8</u>

China's Li Ning Challenges Nike and adidas[7]

Almost every one in China knows Li Ning Company Ltd. The eponymous sportswear company was founded in 1990 by former star gymnast Li Ning, who won six medals (including three golds) at the 1984 Los Angeles Olympics. Riding on the fame of its founder, Li Ning quickly became the largest and best-known Chinese sportswear company. In parallel with China's incredible economic rise, Li Ning did exceptionally well.

[7] Strategic management. - McGraw Hill Education, 2015.

The company decided that the 2008 Olympics in Beijing would mark the beginning of overtaking the world leaders in sports shoes and apparel, Nike and adidas. This would happen first in the Chinese market and then globally. To symbolise the company rise, its founder Li Ning, still a popular folk hero, was chosen to light the Olympic flame during the Beijing opening ceremonies. With its home turf advantage, everything seemed to be going in Li Ning's favour. In March 2013, however, Li Ning shocked the business world by announcing a worse-than-expected annual loss of $315 million. This was Li Ning's first ever loss since going public in 2004. Just two years earlier in 2010, Li Ning reported an all-time-high revenue of $1.5 billion, with $182.3 million in net income. What happened?

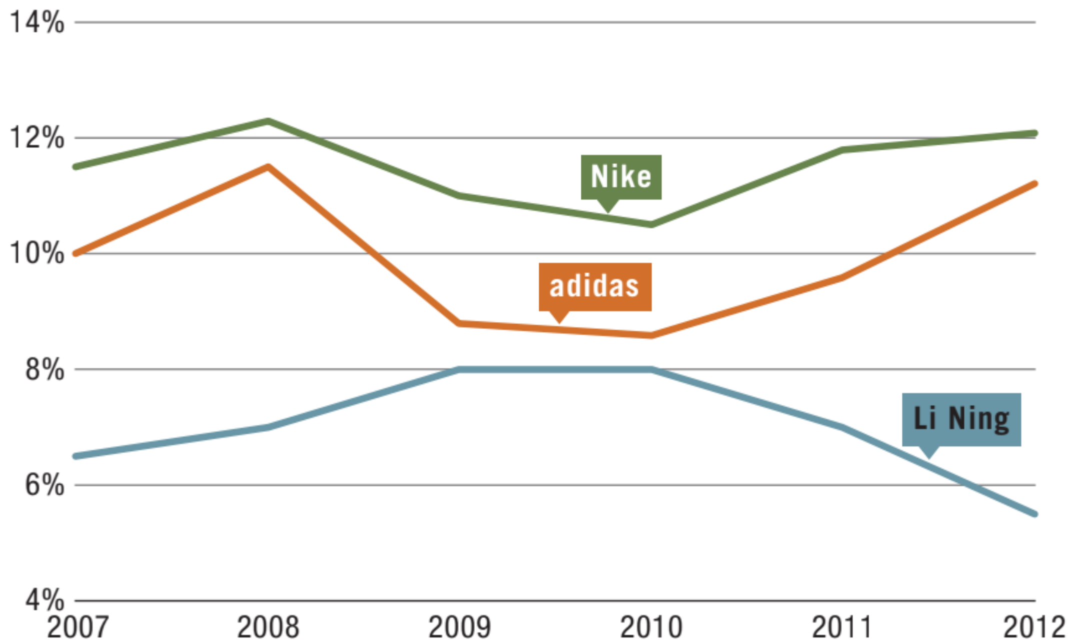
Li Ning's strategic intent had been from the very beginning to overtake Nike and adidas. The Beijing Olympics were to be the turning point in this "epic battle" for market dominance. In anticipation of the enormous business opportunities that would come with the 2008 Beijing Olympics, Li Ning pushed its penetration into China's second- and third-tier cities via aggressive channel expansion through its distributors, adding almost 1,000 stores a year (Exhibit 5.1). In 2008 and 2009 alone, more than 80 percent of the new stores were opened in China's second and third-tier cities.

