

Elements of corporate strategy: Part 1 of 2

Introduction

The formulation of corporate strategy is a subject which does not lend itself to a generic approach which can be copied and “tailored to fit”. The various examples on these pages are given as such, and are not put forward as “best practice”. Even some of the definitions and concepts are interpreted in different ways, and individual circumstances will dictate how a specific strategy should be developed and implemented, depending on the circumstances of the organisation in question.

Corporate strategy is based on knowing:

Where your organisation is today

Where you want it to be

How you want to get there.

The risk of not changing and improving can be as significant as the risks which may affect your plans to develop your business – your competition is almost certainly changing and moving ahead, and you are likely to be left behind in terms of efficiency, reputation and financial success if you do not learn lessons and appreciate what factors may influence your likely success in delivering your business goals.

These factors all impact on your corporate strategy and business plan. If the purpose of the plan is business development rather than (just) a means of raising finance, it should be the basis for your management system - if the business plan is finalised on Friday afternoon, the management system [see Management systems] is how you will implement it from next Monday morning.

“Defining corporate strategy” is a process. The objective of the process is to combine the activities of the various functional areas of a business in a way which will achieve its organisational objectives.

It is not always written down or explicit, but it should determine how you:

- are organised
- set objectives, define policies and allocate resources
- operate on a day-to-day basis (ie your operational processes).

[See Specifying, designing and developing processes, products and services and Management systems]

The output of the process is a strategic plan which will set the parameters for detailed operational and departmental plans.

What Skills Do You Need?

In module B3 (Develop a Strategic Plan for your Organisation) of the National Occupational Standards for Management and Leadership, the “Outcomes of Effective Performance” state that you must be able to:

1. Establish a clear, achievable and compelling vision which sets out where the organisation should be going.
2. Identify and prioritise strategic objectives that are consistent with the vision of the organisation.
3. Balance risk with desired outcomes.

4. Balance innovation with tried and tested solutions.
5. Ensure that your plan is flexible and open to change.
6. Develop policies and values that will guide the work of others towards your vision.
7. Delegate responsibility for achieving goals and allocate resources effectively.
8. Identify measures and methods for monitoring and evaluating the plan.
9. Balance the needs and expectations of key stakeholders and win their support.

Some Key Concepts

Various terms are commonly used in connection with the overall business planning process (whereby you define your aims and objectives, your strategy for achieving them, and the means by which you will implement the strategy, ie your management system - see Management systems) and are explained below. To use an analogy, if the development and progress of an organisation is a journey, its:

Vision could be regarded as the reason for making the trip, and selecting the intended destination

Values influence the choice of path, the direction and speed of travel, and may even affect how you decide on your destination

Mission is the path it will travel

Strategy defines the direction and speed it will travel

Policies influence how the journey is made

(**Tactics** may be required if the path is blocked or is rougher than expected.)

Your “Vision” (Where you would like to see yourselves in the future)

A “vision” statement communicates both the purpose and values of the organisation. For employees, it gives direction about how they are expected to behave and (should) inspire them to give of their best. Shared with customers, it can influence their attitude to why they should work with the organisation.

It should be a concise, compelling statement defining the organisation’s long-term direction, what the organisation intends to become in, say, 5 to 10 years time. It should have sufficient detail that it can be recognised as complete once accomplished.

It defines what the organisation is working towards. In effect, it says how the organisation would like to be thought of and remembered.

Lou Tice of the Pacific Institute has a view on setting personal goals. In essence, you must make the mental picture of your goal or vision clearer and brighter than the current reality, so that your subconscious can work to help you achieve it.

In the same way in business, you should develop the organisation’s culture, values and behaviour so that they can help people to achieve your vision without thinking consciously about it.

Your Values

Values are:

“the guiding beliefs about how you should operate”.

Core values reflect what is important to an organisation, and they may well be a factor in how the overall “vision” is defined. They do not change from time to time and in different situations, and they underpin the culture of the organisation. With Corporate Social Responsibility (CSR) becoming an increasingly important issue in many quarters, more and more firms are taking action to turn their organisation’s values into a competitive asset.

Example Values: IBM

- Dedication to every client's success
- Innovation that matters, for our company and for the world
- Trust and personal responsibility in all relationships.

Your Mission (Why you exist)

The “mission” of an organisation describes its overall function (*“what is this organisation trying to accomplish?”*) It defines the key measures of the organisation’s success. It should reflect the organisation’s purpose, values and intended market (*what we do, and for whom*). It does not (necessarily) define how you do it.

