

Strategic Management

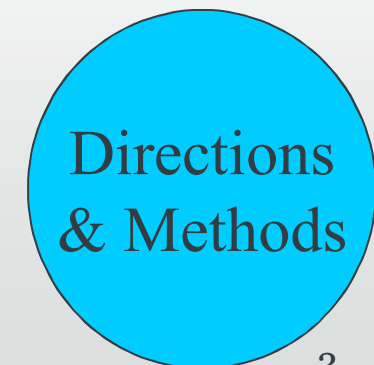
Strategic Options and Evaluation

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January 2012

Learning Outcomes for Week

Directions of Strategic Development

- Identify Directions of Strategic Development using the Ansoff Model.
- Explore methods of Strategic Development.
- Recognition of choices within strategic context.
- Evaluate Strategies in terms of Suitability, Feasibility & Acceptability.
- To be able to rank options against the evaluation criteria



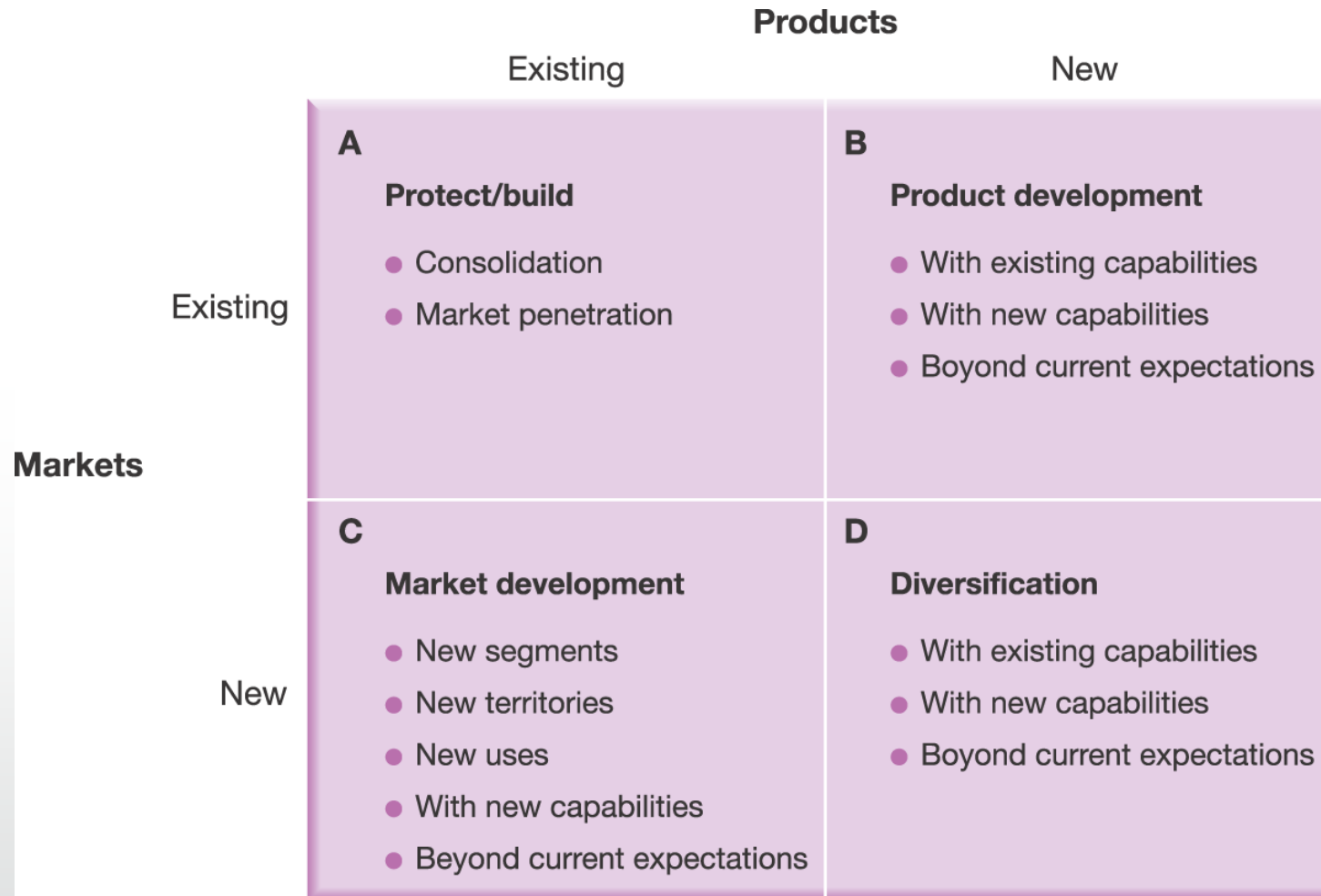
Motives for Strategies

- Environment-based
 - Fit strategies to changing business environment
- Capability-based
 - Stretch and exploit organisational resources and competences
- Expectations-based
 - Meet expectations deriving from cultural and political context
 - N.B. Options are not mutually exclusive and organisations can pursue several strategic options.