China's rapid urbanisation and the post-Olympics effects echoed Li Ning's vision: from 2005 to 2010, Li Ning tripled its revenue and seemed to be overtaking adidas to become number two in the Chinese market, just behind Nike (Graph 5.2). Fueled by seemingly unstoppable success, Li Ning began to expand in Southeast Asia. In a brazen move, Li Ning even opened a specialty store across the Pacific in Portland, Oregon, the hometown of Nike.

Li Ning soon found that its local Chinese competitors were pursuing a similar expansion strategy. To make matters worse, even Nike and adidas joined the fray to compete aggressively in second- and third-tier cities. This was a departure from the usual business model where the two world leaders would focus on high-end markets such as Shanghai and Beijing. As the post-Olympic shopping enthusiasm gradually faded, competition further intensified. Realising that the expansion-fueled growth was not sustainable, Li Ning began fine-tuning its business model: consolidating distributors, upgrading product offerings, and focusing on serving higher-end markets and younger consumers. Li Ning even changed its logo and slogan to promote the new image. Almost overnight, Li Ning's brand marketing campaign swept China's airwaves, towns, and cities.

	2005	2006	2007	2008	2009	2010	2011	2012
Total stores at year-end	3,373	4,297	5,233	6,245	7,249	7,915	8,255	6,434
YoY store change	751	924	936	1,012	1,004	666	340	−1,821
Revenue	$395	$512	$700	$1,077	$1,351	$1,526	$1,438	$1,085
YoY revenue growth	30%	30%	37%	54%	25%	13%	−6%	−25%
Operating profit	$44	$65	$98	$155	$216	$249	$102	−$256
Net income	$30	$48	$76	$117	$156	$182	$66	−$315
Gross profit margin	47%	47%	48%	48%	47%	47%	46%	38%
Operating profit margin	11%	13%	14%	14%	16%	16%	7%	−24%
Average inventory turnover (days)	86	70	70	61	53	52	73	90
Average receivable turnover (days)	44	55	53	48	47	52	76	93
Average payable turnover (days)	68	67	69	69	70	71	97	112

Exhibit 5.1[8]



Graph 5.2[9]

Despite its best marketing efforts, Li Ning's inventory kept piling up. Against the backdrop of declining sales, Li Ning's cash flow soon drained. Given its financial squeeze, Li Ning had to raise funds from a private equity group and the Government of Singapore Investment Corporation. This led to a shake-up of Li Ning's board of directors, which subsequently put a new top management team in place. The top priority of the new management was to tackle Li Ning's inventory problems. Its

[8] Li Ning's Annual Reports; financial data are converted from Chinese RMB to U.S. dollars.

[9] Authors' depiction of data from "Li Ning scaling back after 2012 loss," The Wall Street Journal, March 27, 2013.

management took several drastic steps to revive the sales channel by freeing up distributors' cash flows for introducing new products. Distributors were further consolidated and Li Ning added more factory outlets and discount stores to speed up inventory clearance. All stores underwent careful performance evaluation. Eventually, Li Ning closed 1,821 underperforming stores. In addition, Li Ning started implementing a transformation plan to gradually shift away from the distributor-driven business model to a market-oriented one. In the past, Li Ning's distributors made orders based on their own judgement of retail demand six months ahead at quarterly trade fairs, and so Li Ning would arrange production, deliveries, and marketing campaigns. Under the new plan, Li Ning introduced "A 1 " Stock Keeping Units (SKUs), as well as customer group–specific SKUs, helping distributors make sound ordering decisions. Once these SKUs hit the stores, Li Ning would collect and monitor real-time sales data and make inventory adjustments accordingly. Li Ning launched fast-response products that could easily be ordered in between trade fairs in response to changes in market trends. It also redesigned product lines and changed pricing based on the needs of its target customers, which had not been clearly defined before.

