2.2: Strategy

The Strategy Hierarchy

In most corporations, there are several levels of management. Strategic management is the highest of these levels in the sense that it is the broadest and applies to all parts of the firm while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies.[1]

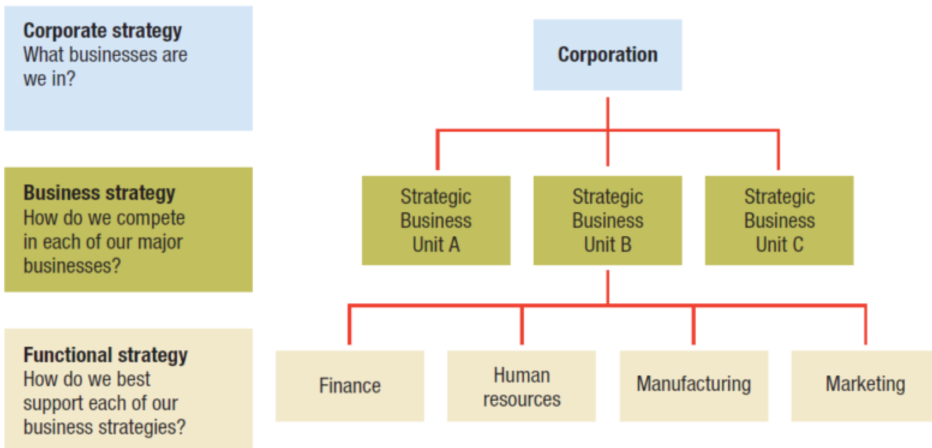

Figure 2.2.1:A hierarchical diagram detailing different strategies within a corporation; Credit: Abey Francis; https://www.mbaknol.com/strategic-ma...egy-hierarchy/

Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?"

Business strategy refers to the aggregated strategies of a single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long-term success in its chosen arenas or industries.

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short- and medium-term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities, so they are reengineered according to processes or SBUs. A **strategic business unit** is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters.

An additional level of strategy called **operational strategy** was encouraged by Peter Drucker in his theory of Management By Objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.[2]

Operations strategy categories can be broken down into many types of areas that must be addressed. The decisions made in these areas will determine whether the business strategy is executed. Below is a list of 10 critical decisions in operations management[8]:

1. **Design of Goods and Services** – The actual design of the product or service will have the largest impact on the cost to produce and the quality to achieve.
2. **Quality** – The way in which the organization will ensure that the product specifications are met. This may include the use of statistical process control, total quality management or Six Sigma.

3. **Process and Capacity Design –** The type of product along with its volume and variety will have the major impact on which type of process to be chosen.
4. **Location –** Important decisions such as how many locations and where to locate them are critical to organization success. This will be a major factor in terms of how quickly the transformation process can take place, and how quickly goods can be shipped to customers.
5. **Layout Design and Strategy** – Consider the placement of work centres, movement of goods, people and information How materials are delivered and used.
6. **Human Resources and Job Design** – Decisions regarding training for employees, how to motivate employees to achieve operational success.
7. **Supply Chain Decisions** – Decisions in terms of where suppliers are located and the level of supplier collaboration are major considerations that impact cost and delivery speed.
8. **Inventory** – How will inventories be used and controlled in the business and the supply chain
9. **Scheduling –** includes both how to schedule production, resources and employees in order to be effective, efficient and meet commitments to customers.
10. **Maintenance**– This involves maintaining equipment and machinery as well as keeping quality high and processes stable.

Common Operations Strategies

There are many types of Operations strategies; two of the most common are quality-based strategies and time-based strategies.

Quality-based strategies are commonly used when companies wish to elevate their reputation in the marketplace. Improving on their product design and the reduction of errors are the backbone of these initiatives. Firms will often use programs such as ISO9001, Six Sigma, and Total Quality Management in their efforts.

Time-based strategies are used to reduce lead time, which is the amount of time elapsed from the receipt of the customer's order until the products are shipped. Firms that can produce faster will often have lower costs. These companies may use lean production methods to improve the velocity of their processes.

References

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