

Strategic Management

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Week Three

Lecture 2



Learning Outcome

01

Understand the differences between the two traditional models of strategy and the strengths and weaknesses of each

02

Explain the steps in the strategic management process and the interrelatedness of its sequence of steps

03

Appreciate the different corporate and business unit strategies and the human resource challenges inherent with each

04

Understand the different human–resource related challenges in private and publicly held organizations

Introduction

Strategic Management

Strategic management is the process of formulating and implementing an action plan to achieve corporate objectives, specifically including how these objectives are to be met.

Senior management must find “fit” between the organization, its strategy and its environment. Strategic plans are long-range in nature, and require review and updating to ensure continued fit.



Introduction

Introduction

The central idea behind strategic human resource (HR) management is that all initiatives involving how people are managed need to be aligned with and in support of the organization's overall strategy. No organization can expect to be successful if it has people management systems that are at odds with its vision and mission.



Models of Strategy

Industrial Organization (I/O) Model

- External environment should be the primary determinant of firm strategy.
- External environment presents threats and opportunities, and equal access to highly mobile resources across industry firms.
- Organizations should operate within the industry that affords the best opportunities, and where competitive advantage can be developed.

Resource Based View of the Firm (RBV)

- Organizational resources and capabilities, including human resources, should be the basis for strategic decision making.
- Organizations can develop a competitive advantage through the acquisition and value enhancement of their resources.