The new management team at Li Ning believed that there was a big market between the higher-end Nike and adidas, on the one hand, and most of the low-end local brands, on the other. New products with a wider price range would be launched to capture the consumer in the "middle." Li Ning's transformation is nonetheless costly: revenue in 2012 declined by a whopping 25 percent to $1 billion (versus $26 billion for Nike and $20 billion for adidas). Li Ning's market share ranking in China has dropped to number four from number three (now held by a local competitor, Anta). To avoid bankruptcy, Li Ning had to ask for another round of liquidity injection by its recent backers.

Li Ning's problem of overexpansion is not unique. Slowing sales and high inventories have burdened other sportswear brands in China, including Nike and adidas. The two global brands have gained back their market shares, presumably at Li Ning's expense. Nike and adidas were faster in responding to changes in the market environment. They also further differentiated themselves from the pack through continued innovation and sophisticated marketing. For example, Adidas introduced fashionable sportswear such as high-heeled sports shoes in China.

The only sportswear brand in China to post positive growth in 2012 was adidas, and it seems best positioned to gain from the country's $24 billion sportswear business, which is estimated to grow at 15 to 20 percent for the next three years. In contrast, Li Ning is in deep downsizing mode: stores, distributors, and business segments are all up to be cut in 2013. Its proud Portland venture and other overseas stores are long gone, and the company is now refocusing on the Chinese market only.

Questions

1. At the close of the case, why was Li Ning experiencing a competitive disadvantage?
2. What are the strategic positions of Li Ning (see Chapter 6)? Do you see a link between strategic position and firm performance? If so, what explains that link?
3. Why is it so difficult for Li Ning to challenge Nike and adidas even in China? Would you expect that the Chinese consumer would be more loyal to a Chinese brand? What moves could the company make that would build customer loyalty? What recommendations would you give Li Ning to achieve a successful turnaround? Explain.

Strategy term project

1. Search for a vision, mission statement, and statement of values for your chosen firm. Note that not all organisations publish these statements specifically, so you may need to make inferences from the available information. Relevant information is often available at the firm's website (though it may take some searching) or is contained in its annual reports. You may also interview a manager of the firm or contact Investor Relations. You may also be able to compare the official statement with the business press coverage of the firm.
2. Identify the major goals of the company. What are its short-term versus long-term goals? What resources must the firm acquire to achieve its long-term goals?
3. Trace any changes in strategy that you can identify over time. Try to determine whether the strategic changes of your selected firm are a result of intended strategies, emergent strategies, or some combination of both.

Practical task

Using the Abel method, formulate the mission of the company, fill in the table below.

Business type	Mission
Social media	
Car company	
Fashion house	

Electronics manufacturing company	
Healthcare	
Streaming service	
Banks	
Dairy production	

Tests

1. The SMART concept is applied
1.1. When formulating a mission
1.2. When choosing a strategy
1.3. When goal-setting
1.4. When distributing functions
2. The potential of the organisation is

2.1. The totality of the capabilities and abilities of the organisation in the process functioning to achieve the set goals
2.2. The limit to which the client can use operational resources and thus create opportunities for the implementation of actions
2.3. The ability of the organisation to realise the set strategic goals without attracting additional resources or organisational and technical and socio-economic transformations.
2.4. Expresses the additional needs of the organisation for resources for re-implementation of strategic targets

3. The mission of the organisation is
3.1. An integral part of the master plan of the organisation
3.2. The main strategy (field of activity) for the development of the organisation
3.3. The method of coordinating the activities of structural divisions of the company research institutes
3.4. Goals and objectives of the functioning of the organisation
3.5. The strategy of interaction between the owners and managers of the organisation

4. What is product positioning:

4.1. Determination of the place of a particular product in relation to competitive goods rents in the minds of consumers
4.2. The set of long-term plans and tasks that need to be fulfil in order to achieve the goals
4.3. This is a complex and multifaceted process that involves the study possible directions of business development, choice of markets, methods of competitive tion, attracting resources, ways to promote goods
4.4. The function of managing the organisation, extends to long-term
goals and actions of the organisation, an interconnected set of long-term measures or approaches in the name of strengthening

Topic 6. Strategic choice

Questions to study

1. General principles for building a corporation's business portfolio.
2. Reference business development strategies.
3. Strategies for entering a new industry.
4. Portfolio analysis matrices.

