

1. What Is Management Strategy?

0. Significance of Management Strategy—Why Is “Strategy” Necessary?

- ◇ “Management strategy” is a key concept for a corporation to survive/grow by responding to environmental changes.
- ◇ Without—or with poor—strategy, a corporation’s profit yield does not measure up to its merits.
 - Corporate performance in full: “strategic concept + operational capability”
 - With a poor strategy, corporations capable of high-level operation result in a low performance.
 - Japanese automobile industry and consumer electronics industry
- ◇ Historical importance of the strategy
 - Significant influence on growth and expansion of corporations
 - Reversal of ranks for Ford and GM
 - Expansion of Epson

1. Origin of Management Strategy

- ◇ “Strategy”
 - Traditionally a military term, originated in “strategos”
 - In these years, the verbiage of so-and-so strategies has become popular.
 - “Strategy” and “Tactics”:
 - “Tactics”: the use of troops and maneuvers in an individual combat; short term
 - “Strategy”: the broad concept referring to an overall scheme of operations; long term
- ◇ Application of “strategy” to corporate management:
 - Development in the U.S.: Demand from managerial sites → Academic pursuits (the 1960s on)
 - In the 1950s, there was no use of the “strategy” concept.
 - “Business policy”
 - Used in 1960s, as many industries matured in 1950s.
- Advancement in business diversification
 - “Strategies for Diversification”, “Programming Strategic Planning” (H. I. Ansoff)
 - In the 1970s, the major concern was over managing diversified businesses.
 - “PPM”
 - In the 1980s, faced with their deteriorating competitiveness, U.S. industries were interested in recovering the competitive edge of their individual business.
 - “Competitive Strategy” (M. E. Porter)

2. What Is Management Strategy?

2.1 Definition of Management Strategy

- ◇ Difficulty in defining the terms
 - What is mind? (Psychology)
- ◇ What does one think of to hear the term “management strategy”?
 - ”What is the management strategy of so-and-so company?”
- ◇ Broad range of capturing (defining) “strategy”
 - To begin by looking into the two cases

■ Two Cases

- Case 1: Yamato Transport’s entry into a home-delivery business
- Case 2: Honda Motor’s foray into a motorcycle business for U.S. market

2.2 【Case 1】 Yamato Transport Co. To Embark on Home-Delivery Business in 1976

▼ Ogura, Masao (1998), My Experiential Management Theory, *Nikkei Business*, Oct. 5, pp.92-95

▼ Ogura, Masao (1999), *Masao Ogura: Business Administration*, Nikkei Business Publications

2.2.1 Background of the Case

■ Yamato Transport C.:

- 1919: Started transport business with 4 trucks in Kyobashi, Tokyo (delivery service for department stores by contract)
- Around 1970: Carrier business for commercial freight, the core undertaking, came to a standstill.
 - Study on entering into door-to-door parcel delivery services
- Prevalent viewpoint regarding the home-delivery market: “Unprofitable business”
 - Contingent, atypical→Unpredictable demand projection
 - All in one-piece lot→Inefficient(Versus commercial freight: Formulaic, repetitive demand)

2.2.2 Business Model/Basic Concept for Emergence (President Masao Ogura)

- ◇ Profitable scheme: Treat a home-delivery project as a “network business”, the same as telephone
 - (1) “Demand creation” by building the network → Revenue increase
(Telephone used on business in daytime → Personal use in evenings with one in every home)
 - (2) “High-density delivery” by building a network → Efficiency up, cost down
 - As the network broadens, the volume of packages increases.→Distribution trucks increase.
- Territory per truck becomes narrower.→Efficiency increases.