Week

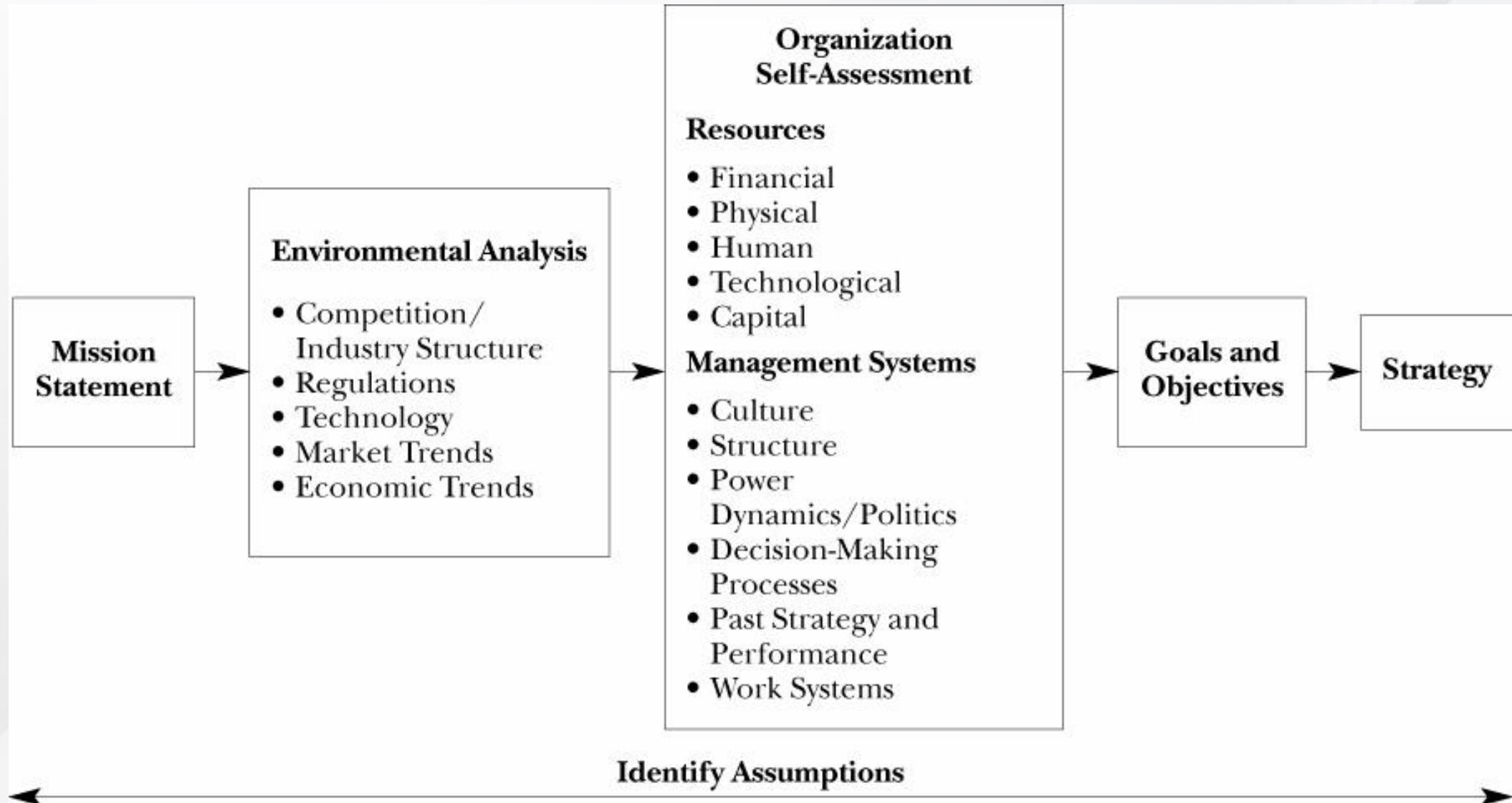
Contrasting the two approaches

Industrial Organization (I/O) Model	Resource Based View of the Firm (RBV)	
External consideration drive strategy	Internal consideration drive strategy	Research provides support for both positions.

Process of Strategic Management



Process of Strategic Management



1- Define Mission Statement

- A statement that explains in very simple terms the organization's purpose and reason for existence.
- Mission statements are usually very broad and generally limited to no more than a couple of sentences.
- Although the statement appears to be simple, it is often very difficult to construct because it serves as the foundation for everything that the organization does.
- It requires those formulating it to have a clear and articulated understanding and vision of the organization and to be in consensus on what the organization is all about and why it exists in the first place.

Microsoft Vision, Mission and Values

Vision: To help people and businesses throughout the world realize their full potential.

Mission: Our mission is to empower every person and every organization on the planet to achieve more.

Values:

- Integrity and honesty
- Passion for customers, partners, and technology
- Open and respectful with others and dedicated to making them better
- Willingness to take on big challenges and see them through
- Self-critical, questioning and committed to personal excellence and self-improvement
- Accountable for commitments, results, and quality to customers, shareholders, and employees.



2- Analysis of the Environment

Upon establishing a mission statement, the next step is to analyze the external environment in which the organization operates consistent with the I/O model of strategic management.

Decision makers need to analyze a variety of different components of the external organization, identify key “players” within those domains, and be very cognizant of both threats and opportunities within the environment.

Among the critical components of the external environment are competition and industry structure, government regulations, technology, market trends, and economic trends

Important Factors in the External Environment

Sociocultural	Technological	Economic	Ecological	Political–Legal
Lifestyle changes Career expectations Consumer activism Rate of family formation Growth rate of population Age distribution of population Regional shifts in population Life expectancies Birthrates Pension plans Health care Level of education Living wage Unionization	Total government spending for R&D Total industry spending for R&D Focus of technological efforts Patent protection New products New developments in technology transfer from lab to marketplace Productivity improvements through automation Internet availability Telecommunication infrastructure Computer hacking activity	GDP trends Interest rates Money supply Inflation rates Unemployment levels Wage/price controls Devaluation/revaluation Energy alternatives Energy availability and cost Disposable and discretionary income Currency markets Global financial system	Environmental protection laws Global warming impacts Non-governmental organizations Pollution impacts Reuse Triple bottom line Recycling	Antitrust regulations Environmental protection laws Global warming legislation Immigration laws Tax laws Special incentives Foreign trade regulations Attitudes toward foreign companies Laws on hiring and promotion Stability of government Outsourcing regulation Foreign “sweatshops”

3- Organization Self-Assessment

After analyzing external threats and opportunities, companies need to look inward. This internal assessment, the third stage of strategic management, focuses on identifying strengths and weaknesses. The goal is to leverage strengths (as highlighted by the RBV theory) and address weaknesses to maximize success. This involves examining both the resources available and the internal processes that govern how the company operates.