Control questions

1. How might businesses increase sales by market penetration?
2. What levels of risk do the four sectors of Ansoff's Matrix have? Explain the difference in these levels of risk.
3. Name integrated growth strategies
4. Name diversified growth strategies
5. What strategy is characterised by strengthening positions, product and market development?
6. What are the main advantages and disadvantages of a differentiation strategy?

Assignments and case studies

Case 9

BP and the Deepwater Horizon oil spill[10]

BP is a large oil producer operating in many countries. It has drilling operations in many countries. In 2010 one of its wells in the Gulf ofMexico suffered a blow-out.This resulted in millions of gallons of oil escaping into the ocean and causing damage to sea life, beaches and the tourism industry in countries near the Gulf. BP had to pay for capping the well and also millions of dollars in compensation. It faced the prospect of problems getting new licences for drilling and increasing customer perception that it did not care about the environment. In order to resume growth BP had to make some strategic decisions.

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[10] BUSINESS for Cambridge International AS&ALevel. - Oxford UniversityPress, 2015.

Market penetration - continuing to drill for oil.

A Major activity of BPis deep-water exploration to find oil and then drill for it. Choosing this strategy would mean BP continues with these activities in the USA. This would match the company's objectives and strengths. BP is a major business in a market with high capital costs to new entrants. Its product is increasingly demanded and it has key core competencies related to oil exploration. It has competitors, but these have similar market strengths to BP. BP has massive investments in the USA, in terms of capital and in relationships with the government. The risks of continuing to drill for oil are low. Once suitable oil deposits are found oil can be sold at a profit.

Market development - drilling elsewhere or new markets for oil.

BP already successfully locates oil and drills it in many locations throughout the world. It can use all the arguments for market penetration to extend its drilling operations outside the USA, which is what it is doing now. Oil is a major raw material and fuel product for every country in the world with very few alternatives to its use. BP is already a major supplier of oil. Finding new uses for oil would involve very high research costs that BP does not need to undertake. It is profitable operating in its own markets and the Deepwater Horizon spill isa temporary setback. The risks of trying to find new markets are significant.

Product development - new fuels and chemical raw materials to existing markets

BP is in the fuel and raw-material industry. It sells its products to people in setting up extraction and processing facilities. The global market for biofuels is currently small but has the prospect of significant growth with lots of competition. BP has core competencies in oil extraction, not minerals or bio fuels. and the competition in these industries is high. The risk involved in this strategy is significant.

Diversification - new products in new markets.

BP is a very large business with good profits and excellent forecasts. It is not facing declining demand for its products and there is no prospect of any extra competition. Diversifying might involve the business being distracted from its core activities. This strategy would be very risky for BP.

This case illustrates how Ansoff's Matrix might be used to make a strategic choice.