2.2.3 Specific Strategies

- ◇ Target on securing the “forerunner predominance”
 - (1) Specialize in the home-delivery business

- Pullout from the commercial freight business
- Ban on receiving orders of corporate packages (up until Oct. 1985)

(2) Installation of consolidating agents

- Appoint liquor stores and rice shops as consolidating stations
→Efficient assembly of packages (in terms of agency fee/freight discount)
- Convenience stores as well in recent years
As of March 1999: 297,000 outlets (vs. the number of post boxes at 160,000)

(3) Building the network for collection and delivery

- BCD network
- Struggle against regulations: No business operation permitted without a license for the route truck transport business
<Service Areas>
 - 1981: Area ratio at 31%, population ratio at 78%
 - 1985: Instituted an administrative litigation against Transport Minister (←Unclarity in criteria for a business license)
 - 1987: 98%
 - 1997: 100%

(4) Others: Flat fee by area, overnight delivery, “sales driver”

2.2.4. Results

- ◇Fiscal year 1980, 5th year since the business commencement:
 - Ratio of ordinary profit to net sales at 5.6% (above break-even point)
 - Home delivery is a “profitable business.”

- ◇Share of the home-delivery market in 1997:

- Yamato at 38%, Pelican 19%, Postal Mail 17%
- (2004: Yamato 35.6%, Sagawa 30.8%, Pelican 11.4%, Fukuyama 9.7%, Postal Mail 7.0%)
- New services: Golf, ski, time-designated services

<< Comment by Mr. Masao Ogura regarding “Top Executive’s Job”>>

“...In the first place, everything has both merits and demerits. People look at either of them and say that this has merits, or only demerits, and so on. But there is nothing which only presents merits or demerits. Inevitably one has both sides. The job of a top executive is to think how to bring demerits under control, and you could say that there are business chances where demerits exist...”

2.3 【Case 2】 Honda Motor Co.—To Launch Out on Motorcycle Project to U.S. A.

▼Takahashi, Nobuo (2003). *Renaissance of Management* (new ed.), Yuhikaku Publishing, pp.214-217

2.3.1 Background of the Case

- ◇1959: British corporations occupied a 49% share of U.S. motorcycle market
 - Emergence of Honda into the U.S.
- 1966: Honda alone had a 63% share replacing U.K. companies

How did Honda attain this success?

2.3.2 Success-Factor Analysis by BCG (= Honda's Strategies)

- (1) Entry into a new segment (a new niche)
 - Sales of compact motorcycles (Super Cub, 50cc) to middle class consumers
- (2) Low cost due to the manufacturing economy of scale (low cost strategy)
 - Specialization in compact sizes to merit the “experience curve effect”
 - (■Experience Curve Effect: Experience ⇒ Reduction in production cost)
 - ”Strategies” which are consistent to a BCG-type framework standardized on the “experience curve” and the “market share”
 - Taken up in U.S. business schools as a case for a strategy analysis
 - But...is this really true?

2.3.3 Analysis by Pascale (1984)—”Reality to be Different” from BCG's Analysis

▼Pascale, R.T. (1984). Perspectives on strategy: The real story behind Honda's success. *California Management Review*, 26(3), 47-72

- ◇Pascale (1984): Conducted an interview research with Honda's persons in charge (on the process of its foray into the U.S.)
- ◇Initial intention of Honda: “Entry with large-size cars”
 - Faced with a failure in quality not befitted to U.S. market, nevertheless : Breakdown owing to long-distance drives/ high speed
 - Left with no alternative but to introduce Super Cub (50cc) into the market
 - ⇒Unexpected level of success:
 - Middle class started riding Honda.
 - Following Super Cub they began to ride large-size cars, enhancing Honda's share.

2.3.4 Analyses by BCG and Pascale

- ◇According to BCG's analysis, Honda seems to have succeeded by taking actions based on

the premeditated strategies.

◇ In actuality, however, “We had no other strategy than taking a look at what would sell in the U.S.” (a manager of Honda)

2.4 Significance of Management Strategy in These Two Cases

- ◇ Case of Kuroneko Yamato
- ◇ Case of Honda

3. Perspective to Capture Strategy

3.1 Various Perspectives for “Strategy”—5 Ps and 10 Schools—

▼ Mintzberg & others (1999). *Strategy Safari*, Toyo Keizai Inc.

