Functional and Competitive Strategies

Functional Strategies

In existing organizations, it is important to look at functional strategies to see how strategic decision makers formulate and implement organizational strategies. Functional strategies are developed in light of the organization’s vision, missions, overall corporate strategies, and competitive strategies.

When the organization is brand new, discuss corporate strategies first because no resources, capabilities, or competencies have been developed in the functional areas.

A SWOT analysis provides an organization’s strengths, weaknesses, opportunities, and threats. After completing the SWOT analysis, decision makers are armed with information about the positive and negative aspects of both the external and internal environments.

If the organization’s strengths in the various functional units can be exploited as competitive advantages, particularly in light of any relevant external opportunities, the organization may well be on its way to achieving high levels of performance.

If negative trends are found in any of the organization’s external areas, changes in functional strategies might be needed to counteract these. Serious functional weaknesses that might be preventing a competitive advantage from being developed may need to be corrected or minimized.

Functional strategies are the short-term, goal-directed decisions and actions of the organization’s various functional units.

All organizations perform three basic functions as they create and deliver goods and services:

- Production and operations
- Marketing
- Financial accounting

Production is the process of creating goods and services in which organizational inputs are transformed into outputs. Some of the common strategic choices in the organization’s production function include production process strategies, capacity, location, work design, layout, and production and operations management.

Current production operations strategies include the use of integrated manufacturing. This is a production operations philosophy that emphasizes the use of advanced manufacturing technology, total quality management, and just-in-time inventory control to create a streamlined flow of materials, people, and work activities.
for transforming inputs into outputs.

Marketing is a process that assesses and meets individual or group desires and needs by creating, offering, and exchanging products of value. Marketing strategies are directed at effectively and efficiently managing the two biggest factors in marketing—customers and competitors, the two Cs.

Relationship marketing is a current marketing strategy that involves building long-term, trusting, win–win relationships with valued customers forming solid and valuable partnerships.

Another current marketing strategy is database marketing, in which organizations accumulate data to provide detailed profiles of customers and then offer them the products they are likely to buy.

In the area of human resource management, high-performance work practices are human resource policies and practices that can lead to both high individual and high organizational performance. These work strategies can improve the knowledge, skills, and abilities of an organization’s current and potential employees; increase their motivation; reduce loafing on the job; and enhance the retention of quality employees.

Strategic choices in the HRM area revolve around work flow. Work flow is the way an organization’s work activities are organized so that the vision, mission, and objectives are effectively and efficiently accomplished. HRM strategic choices also revolve around staffing, employee separations, performance appraisal, training and development, compensation, employee and labor relations, and employee rights.

In the research and development area, there are three areas of strategic choices:

- **R&D emphasis**: This focuses on basic scientific research, product development, and process development.
- **R&D timing**: This involves the choice of being a first mover or follower.
- **Product and process development strategies**: These revolve around “who” and “how” decisions. One “who” strategy involves whether to use a cross-functional team, which is a group of individuals from various functional departments who work together on product or process development.

Some current R&D strategies include the following:

- Employee suggestion systems, which can be a good source of process design improvements
- Risk taking and innovation culture through product design teams

An information system is a set of interrelated components used to collect, process, store, and disseminate information supporting decision making, analysis, and management control. Some of the strategic choices in the information systems function
include the choice of system technology and the choice of what types of information systems to use.

Current information systems strategies include electronic data sharing or electronic data interchange, customer call or contact centers, and the Internet and World Wide Web.

Four broad strategic choices exist in the financial accounting area. These include evaluating financial performance from the financial statements; financial forecasting, planning, and budgeting; financial mix, and other financial management decisions.

The financing mix strategies concern decisions about the organization’s financial structure, which is the mix of all items found on the right-hand side of balance sheet, and the organization’s capital structure, which is the mix of the long-term sources of funds used by the organization.

Other financial management decisions include capital budgeting, stock dividend policy, capital budgeting and cash flow management, working capital management and short-term financing, cash and marketable securities management, accounts receivable and inventory management, and the use of term loans and leases.

Current financial accounting strategies include controlling an organization’s costs, cash flow management by all employees, and valuing intangible assets.

**Implementing Functional Strategies**

Implementing strategies very simply means doing them. Five aspects for strategy implementation include the following:

- **Processes**: What is the company going to do?
- **Activities**: How is the company going to do it?
- **Budgets**: Who is going to do it?
- **Structure**: When is the company going to do it?
- **Culture**: Where is the company going to do it?

Implementation at the functional level includes both the specific use of certain processes, activities, structure, budget, and culture and the coordination the various functional units.

Strategy evaluation at the functional level involves using specific performance measures, both quantitative and qualitative, for each of the functional areas. Like any evaluation process, the actual performance measures must be compared against standards that are the goals established for the strategies in each of the functional areas.

Strategy evaluation involves looking at the following:
- What was done
- What was supposed to be done
- Assessing any variances
- Trying to determine what happened

When actual performance is not up to standards, a change in a functional strategy is needed. If the functional strategy is important and controllable, you should analyze the situation, formulate appropriate strategies, implement any changes in functional strategies, and evaluate and make any changes, if necessary.

Functional strategies need to be coordinated with each other as well as with the other organizational strategies. Changes made at other strategy levels warrant changes in functional strategies. The effectiveness and efficiency of the strategies implemented at the functional levels have a significant impact on the success of the corporate and business strategies as well as the current and future revenues.

**Competitive Strategies**

Competitive advantage is a key concept of strategic management that sets an organization apart from its competitors. Competition is everywhere. It occurs when organizations battle or vie for some desired object or outcome. Hypercompetition is a situation in today’s business competitive environment with very intense and continually increasing levels of competition.