Question

1. Using Ansoff's Matrix, recommend an appropriate strategy for BP to follow after the Deepwater oil spill.

Practical task

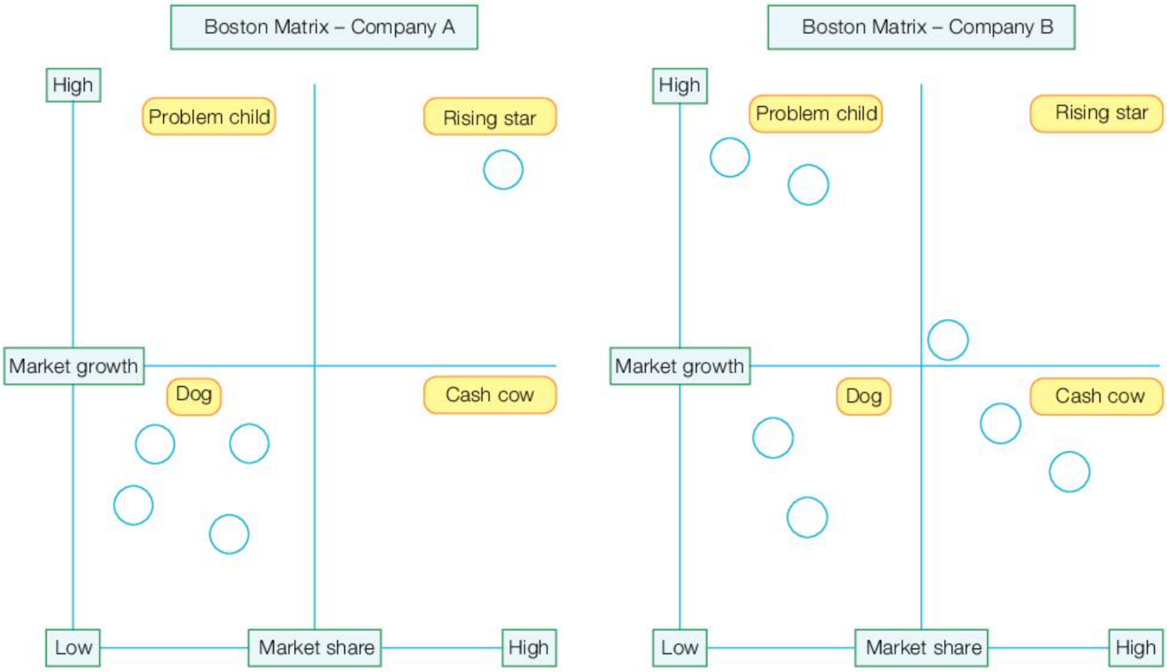

Fig.6.1

Questions:

1. Consider the Boston Matrix diagrams for these two businesses (Fig. 6.1). Comment on what they might mean for:

a. The current position of the business.

b. Developing a strategy for the business.

2. All the products of a company are dogs. What are the advantages and the

3. disadvantages of this for the company?

4. All the products of a company are problem children. What are the advantages and the disadvantages of this for the company?

5. Assess the advantages and disadvantages of using the Boston Matrix for a business.

6. How might Boston Matrix analysis be linked to the concepts of product differentiation and market segmentation?

Test

1. In I. Ansoff's model, the combination of new markets and new products corresponds to:
1.1. Cost Reduction Strategies
1.2. Market development strategies
1.3. Product development strategies
1.4. Diversification strategies

2. In I. Ansoff's model, the combination of new markets and existing products corresponds to:
2.1. Penetration strategies
2.2. Market development strategies
2.3. Product development strategies
2.4. Diversification strategies

3. In I. Ansoff's model, the combination of existing markets and existing products match:
3.1. Penetration strategies
3.2. Market development strategies
3.3. Product development strategies
3.4. Diversification strategies

4. In I. Ansoff's model, the combination of existing markets and new products corresponds to:
4.1. Penetration strategies
4.2. Market development strategy
4.3. Product development strategy
4.4. Diversification strategy

5. The BCG matrix is built according to the following indicators:
5.1. Business attractiveness and position competitiveness
5.2. market growth rate and relative market share
5.3. investment volume and return on investment
5.4. life cycle stages and business attractiveness

6. The GE/McKinsey matrix is based on the following indicators:
6.1. Business attractiveness and position competitiveness
6.2. Market Growth Rate and Relative Market Share
6.3. Market attractiveness and relative market advantage
6.4. Life cycle stages and business attractiveness
6.5. Industry attractiveness and competitive position

Topic 7. Implementation of the strategy

Questions to study

1. The essence of the strategy implementation process.
2. Strategy and organisational structure.
3. Strategy and corporate culture.
4. Implementation of the strategy through process and project management.