3.1.1 “5 Ps” As Definition of Strategy

- ① Plan: Guideline or principle for actions which ought to be taken for the future (To stare fixedly at the future from the present)
- ② Pattern: Actions actually taken (To look at past actions)
- ③ Position: Positioning of a product in the market (Outward-orientation)
- ④ Perspective: Corporate philosophy (In-house-orientation)
- ⑤ Ploy: Specific means to take advantage of competitors

3.1.2 Ten Schools Regarding Strategy

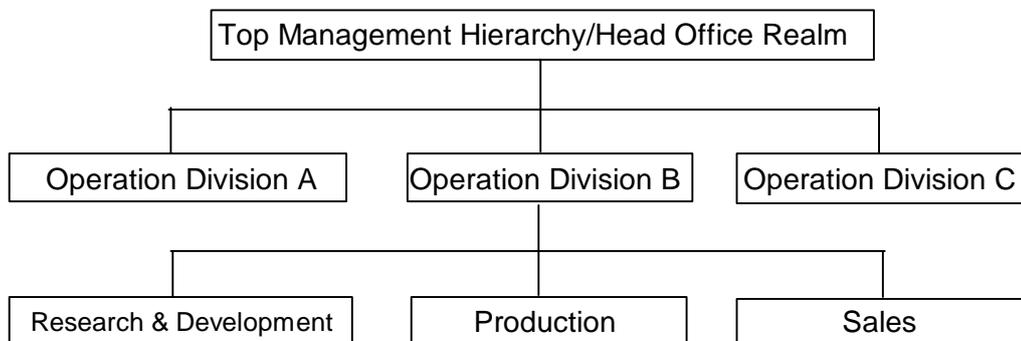
- ① Design School (Andrews): Strategy formulation as a process of conceiving concept
- ② Planning School (Ansoff): Strategy formulation as a ritual planning process
- ③ Positioning School (Porter): Strategy formulation as an analysis process
- ④ Entrepreneur School (Schumpeter): Strategy formulation as a process of creating visions
- ⑤ Cognitive School (Simon): Strategy formulation as a recognition process
- ⑥ Learning School (Senge): Strategy formulation as an emergent learning process
- ⑦ Power School (Pfeffer): Strategy formulation as a negotiation process
- ⑧ Culture School (Schein): Strategy formulation as a collective process
- ⑨ Environment School (Hannan & Freeman): Strategy formulation as a process of responding to environment
- ⑩ Configuration School (Chandler): Strategy formulation as a transformation process

◇ ①—③: Relevant to the “content” of strategies; having a “normative” character of “what ought to be done”

◇ ④—⑩: Attention to the “formulation process” of strategies; Indicating “descriptively”, from each particular perspective, how strategies come to be actually formulated, rather than showing norms for ideal strategic behaviors

3.2 Strategy as Hierarchical Structure

- ◇ "Management strategy": A collective designation for every strategy correlated with corporate management and actions
- ◇ Strategy can be conceived at each level of organizations and activities.
- ◇ Normally, a management strategy is considered to consist of the three hierarchies:



3.2.1 Company-Wide Strategy/Corporate Strategy

- Strategy relative to the whole corporation: "How to constitute a business contexture of the whole corporation" , "Where should profit be made?"
- Decision at the top management level
- Definition of domain, company-wide resource allocation (product portfolio management, i.e. PPM), degree of diversification, degree of vertical integration, etc.
- Analytical works progressed in the early phase of the eruption of management strategy. (Anzoff's research, PPM, analyses on diversification (Rumelt, 1977))

3.2.2 Business Strategy/Competitive Strategy

- Strategy by business operation division: "How to establish competitive advantages in each respective market"
- Decision at the level of each operation division manager
- *Competitive Strategy* by Porter presents an effective analytical framework (Porter, 1980).

3.2.3 Functional Strategy

- Strategy by each functional field
- Decision at the level of a person responsible for respective function
- R&D strategy, production strategy, personnel strategy, marketing strategy, financial strategy...
- While some functional strategies are concluded within each business unit, strategies which are related to technologies and overseas are deeply linked with the company-wide ones.

⇒ Management strategy, as its level, can be regarded as being in the three hierarchies, which, in reality, is in a matrix configuration where the "business strategy" is positioned vertically, and

the “functional strategy” horizontally, both underneath the “company-wide strategy.”

