DEVELOPING A STRATEGY AND ORGANIZATION

Resource allocation and sustainable competitive advantage

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To meet goals and objectives, leaders enter into the activity of planning and strategy development. Rather than developing one single strategy, most companies craft a hierarchy of interlocking strategies, each impacting their own distinct level of the business. In most cases, the 'corporate strategy' will set the overall direction for the Business, the individual entity strategies will do so for the various Business constituents and finally granular strategies will cover each individual market or product.

A strategy is often defined as a set of decisions on how the Business will allocate its resources and gain sustainable competitive advantage in its chosen markets, and on how to get there by defining the means to generate customer preference in these areas.

Whereas all corporate strategy is crafted at the top of the hierarchy, firms will differ in their view how 'centrally' such detailed strategic plans should be developed. Goold, Campbell and Alexander indentified three broad styles: Strategic Planning, Financial Control and Strategic Control.

Strategic planning companies have headquarter groups undertaking detailed planning. The headquarters take the initiative in developing strategies to build a long-term sustainable advantage, to support each Business Unit in all key functional areas and more importantly to identify and implement synergies between its Business Units/profit centers. Strategic planning companies generally have matrix structures with leaders operating in lateral roles to develop the global strategies. Companies featuring this type of proactive center include **IBM, Cadbury Schweppes, Unilever or Electrolux**.

At the opposite end of the spectrum the ***financial control*** companies can be found. Here the center is as small as functionally feasible and does not craft or participate in developing the strategies of its Business Units. Instead the Headquarters are setting goals – profits and cash – for

each of its Business Units. A tight control is kept trough leading indicators, monitoring, dashboards and benchmarks. The financial control company is run like a holding company. The managers are responsible and accountable for achieving the targets but have full autonomy on how to achieve these. According to Goold, Campbell and Alexander such companies are invariably characterized by short time horizons; expecting a quick ROI and growth by acquisition rather than by organic expansion. Examples of such financially-led companies have been **BTR, Hanson Trust and GEC.**

Strategic control companies fall between these two extremes. Here the profit center is primarily responsible for strategic planning and takes a position on the long-term balance between its Business Units. Short term operating constraints may be softened if the Business Unit's longer-run prospects look strong. The center will evaluate the strategies developed by the Business Unit and if it is unconvinced by their impact will withdraw resources. Companies that adhere to this intermediate organization model include Nestle, L'Oreal and 3M.

Neither one of these 3 approaches demonstrates a clear superiority over the other as the success largely depends upon a complex mix of factors. **'Strategic planning'** is considered to be the best approach when the focus is on creating a sustainable competitive advantage. **'Financial control'** clearly pushes short term financial results and stimulates personal effort and accountability.
A strong strategically-oriented center facilitates long-run growth, whereas financial control is likely less risky and will produce superior profits in the short term.
However, in a dynamic and resource-intensive industry such as IT or pharmaceuticals, to focus on tight financial control would probably prove counter-productive. On the contrary in a mature industry, tight financial control will generate the cash for a long term acquisition-led growth.

See table below: Corporate Strategy and Style Summary

CORPORATE STRATEGY AND STYLE SUMMARY

Characteristics	Strategic Planning	Strategic Control	Financial Control
HQ strategic Planning	*Dominant*	*Balance*	*Minimal*
Organizational Structure	*Matrix*	*Divisional*	*Holding company*
Synergies among BUs	*High*	*Medium*	*Low*
Managerial values	*Collaborative*	*Personal Responsibility*	*Personal accountability/ Shareholding*
Growth mode	*Primary internal*	*Mixed*	*Acquisition/flotation*
Type of Industry	*Dynamic*	*Mixed*	*Mature*
Investment Pay back	*Long term*	*Medium*	*Short term*

In conclusion the right corporate strategy will be a careful choice based on a variety of factors that have to be mixed optimally: financial results, entrepreneurial spirit, corporate growth and long term sustainable advantage.

Whereas this article discussed the style and accountability of the strategy development, the next article will explore the next article will review the four dimensions a Business can grow in; 1) Market penetration 2) Product Development 3) Market development 4) Diversification and set out the broad choices in terms of growth direction matrix. Besides that, winning the choices of customers and sustainable competitive advantage will be discussed as well.

References:

Marketing Management and Strategy, Peter Doyle, Philip Stern. Fourth Edition