Control questions

1. Define organisational design and list its three components.
2. Explain how organisational inertia can lead established firms to failure.
3. Define organisational structure and describe its four elements.
4. Explain management system: the relationship between strategy and production activities.

Assignments and case studies

<u>Case 10</u>

At Home Store

Ria and Tom Thenin had always wanted to run a business. An opportunity arose when a long-established furniture store went bankrupt. They were able to obtain the lease on the store building but they had to start with no furniture to sell. In order to start up they had to borrow some money from a bank. The bank required a business plan TheThenins saw this as being a waste of time; after all they had a business to get going. It was only when they were writing to that they realised the process had made them think of all sorts of things they would have ignored.

"We thought the business plan was for the benefit of the bank and was paperwork we had to do to get the loan. However, it made us think about what we really wanted from the business and exactly how we were going to manage money, advertising and employing staff in the store. It made us research the market in our town and it showed us that people had more money for furniture and home products than we thought. This influenced our whole approach to what we sold. It even made us focus on the name for the business. Having a longer-term view meant we called it At Home, rather than just restricting the name to furniture."

"The business plan set out all the "This is one of the reasons we have started a household consultancy business which runs alongside the store. We advise customers on how to make their houses attractive and arrange for painters, builders and joiners to do the work. We are able to supply furniture and a whole range of electrical products as well.We wrote another business plan for this expansion and are on track to reach the objectives we set. The bank loan is nearly paid back and we are looking for new ventures. A Business plan is a must for us".

Questions:

1. Explain why the Thenins felt making a business plan was not a good use of their time.
2. Analysethe reasons why they came to see the benefits of drawing up a business plan.
3. Discuss why they are continuing with business planning.

Case 11

RiteCut Machine Tools

RiteCut Machine Tools is a medium sized manufacturer of power tools and machines that it sells to other businesses. It makes a range of saws, drills, milling machines and cutters. For many years its market had been stable, it had a number of loyal customers and the sales staff were not used to having to really sell the products. Contracts were often renewed almost automatically. The employees were highly skilled and regarded working as enjoyable. The owners encouraged a culture of "friendliness", with managers acting as advisers rather than supervisors. The suppliers it used for raw materials and components had been built up over years. Contracts were often renewed without any exploration of other possibilities. However, the market began to change as computer-operated machines and automated production processes were increasingly introduced by its customers. Its products looked old fashioned, there was very little interest in developing new ones and the sales staff lacked the skills for selling in a more competitive environment. Sales and profits fell rapidly. Before RiteCut failed the owners sold out to two new graduates in Technology and Business.

The new owners saw the weaknesses in RiteCut but felt that with a different approach the strengths were enough for success. They saw that changing the culture was the key. They immediately arranged for two managers to take early retirement and hired younger people with a track record of improving efficiency. Targets for sales were set and the sales staff were given training. A research and development team was brought in.

Production employees were also given targets for waste and quality as well as quantity. Instead of employees being paid a set wage, pay was now related to performance in meeting the targets. The suppliers were told that unless they reduced prices they would lose the contract arrangements with RiteCut, and several of them refused. A number of employees left, complaining that the business had changed and it was more like being in a prison than at work.

Questions:

1. Explain how the organisational culture at RiteCut might have contributed to the fall in sales and profits.
2. Analyse the different culture the new owners introduced at RiteCut.
3. Explain how the n e w owners might have managed the change in culture more effectively.
4. To what extent will a change in culture contribute to RiteCut's future success?

Case 12

The Premature Death of a Google Forerunner at Microsoft

IN 1998, 24-YEAR-OLD Sergey Brin and 25-year-old Larry Page founded Google. They met as graduate students in computer science at Stanford University, where they began working together on a web crawler, with the goal of improving online searches. What they developed was the PageRank algorithm, which returns the most relevant web pages more or less instantaneously and ranks them by how often they are referenced on other important web pages. A clear improvement over early search engines such as

AltaVista, Overture, and Yahoo, all of which indexed by keywords, the PageRank algorithm is able to consider 500 million variables and 3 billion terms. What started as a homework assignment launched the two into an entrepreneurial venture when they set up shop in a garage in Menlo Park, California.