3.3 Strategy as Fit of “Environment-Resource (Organization)”

3.3.1 Fit between Environment and Resource

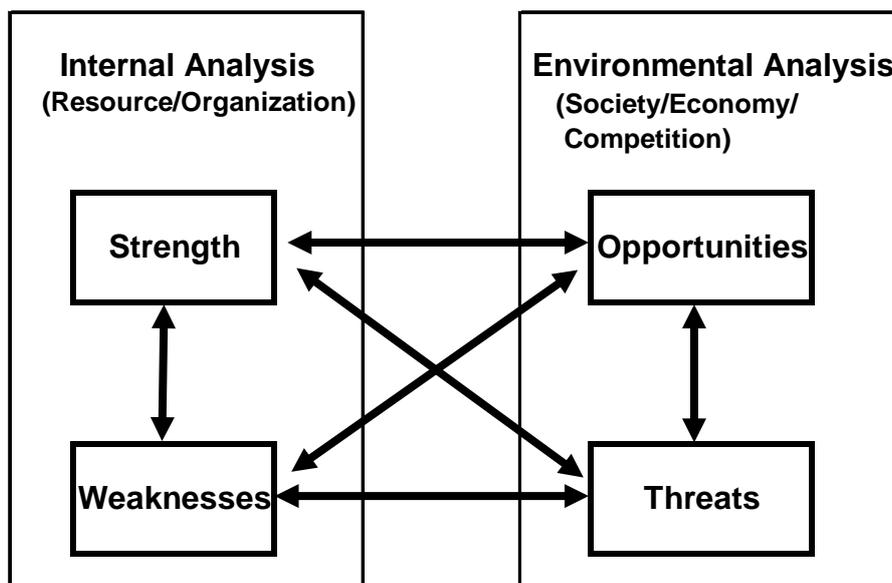


- ◇ Strategy is a behavior for a corporation to create/leverage its “strength” and to respond to environmental “threats” and “opportunities” while supplementing its “weakness”.

3.3.2 SWOT Analysis

- ◇ Framework with which a corporation evaluates its strength and weakness in view of opportunities and threats hidden in external environments that surround its organization (Andrews).
- ◇ Strategic management: Analysis of environments → Analysis of own corporation → Choice of strategy → Execution of strategy

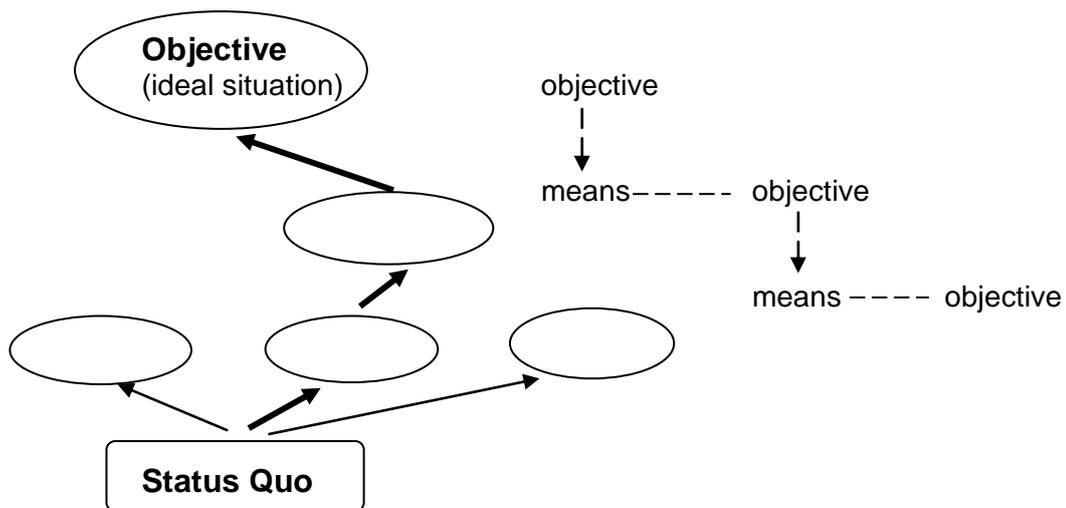
■ SWOT’s Framework



3.4 Strategy as Linkage of “Objective-Means”

- ◇ Strategy is to denote a road map to success.
 - ”Strategy” is drawn out as means to attain an “ultimate shape in success” or a “goal”. (= ”scenario” creation)
 - Sequence of cerebrations, ideas: To track back from an “end goal” (ideal situation)