Organization Self-Assessment- Internal Resources

Financial Resources	Physical Resources	Human Resources	Technological Resources	Capital Resources
The ability to generate or borrow funds allows companies to invest in other assets and influence overall performance.	Includes tangible assets like machinery, facilities, and location. These resources can vary greatly depending on the industry (e.g., a manufacturing plant vs. an e-commerce business).	Employees' skills, knowledge, and motivation are crucial for success. The organization's commitment to its workforce also plays a role.	The processes and technologies used for production can impact cost structures and efficiency. Protecting these processes through patents can be a valuable advantage.	Intangible assets like brand reputation, customer relationships, goodwill. Can be more sustainable sources of advantage because they're often harder for competitors to replicate.

Organization Self-Assessment- Internal management systems

Culture: Understanding the company's core values and how they impact employee behavior is crucial. These values can be unspoken assumptions that guide daily activities.

Structure: The organizational structure defines how work is done, how departments interact, and who's accountable. Different structures suit different strategic goals, so choosing the right one can be a catalyst for success.

Power Dynamics & Politics: It's important to identify who truly holds power and how political maneuvering influences decision-making. Power doesn't always reside with high-ranking positions, and understanding these dynamics is key.

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Organization Self-Assessment- Internal management systems

Decision-Making Processes: Efficient decision-making is vital. Analyzing who makes decisions, who's involved, information flow, and speed of decision-making helps identify potential roadblocks or competitive advantages.

Past Strategy & Performance: Examining past strategic initiatives and their outcomes allows companies to learn from successes and failures, identify what worked and what didn't, and adapt future strategies accordingly.

Work Systems: These involve designing jobs and assigning responsibilities to achieve goals. This includes ensuring a good fit between job requirements and employee skills, and considering if training current employees or seeking external hires is necessary to meet future needs.

Organization Self-Assessment- Internal management systems



4- Establishing Goals and Objectives

Following Mission & Analysis: Goals are established after defining the organization's mission, analyzing the external environment (opportunities & threats), and assessing internal resources & management systems (strengths & weaknesses).

Specificity & Measurement: Goals should be clear and measurable. Deciding how performance will be measured is crucial when setting goals, as achieving them without a way to track progress is pointless.

4- Establishing Goals and Objectives

Flexibility & Adaptation: Goals need to be flexible. Since the future is uncertain, overly rigid goals can become unrealistic. They should be adaptable based on how external events unfold. Upward or downward adjustments may be necessary.

Strategic Vision in Volatile Environments: Highly volatile environments might benefit more from a long-term strategic vision, which is less detailed and formal than strategic plans but still guides daily decision-making at all levels.

5. Setting Strategy

Strategy After Goals: Once goals are defined, the organization determines its strategy – the specific actions and overall approach to achieve those goals.

HR's Role in Strategy: The HR department plays a crucial role throughout strategic management. Their involvement is essential for successful planning and implementation.

HR Strategy Alignment: Strategic choices need to be translated into a general HR strategy. This ensures alignment between the overall organizational strategy and specific HR practices, policies, and programs.

5. Setting Strategy

Fit Between Strategies: The ideal HR strategy creates a "fit" by aligning individual HR programs and policies with the broader corporate strategy.

Uniqueness Matters: There's no one-size-fits-all approach to HR strategy. Each organization is unique, and "best practices" should be evaluated based on their specific context and needs.

Corporate Strategies

Different corporate strategies require different approaches to Human Resources (HR). Here's a breakdown:

Types of Strategies & HR Needs:

Growth Strategy: Focuses on expanding the company. HR challenges include:

- Hiring and training new employees quickly.

- Communicating promotion and development opportunities to existing employees.

- Maintaining quality standards during rapid growth.

Stability Strategy: Aims to maintain the current state. The main HR challenge is limited employee opportunities due to lack of growth. Retention strategies are crucial.

Corporate Strategies

Turnaround Strategy:

Aims to downsize or streamline operations. Key HR challenges are:

- Cost reduction, often through layoffs. This requires careful legal compliance.
- Managing "survivors" - employees who remain after layoffs. They may be demoralized and require support to maintain productivity.

HR's Role in Different Strategies:

- HR plays a vital role in adapting its programs to each strategy.
- Growth requires HR to focus on recruitment, training, and development.
- Stability requires retention strategies to keep employees engaged.
- Turnaround situations necessitate managing layoffs ethically and supporting remaining employees through a difficult period.

Corporate Strategies

Growth

Expanding internally (hiring more) or externally (acquisitions).