Today, Google is the world's leading online search and advertising company, with some 70 percent market share of an industry estimated to be worth more than $50 billion a year, and growing quickly. Though Yahoo is a distant second with less than 20 percent share, in 2008 Microsoft's CEO Steve Ballmer offered to buy the runner-up for close to $50 billion to help his company gain a foothold in the paid search business where Google rules. Yahoo turned down the offer.

What haunts Ballmer is that Microsoft actually had its own working prototype of a Google forerunner, called Keywords, more than a decade earlier. Scott Banister, then a student at the University of Illinois, had come up with the idea of adding paid advertisements to Internet searches. He quit college and drove his Geo hatchback to the San Francisco Bay Area to start Keywords, later joining an online ad company called LinkExchange. In 1998, Microsoft bought LinkExchange for some $265 million (about one two-hundredth the price it would later offer for Yahoo). LinkExchange's managers urged Microsoft to invest in Keywords. Instead, Microsoft executives shut down LinkExchange in 2000 because they did not see a viable business model in it. One LinkExchange manager actually approached Ballmer himself and explained that he thought Microsoft was making a mistake. But Ballmer said he wanted to manage through delegation and would not reverse a decision made by managers three levels below him, thus bringing an end to Microsoft's first online advertising venture.

In 2003, Microsoft got a second chance to enter the online advertising business when some mid-level managers proposed buying Overture Services, an innovator in combining Internet searches with advertisements. This time, Ballmer, joined by Microsoft's co-founder Bill Gates, decided not to pursue the idea because they thought Overture was overpriced. Shortly thereafter, Yahoo bought Overture for $1.6 billion.

Having missed two huge opportunities to pursue promising strategic initiatives that emerged from lower levels within the firm, Microsoft has been playing catch-up in the paid-search business ever since. In the summer of 2009, it launched its own search engine, Bing (an acronym for "Because It's Not Google"). Microsoft and Yahoo subsequently formed a strategic alliance, and Microsoft's new search engine will also power Yahoo searches. These two strategic moves helped Microsoft increase its share in the lucrative online search business to roughly 25 percent, up from just over 8 percent. Itn remains an open question whether this is sufficient, however, to challenge Google's dominance. In particular, Bing's increase in market share of online searches is obtained at the expense of Yahoo's, and not Google's, market share. Microsoft's

CEO Ballmer admits problems in Microsoft's strategic management process: "The biggest mistakes I claim I've been involved with are where I was impatient— because we didn't have a business yet in something, we should have stayed patient. If we'd kept consistent with some of the ideas, we might have been in paid search. We are letting more flowers bloom." 1 In the summer of 2013, Steve Ballmer announced he would retire as Microsoft's CEO by mid-2014.

Questions

1. Describe the strategic management process at Microsoft. How are strategic decisions made? What are the strengths and weaknesses of this approach?
2. Explain the role of organisational inertia in Microsoft's difficulty in establishing a presence in the online paid-search business. What could Microsoft have done differently? What recommendations pertaining to the strategic management process would you give?
3. How did two college students successfully launch a business in online search and advertising that outperforms Microsoft, one of the world's leading technology companies? Among other issues, consider the role of differences in organisational culture.
4. Why is Google successful in the online search business while Yahoo and Microsoft are struggling?