Example Mission statements

Microsoft: *“To enable people and businesses throughout the world to realize their full potential. As a company, and as individuals, we value integrity, honesty, openness, personal excellence, constructive self-criticism, continual self-improvement, and mutual respect. We are committed to our customers and partners and have a passion for technology. We take on big challenges, and pride ourselves on seeing them through. We hold ourselves accountable to our customers, shareholders, partners, and employees by honoring our commitments, providing results, and striving for the highest quality.”*

Yahoo: *“To connect people to their passions, their communities, and the world's knowledge. To ensure this, Yahoo offers a broad and deep array of products and services to create unique and differentiated user experiences and consumer insights by leveraging connections, data, and user participation.”*

Google: *“To organise the world's information and make it universally accessible and useful.”*

Some readers may not know that the **CQI**'s mission is:

“To work internationally to improve the quality of coffee and the lives of the people who produce it.”

[This is the mission of the **Coffee Quality Institute (CQI)** (www.coffeeinstitute.org) - the “other” **CQI**'s mission is

“To place quality at the heart of every British business”!]

Your Corporate Strategy (How you will do it)

Corporate strategy is concerned with *deploying* the available resources to achieve your objectives whereas *tactics* are concerned with *employing* them. Strategy will affect the overall direction of the organisation and establish its future working environment.

Corporate strategy defines the markets and the businesses in which an organisation chooses to operate. Competitive or business strategy defines the basis on which it will compete. Corporate strategy is typically decided in the context of the organisation's mission and vision (what the organisation does, why it exists, and what it intends to become).

Competitive strategy depends on an organisation's capabilities, strengths, and weaknesses in relation to market characteristics and the corresponding capabilities, strengths, and weaknesses of its competitors. According to Porter, competition within an industry is driven by five basic factors:

1. Threat of new entrants.
2. Threat of substitute products or services.
3. Bargaining power of suppliers.
4. Bargaining power of buyers.
5. Rivalry amongst existing firms.

In *Top Management Strategy*, Benjamin Tregoe and John Zimmerman, of Kepner-Tregoe, Inc, define strategy as "*the framework which guides those choices that determine the nature and direction of an organisation. Ultimately, this comes down to selecting products (or services) to offer and the markets in which to offer them.*"

They propose that executives base these decisions on a single "driving force" of the business. Although there are nine possible driving forces, they say that only one can serve as the basis for strategy for a given business. The nine possibilities are:

Products offered / Production capability / Natural resources / Market needs / Method of sale / Size/growth / Technology / Method of distribution / Return/profit

Your Policies

Policies are:

<i>"the intentions and principles which provide a framework for how an organisation means to operate"</i>
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Policies must be relevant to the organisation's mission and plans. They will influence how processes are designed, managed and implemented - or even if they need to exist.

Compliance with external standards requires that you have a suitable policy for the achievement of quality / environmental management etc, which must be communicated to and understood by your staff.

You will also have policies (whether formal or informal) relating to your attitude to staff and their development, the selection of suppliers and a range of other matters. It is important that these are also clear and consistent, so that your people can easily apply them to the processes in which they work.

Where Are You Now?

Rather than trying to apply the Deming “PDSA” cycle to the definition of corporate strategy, it makes more sense to follow an **APA** (Assess / Plan / Act) process to emphasise:

- i) the importance of the first (Assess) stage
- ii) the fact that it is not a continuous cycle but a repetitive process carried out at intervals.

Whether you are a start-up company deciding on your key priorities or a long-established business facing changing market conditions or planning to expand, there will be times when you as senior management need to:

Assess: consider your current position and capabilities (where do you want to be in your chosen market “space”, what are your “core competences” (see below), what is the strategic fit?), gather information, identify risks and other factors that might influence how you will operate, clarify overall objectives, consider available options which will take you where you want to get to

Plan: define a detailed and costed action plan to deliver the selected option(s), formulate policies, decide how to mitigate risks

Act: put your plans into action.

Core competences: the concept of “core competencies” was developed by Prahalad and Hamel through articles in the Harvard Business Review and their book “Competing for the Future”. The idea is that, over time, an organisation may develop areas of expertise that are both distinctive to the organisation and essential for long term growth. They are most likely to develop in the core functions of the organisation where the most value is added to its products.]

From time to time, and certainly when significant change (internal or external) is foreseen, you should revisit each to:

Review progress, assess the significance of changes which have occurred since the plan was put in place

Revise the plan accordingly

Refine how you put the plan into action.

ASSESS (/ Review)

You need to consider at least the following key areas:

Turnover / Growth / Products / People / Resources / Markets, Customers, Competitors.
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Turnover and Growth

What are your current (and forecast) financial position and sales trends?

Will you need to raise additional funds, and if so how?

Product (goods and services)

What is the current and planned "output" of goods & services?

How have existing products developed and where are they in their lifecycles?

What new products are needed and when will they be ready?

What are the main attributes of the products?

People

Do you have the right team in place with the required range of skills?

If not, how will you fill the gaps?

Resources

In what condition (age, suitability, reliability) are your premises, plant and equipment?