HR challenges include:

- Planning for new hires and training.
- Keeping employees informed about growth opportunities.
- Maintaining performance and quality.
- Merging HR systems and cultures (for acquisitions) - this can lead to layoffs.

Stability

Organizations maintain the status quo, often resulting in limited upward mobility opportunities for employees that can lead to turnover.

HR challenges include:

Key employees should be identified and retention strategies developed.

Turnaround or Retrenchment

Organizational downsizing or down scoping may lead to cost cutting in payroll/HR.

Best Buy's Turnaround Strategy: From Decline to Revival

Introduction:

In 2012, Best Buy faced a critical situation. Their stock price had plummeted, and the rise of online retailers and competitor strategies threatened their business model. They needed a turnaround strategy to stay afloat.

Best Buy's Turnaround Strategy: From Decline to Revival

Challenges:

Showrooming: Customers browsed products in-store but purchased them online for lower prices.

Online Discounting: Online retailers offered deep discounts without the overhead costs of physical stores, making competition fierce.

The Apple Experience: Apple's retail experience provided highly trained staff and encouraged customer interaction with products, making Best Buy's approach seem outdated.

Weak Customer Loyalty: There was little incentive for customers to build relationships with Best Buy, hindering repeat business.

Best Buy's Turnaround Strategy: From Decline to Revival

Solutions:

Enhanced Customer Service: Best Buy planned to invest in employee training to improve customer service skills and incentivize sales associates to close deals during browsing.

Cost Reduction & Price Matching: Closing stores and reducing staff aimed to cut costs by \$800 million, allowing Best Buy to pass savings on to customers and compete with online discounts.

Product Focus Shift: Remodeling stores and prioritizing high-demand products like tablets and smartphones would cater to changing consumer preferences.

Loyalty Program Expansion: Expanding the existing program with free shipping and a price match guarantee aimed to attract and retain customers.

By addressing these challenges head-on, Best Buy's turnaround strategy aimed to regain a competitive edge in the evolving retail landscape.

Business Unit Strategies

Cost Leadership:

Aims to be the most efficient competitor, offering lower prices.

This strategy works best when:

- Customers are highly price-sensitive.
- Products or services are perceived as similar across brands.

Differentiation: Focuses on creating unique products or services that command premium prices and brand loyalty.

Focus Strategy: Targets a specific market segment with unique needs.

Business Unit Strategies

HR Implications for Each Strategy:

Cost Leadership:

- HR focuses on short-term performance measures and efficiency.
- Jobs are specialized, with cross-training during downtime.
- Incentives might encourage employee departures, especially high-salary managers.

Differentiation:

- HR incentivizes creativity and innovation to distinguish the product/service.
- Performance measures focus on long-term brand building.
- Staffing may prioritize external hiring for fresh perspectives.

Focus Strategy:

- HR ensures employees understand the target market's unique needs.
- Training and customer satisfaction are critical.
- Hiring may target individuals who share the target market's characteristics.

Business Strategies

Cost Leadership

Focuses on being the most efficient and cheapest producer.

HR prioritizes short-term cost-cutting over long-term employee development.

Specialized jobs with less need for broad skills.

Cross-training employees.

Incentives for higher-paid employees to leave (e.g., early retirement packages).