Several perspectives identify competition. The industry perspective identifies competitors as organizations that are making the same product or providing the same service. According to the marketing perspective, competitors are organizations that satisfy the same customer need. The strategic groups perspective states that competitors are those organizations in your strategic group.

Every organization has resources and capabilities to do whatever it is in business to do, although not every organization is able to effectively exploit those resources or capabilities. Some organizations are able to pull it all together and develop those distinctive organizational capabilities that can provide them with sustainable competitive edge.

Competitive strategy is the way organizations set themselves apart to create a sustainable competitive advantage. The following are characteristics of the choice for competitive advantage:

- It depends on how an organization or business unit is going to compete in its particular industry or market.
- It is based on the competitive advantage that the organization has been able to develop.

Refining and sharpening its sustainable competitive advantage provides the basis for an
organization’s competitive strategy. Although it may seem like there are an endless number of possible competitive strategies, there are actually a limited number of ways to describe how an organization competes. The traditional approaches to defining competitive strategy are Miles and Snow’s adaptive strategies, Abell’s business definition, and Porter’s generic strategies.

Miles and Snow’s approach is based on the strategies organizations use to successfully adapt to their uncertain competitive environments.

- The prospector strategy is one in which an organization continually innovates by finding and exploiting new product and market opportunities.
- The defender strategy is characterized by the search for market stability and producing only a limited product line directed at a narrow segment of the total potential market.
- The analyzer strategy is one of analysis and imitation.
- The reactor strategy is characterized by the lack of a coherent strategic plan or apparent means of competing.

Research has shown Miles and Snow’s typology to be theoretically sound and an appropriate way to describe the competitive strategies an organization might use.

Abell’s business definition framework is marketing focused and proposes defining a business using three dimensions:

- **Customer groups:** Who is going to be served?
- **Customer needs:** What customer need is being met?
- **And technology or distinctive competencies:** How will that need be met?

Based on these three dimensions, Abell’s competitive strategy classification scheme proposed that a business could be defined by its competitive scope and the extent of competitive differentiation of its product or service offerings.

The various combinations of these dimensions formed the basis for Abell’s three possible competitive strategies:

- Differentiated, describing businesses who compete in broad markets and use different competitive weapons to serve the various market segments in which they compete
- Undifferentiated, describing businesses with broad competitive scopes but that utilize only one common competitive weapon for serving each segment
- Focused, used by businesses that compete in a narrow market and also use only one common competitive weapon

Abell’s strict marketing emphasis limits his business definition framework as a widely
used and general approach to describing an organization’s competitive strategies.

The term generic simply refers to the fact that these strategies can be pursued by any type or size organization in any type or size industry. Porter’s generic competitive strategies are based on the assumption that competitive advantage comes from only one of two possible sources: having the lowest costs in the industry or possessing significant and desirable differences from competitors.

- **Cost leadership strategy** is one in which an organization strives to have the lowest costs in its industry and produces for a broad customer base.
- **Differentiation strategy** is one in which the organization competes on the basis of providing unique products or services that customers value, perceive as different, and are willing to pay a premium price for. A differentiator works hard to establish brand loyalty. This refers to a situation in which customers consistently and repeatedly seek out, purchase, and use a particular brand.
- **Focus strategy** is when an organization pursues either a cost or differentiation advantage but in a limited customer group or segment. A focuser concentrates on serving a specific market niche. Being stuck in the middle describes an organization that is not successfully pursuing either a low-cost or a differentiated competitive advantage.

Some of the newer perspectives provide an expanded, and perhaps more realistic, description of what competitive strategies organizations are using.

Integrated low-cost differentiation strategy develops a competitive advantage by simultaneously achieving low costs and high levels of differentiation. This hybrid competitive strategy is possible because of technological advancements such as flexible manufacturing systems, just-in-time inventory systems, and computer-integrated manufacturing systems.

Henry Mintzberg developed an alternative typology of six possible competitive strategies that better reflected the increasing complexity of the competitive environment:

- Differentiation by price
- Differentiation by marketing image
- Differentiation by product design
- Differentiation by quality
- Differentiation by product support
- Undifferentiated strategy

**Implementing, Evaluating, and Changing Corporate Strategy**

Implementation utilizes resources, distinctive capabilities, and core competencies. If a strategy is not implemented, then it is nothing more than a strategic idea or plan.
Functional strategies play a significant role in implementing competitive strategy.

Competitive strategy implementation is accomplished through the functional strategies. Whatever competitive strategy is selected, certain resources and capabilities will be required to implement it.

Functional strategies have a dual role that influence both of the following:

- What competitive strategy is most appropriate
- How that strategy is implemented

The strategy or strategies being used in each functional area should be aligned with whatever competitive advantage and competitive strategy is being pursued.

In addition, competitive strategy implementation involves various competitive actions. Offensive moves are organizational attempts to exploit and strengthen competitive position through attacks on a competitor’s position. Defensive moves describe when an organization is attempting to protect its competitive advantage and turf.

The responsibility of managing strategically does not stop once the competitive strategy is implemented. Strategies must be monitored, assessed, and evaluated for performance effectiveness and efficiency.

Evaluation of the competitive strategy assesses the organization’s various functional areas and the activities performed there. Some evaluation questions to ask include the following:

- What are the results of the various strategies?
- Are they having the intended effect?
- Is competitive advantage being successfully exploited?
- What if results are not as good as expected, or what if they are better than expected?
- Has the market changed, but the organization has not?
- Are the organization’s numerous resources and capabilities being used effectively and efficiently so that the needed and crucial competitive advantage is being developed and exploited? Which ones are, and which ones are not?

Although changing the organization’s basic competitive strategy is highly unlikely, changing the functional strategies used to implement the strategies and modifying the organization’s competitive actions is likely.