Development Directions

Development directions are the strategic **options** available to an organisation, in terms of **products and market coverage**, taking into account the **strategic capability** of the organisation and the **expectations of stakeholders**

Strategy Development Directions



Source: Adapted from H. Ansoff, *Corporate Strategy*, Penguin, 1988, Chapter 6.

Protect and Build

Consolidation - Protect and strengthen position in current markets with current products

- Downsizing or withdrawal from activities
- Maintenance of market share

Market penetration - Organisation gains market share

- Leverage competences
- Desirability of dominant market share

Product Development

Deliver modified or new products to existing markets

- With existing capabilities
 - Follow changing customer needs
 - Short product life cycles
 - Exploitation of core competence in market analysis
- With new capabilities
 - Change of emphasis in customer needs
 - Change in Critical Success Factors (CSFs)
- Associated dilemmas
 - Expense, risk and potential unprofitability
 - Unacceptable consequences of not developing new products

Market Development

Offer existing products in new markets

- New market segments with similar CSFs
- New uses for existing products
- New geographic markets
- Issues
 - Normally requires some product development and capability development
 - Credibility and expectations

Diversification

A strategy that takes the organisation away from both its current markets and products

- Related diversification
- Unrelated diversification

* Relate to week 6

Methods of Strategy Development

- Internal Development
 - Build on and develop an organisation's own capabilities
 - Organic development
- Mergers and Acquisitions
 - Take over ownership of another organisation
- Strategic Alliances
 - Two or more organisations share resources and activities

N.B. Methods are not mutually exclusive.

Motives for Internal Development

Environment	Capabilities	Expectations
Lack of choice – breaking new ground/only one in field	Develop highly technical products in-house to create core competence	Avoid culture clash
Inability to find suitable acquisition target	Develop new markets – direct involvement to increase understanding & create core competence	Avoid potential incompatibility
	Spread cost over time – easier for companies with limited resources	

Motives for Mergers and Acquisitions

Environment	Capabilities	Expectations
Speed in fast-moving product/market	Exploit core competences in new arena	Institutional shareholders want continuing growth
Competitive situation – static market, avoid competitor reaction	Address lack of resources or competences	Ambitions of senior managers
Deregulation – created suboptimal units ripe for acquisition	Cost efficiency	Speculative to boost short-term share value
Financial – opportunistic acquisition of firm with low share value	Learning	

Issues in Making Acquisitions Work

In many cases acquisitions fail to improve financial performance. Companies commonly overpay.

- Difficult to add any value
- Inability to integrate the new company
- Difficult to identify which knowledge to transfer for organisational learning
- Problems of cultural fit, especially for cross country acquisitions

Motives for Strategic Alliances

- Need for critical mass
 - Cost reduction
 - Improved customer offering
- Co-specialisation
 - Each partner concentrates on using own capabilities, e.g. geographical market entry, value chain activities, Public Finance Initiative
- Learning
 - Helps to develop future competences

Types of Strategic Alliance

		FORM OF RELATIONSHIP		
<i>Examples</i>		Loose (Market)	Contractual	Ownership
INFLUENCING FACTORS		<ul style="list-style-type: none"> ● Networks ● Opportunistic alliances 	<ul style="list-style-type: none"> ● Licensing ● Franchising ● Subcontracting 	<ul style="list-style-type: none"> ● Consortia ● Joint ventures
The Market	<ul style="list-style-type: none"> ● Speed of market change 	Fast change	→	Slow change
Resources	<ul style="list-style-type: none"> ● Asset management ● Partner's assets ● Risk of losing assets to partner 	Managed separately by each partner Draws on 'parent's' assets High risk	→	Managed together Dedicated assets for alliance Low risk
Expectations	<ul style="list-style-type: none"> ● Spreading financial risk ● Political climate 	Maintains risk Unfavourable climate	→	Dilutes risk Favourable climate

Exhibit 7.3

Ingredients of Successful Alliances

- Clear strategic purpose with senior management support
- Compatibility at operational level
 - Strong interpersonal relationships
 - Transcend national cultural differences
- Defining and meeting performance expectations
 - Clear goals, governance and organisation
 - Simple, flexible, allowed to evolve and change
- Trust
 - Most important for success
 - Competence based
 - Character based

Success Criteria for Strategic Options

- Suitability
 - Whether strategy addresses circumstances in which organisation is operating
 - Linked to strategic position
 - Rationale of strategy
- Acceptability
 - The expected performance outcomes (e.g. risk/return)
 - Meeting expectations of stakeholders
- Feasibility
 - Whether strategy can be made to work in practice
 - Linked to strategic capability



Thank you
and
Any Questions?

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