Differentiation

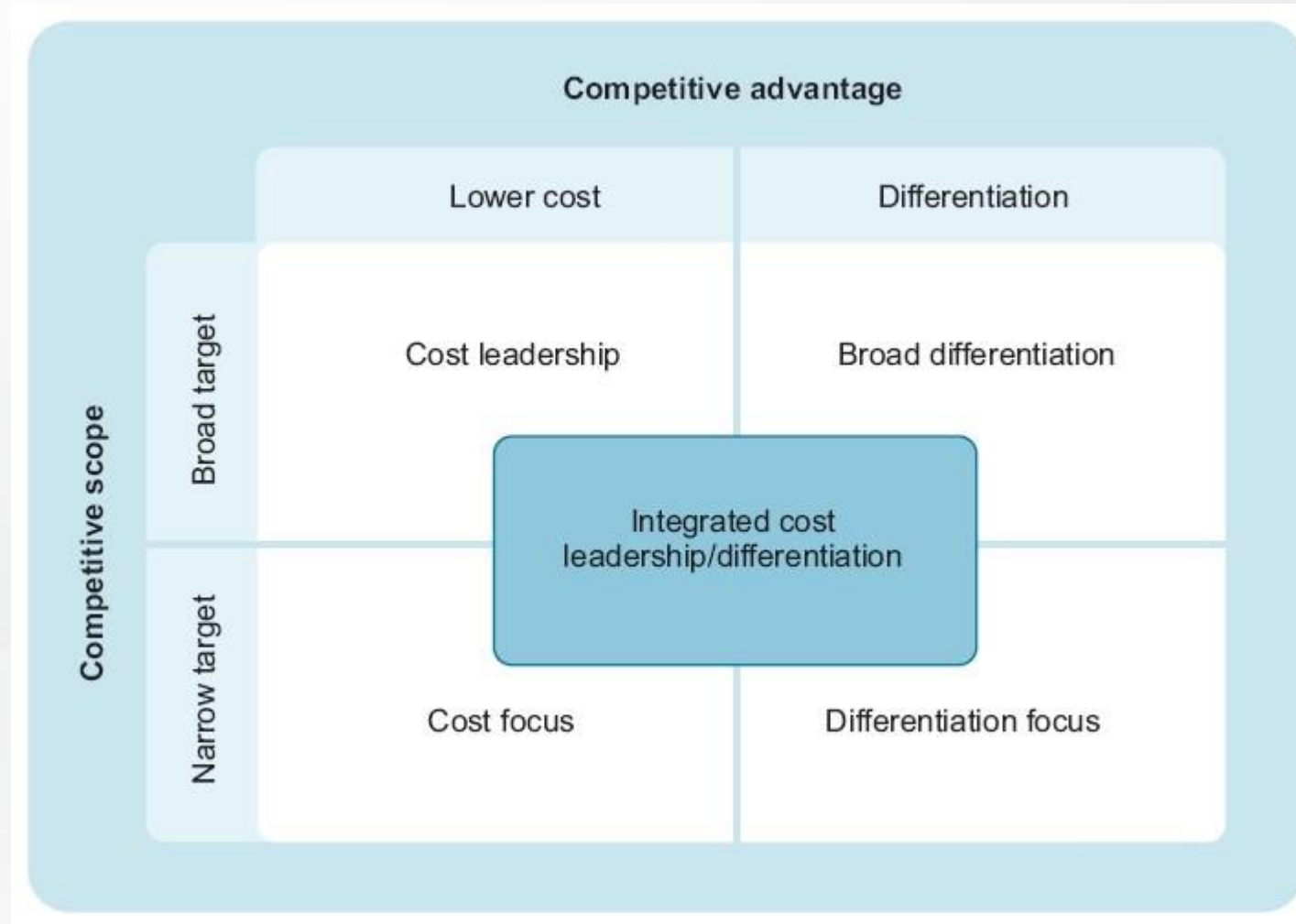
- Standing out from competitors through unique products, services, or brand image.
- Use premium pricing based on the perceived value.
- Performance metrics focus on long-term goals like brand loyalty.
- May Emphasize external recruitment to bring in fresh ideas and creativity.
- Train existing staff less on cost-cutting and more on understanding the unique value proposition.

Differentiation Focus

Assumes that different market segments have different needs, and attempts to satisfy particular groups.

Employees must be aware of what makes that particular market unique, and should be appropriately trained to ensure customer satisfaction.

Business Strategies



General Electric Cost Differentiation Strategy

General Electric (GE) serves as a prime example of a company that successfully implemented a value cost leadership strategy. In the 1990s, GE faced challenging economic times, prompting them to re-evaluate their strategies.

Instead of solely focusing on cost reduction, GE adopted a more comprehensive approach that emphasized improving product and service quality while cutting unnecessary expenses.



General Electric Cost Differentiation Strategy

This strategy involved initiatives such as:

Design for manufacturability: Redesigning products for ease of manufacturing to reduce production costs.

Supply chain management: Optimizing the supply chain to minimize inventory and transportation costs.

Targeted cost reduction: Focusing on reducing expenses in non-core areas while protecting investments in innovation and quality.



General Electric Cost Differentiation Strategy

Outcomes of the Value Cost Leadership Strategy:

The value cost leadership strategy led to a significant transformation for GE:

Improved financial performance: GE's profits saw a significant increase after implementing this strategy.