Tests

1. Document reflecting the distribution of operations within the framework of the implementation strategies, their sequence, frequency and labour intensity
1.1. Strategy Implementation Schedule
1.2. Operogram
1.3. network graph
1.4. Function matrix

2. Creation of consortiums, virtual corporations, organisational networks is typical for the implementation of the strategy by:
2.1. Forced Conversion
2.2. Continuous organisational improvement
2.3. Self-organisation

2.4. outsourcing

3. Effective for enterprises with low formalisation of structures, prepared trained and conscientious employees to implement the strategy by:
3.1. Forced Conversion
3.2. Continuous organisational improvement
3.3. Self-organisation
3.4. outsourcing
4. Used in enterprises with a high degree of formal influence guidance on how to implement the strategy:
4.1. Forced Conversion
4.2. Continuous organisational improvement
4.3. self-organisation
4.4. outsourcing

5. Structuring the firm's resources is a subject
5.1. strategic decisions
5.2. management decisions
5.3. Operational decisions
5.4. innovative solutions
5.5. 2.1 and 2.2.

6. The main factors of the project are (remove the unnecessary):
6.1. Time
6.2. Expenses
6.3. Technology
6.4. Quality

7. Directive implementation of project activities for the implementation of strategic gee is
7.1. Forced Conversion
7.2. Continuous organisational improvement
7.3. self-organisation
7.4. Implementation based on outsourcing

8. An investment proposal is:
8.1. Part of a business plan provided to potential investors for the purpose of looking forward to their more detailed acquaintance with the project.

8.2. is a brief (on 1-2 pages) summary of the content project and performance indicators.
8.3. is a comprehensive outcome document designed to provide a comprehensive justification of the feasibility of implementing and evaluating the desired project results with indication of specific actions to achieve them.

Topic 8. Strategic control

Questions to study

1. The role of control in the process of implementing the strategy
2. Choosing a strategic control system
3. Strategic and operational controlling
4. KPIs

Control questions

1. Control questions
2. The essence of control in the process of implementing the strategy.
3. Criteria for choosing a strategic control system.
4. Describe the CAPI Model.
5. Features of strategic and operational control.
6. How often are KPIs reviewed?
7. How many KPIs should an employee department have?

Assignments and case studies

<u>Case 13</u>

A change in practice: a Mauritius hospital

The problem

Nurses on a ward were handing over to the next shift by giving a one-way verbal report in a room well away from the patients. The patients' notes were not used and only a medical report was given, meaning that some key points were missed and there was no reference to the well-being of the patients.

The solution

The handovers were to b e done at each patients' bedside. Patients' notes were to be used and patients would be involved in the discussion that would cover medical and psychological issues. To do this would involve a major shift in nurses' behaviour and attitudes.

Managing the change

Themanager set a timescale of three months and carried out a force

field analysis.This showed that the driving forces were the support of the ward manager, the need to reduce medical incidents and staff desire for improvement. The forces against the change were lack of information, uncertainty, fear of increased accountability and non-overlapping shift patterns. On the basis of this a programme for change was set up.

Techniques for change

- Change announced well in advance with opportunity for initial discussion;
- New arrangements described in detail and amended following comments from nurses;
- Meetings with nurses to discuss change and reach an agreed view;
- Informal nurse leaders given responsibilities for aspects of the change;
- Practise new-style handovers arranged with opportunity for nurses and patients to comment;
- After the change constructive feedback was given to all nurses until all were implementing the change positively.

Result

The change to the handover procedure was successful as measured by nurses and patients as well as a fall in reported emergencies and patients requiring additional treatment.

Questions:

1. Discuss the importance of having a clear strategy for the success of this change.
2. What were the most important elements in the strategy for achieving this successful change?

Discussion questions

1. A housing development for old people who need care has been owned and operated by a profit-making private company for many years. A charity has been successful in buying the development from the company. Explain the steps the new management might have to take to change the culture of the organisation.
2. "The effective management of strategic change in today's world will be the main factor determining the success or failure of a multinational business." To what extent do you agree with this view?
3. Evaluate the view of a food manufacturer that: "Contingency planning is a waste of resources, as major accidents are often unavoidable but, in any case, they rarely occur."
4. "In markets with increasing competition resulting from globalisation, ti is essential for all businesses to adopt an entrepreneurial culture fi they are to succeed." To what extent do you agree with this view?

Endnotes

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