Can new technology enable you to do different things, and to do things differently?

Can you strengthen your relationships with partners and suppliers?

Market Profile and Competitor Analysis

Who are your current and potential customers?

Who buys, and who influences the decision?

What are their needs?

What are the main market segments?

What and where is the competition?

Who are they, strengths and weaknesses, market sectors?

Are your promotional, selling and distribution channels established and working?

Answering these questions involves a mix of internal analysis & an analysis of relevant external factors which come together in

SWOT: Strengths / Weaknesses / Opportunities / Threats

analysis summary which should inform your strategy selection.

Some of the more popular methods of assessing the factors which should influence your strategy include:

PEST: Political / Economic / Sociocultural / Technological

PESTLE: Political / Economic / Social / Technological / Legal / Environmental

SLEPT: Social / Legal / Economic / Political / Technological

PESTELO (used by UK police forces): Political / Economic / Social / Technological / Environmental / Legal / Organisational.

The various factors which have to be considered are:

Social: consumer habits and the status of the general public (eg demography, income profile).

Legal: government and other legislation.

Economic: retail sales figures, stock market trends, GDP, balance of payments, labour markets and issues (eg a change in the minimum wage).

Political: changes in government influence (eg EU legislation).

Technological: developments and trends.

Environmental: aspects and impacts, legislation changes, public attitudes.

Organisational: organisational culture, availability of trained staff.

Strategic objectives might include:

- to maintain a “virtual” business structure that operates electronically through a series of partnerships and associations
- to seek to acquire a similar organisation in each of our targeted regions within the next 24 months
- to introduce a new product every 9-12 months
- to maximise our turnover and profitability for the next 3 years with a view to selling the organisation.

PLAN (/ Revise)

Where Do You Want To Be?

Define the strategic direction of the business, and your objectives, in terms of

Physical appearance / Size / Premises and locations / Products and services / Methods of distribution / Staff / Markets / Corporate image.

How Will You Get There?

Consider all key issues and create a strategic plan for each, all supporting the overall mission):

- Marketing: segments, promotion, selling, products
- People: training, communication, culture
- Resources: required and available
- Finance: funding, pricing, profit.

Define policies to be followed:

- eg: diversification / organic growth or acquisitions / methods of funding growth / product development / in-house or subcontract production.

Set clear goals, action plan, timescale.

- What results are needed in the medium term?
- What has to happen / not happen for the business to develop?
- What are the main risks and how can they be overcome?

Assess financial implications:

- basis for financial calculations (assumptions and constraints, sensitivity analysis)
- current financial commitments
- for each major product / project: major elements of cost / expected revenue / timescale.

Operational objectives support the longer-term strategic objectives. They should be measurable and should relate to both the vision and mission.

They are detailed, costed and timed plans of what you will do to meet each strategic goal.

They set out a work plan, typically over a 12-month period.

ACT (/ Refine)

The usual issues relating to the management of change are further complicated by the fact that some senior managers may have little idea of how the organisation really works, and on the other hand those involved in day-to-day operations are far removed from corporate pressures and priorities.

Working to a timetable of major milestones should help to ensure that the plan is followed, the objectives achieved and steps are taken to bring you closer to your long term “vision” for the organisation.

Sources

C.K. Prahalad & Gary Hamel (“Competing for the Future”) Harvard Business School Press 1996

Henry Neave (“The Deming Dimension”) (an explanation of J Edwards Deming’s philosophy)

Michael Porter (“What is Strategy?”) Harvard Business Review Nov-Dec 1996, (“Competitive Strategy”) Harvard Business School Press 1986, “Competitive Strategy: Techniques for Analyzing Industries and Competitors” 1980.

Tregoe and Zimmerman (“Top Management Strategy”) Simon and Schuster 1980

Management Standards Centre (www.management-standards.org) (responsible for developing a new set of National Occupational Standards (NOS) for management and leadership)

The Pacific Institute (www.thepacificinstitute.com) “TPI teaches people how to manage change, set and achieve goals, lead more effectively and think in ways that create success.”

This is one of four modules written in 2007-2008 by Peter Fraser of MandOS for the Chartered Quality Institute (CQI)’s Body of Quality Knowledge (BoQK). The BoQK (see www.thecqi.org/knowledge) is the framework that defines the current boundaries of knowledge of the quality profession in the UK. It acts as one of the foundations that defines the quality profession and provides the basis for regulation.

The categories of the BoQK are:

- Concepts of quality, its history and development
- Customers, suppliers, other stakeholders and markets
- Interactions of organisations and people
- Technologies and techniques
- Laws, standards, models, associations and professional bodies
- Corporate strategy.

The four modules are:

- **Specifying, Designing and Developing Processes, Products and Services**
- **Management Systems**
- **Elements of Corporate Strategy**
- **Evolution of Quality Thinking Post 1970**