Enhanced customer satisfaction: Customer satisfaction with GE's products and services rose.

Maintained innovation: GE continued to invest in research and development, leading to new innovations.



Business Unit Strategies

Additional Business Unit Strategy Framework:

This framework categorizes strategies by "logics of control":

Investment Logic: Focuses on adapting to changing markets.

HR utilizes loose control and minimal rules to encourage adaptability.

Jobs are broadly defined, and compensation rewards initiative and creativity.

Inducement Logic: Focuses on cost control and efficiency.

HR uses tight controls like budgets and reports to manage day-to-day operations.

Jobs are narrowly defined for maximum efficiency.

Loyalty and commitment are rewarded to reduce turnover.

Business Unit Strategies

Additional Business Unit Strategy Framework:

Involvement Logic: Balances cost control with innovation.

HR adopts a mix of practices from Investment and Inducement logics.
In conclusion, HR strategy needs to be aligned with the specific business unit strategy to achieve optimal results.

Business Unit Strategies

Innovation as a Driver:

Innovation can fuel growth, turnaround efforts, and even retrenchment strategies seeking new ways to operate.

Innovation & Existing Strategies:

Cost leadership, differentiation, and focus strategies can all benefit from or even require innovation.

Innovation as a Competency: Some companies, like Procter & Gamble, view innovation as a core skill and assess it in new hires.

The Privatization Decision as Part of Strategy

Public vs. Private Ownership:

- **Typical Path:** Most companies start private and then go public (IPO) to raise capital for growth.
- **Newer Trend:** Publicly traded companies are increasingly choosing to go private.

Reasons for Going Private:

- **Dissatisfaction with Wall Street:** Executives may feel their stock is undervalued and analysts' demands are burdensome.
- **Compliance Costs:** Increased regulations like Sarbanes-Oxley Act have made being public more expensive.

While privatization is a significant decision, it's not a complete strategy itself. It's a choice made within the context of a company's overall strategic direction.

HR Challenges: Public vs. Private Organizations

Public organizations face stricter HR constraints due to bureaucratic red tape and government regulations, limiting their flexibility compared to private companies.

However, this doesn't negate the possibility of innovation in public Organizations. By strategically applying creative practices, public organizations can still achieve significant improvements in effectiveness and efficiency.

Case Study: Abu Dhabi National Oil Company (ADNOC)

Introduction:

The Abu Dhabi National Oil Company (ADNOC), established in 1962, is a leading integrated oil and gas company headquartered in Abu Dhabi, United Arab Emirates. As a key driver of the UAE's economy, ADNOC plays a critical role in the global energy sector. It boasts a significant production capacity, with ambitions to further increase its output in the coming years.



Case Study: Abu Dhabi National Oil Company (ADNOC)

Main Challenges:

Despite its success, ADNOC faces several challenges in today's dynamic energy landscape:

Global Oil Price Fluctuations: The oil and gas industry is susceptible to volatile market conditions. ADNOC needs to navigate price fluctuations to ensure financial stability.

Shifting Energy Landscape: The growing focus on renewable energy sources and environmental sustainability presents a long-term challenge for ADNOC's core business.

Talent Acquisition and Retention: Attracting and retaining top talent in a competitive global market is crucial for ADNOC's continued success and technological advancement.



Case Study: Abu Dhabi National Oil Company (ADNOC)

Strategy: The Abu Dhabi National Oil Company (ADNOC) implemented its "Talent 2030" strategy to develop its human capital and ensure global competitiveness. This strategy includes the following elements:

Attracting Global Talent: ADNOC offers competitive salaries and benefits, professional development programs, and flexible work opportunities to attract top talent from around the world.

Developing Local Talent: ADNOC focuses on developing the skills and capabilities of Emirati citizens through training and education programs, mentorship initiatives, and vocational training.

Building a Performance Culture: ADNOC fosters a culture of high performance and accountability, rewarding employees for their achievements.

Enhancing Innovation: ADNOC incentivizes employees to innovate through incentive program and provides them with the resources to experiment with new ideas.



Conclusion

- **Importance of Strategy Alignment**
- **Strategy Models**
- **The process of Strategic Management**
- **Corporate Strategies**
- **Business Strategies**
- **New framework for Business Unit Strategies**
- **New Trends in setting strategies**

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Thank You