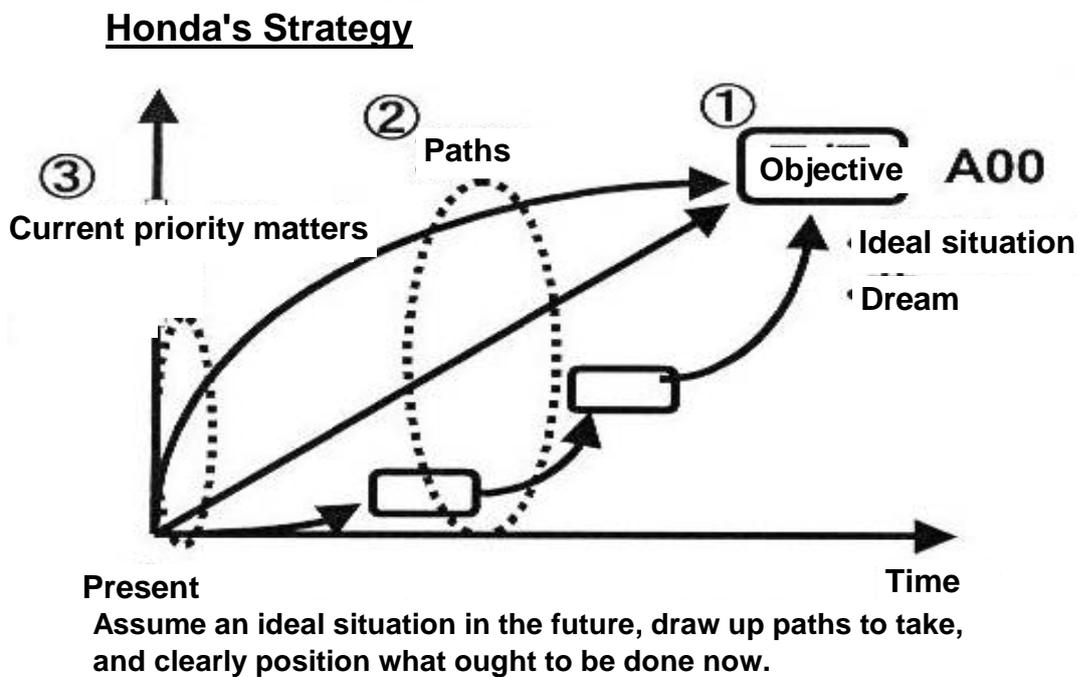
■ Strategy as Linkage between Objective and Means



◇ Strategy and Temporal Spread

- In spite of attempts to attain a goal, it takes time for completing the job due to a limitation in capability. As time passes, environments change, making the accomplishment of the objective difficult.
- While adapting to environmental changes is necessary, if baffled by such affairs, attaining a long-term objective becomes dubious.
- Unmoved by short-term fluctuations, the strategy is that which is made to carry through and hold over for a long term. (=Conviction, policy, principle; ≠ Tactics)

■ Example: Honda's Strategy and Management



(Source: Lecture by Mr. Saburo Kobayashi, ex-Corporate Planning Manager, Honda Motor, Co.)

Strategy of Honda

- There exist the ideal situation/objective for the future, without which it is no strategy, but just a response.
- Do not place too much value on immediate advantages or risks. Make decisions with thoughts aiming at an ideal situation in the future.

4. Process of Strategy Formulation

▼Okumura, Akihiro (1989). *Theory on Management Strategy*, Nikkei Bunko

4.1 Analytical Perspective and Process Perspective

4.1.1 Analytical Perspective on Strategy—Analysis-Model Strategy Theory

- ◇①—③of the 5Ps by Mintzberg, ①—③of the 10 Schools
- ◇Aspects of Ansoff-style and Porter-style
- ◇ Strategy as an action guideline in future (Corporate long-term plan, midterm plan. Consulting-type “strategies considered effective hereafter”, and so on)

■ Assumptions of Analysis-Model Strategy Theory

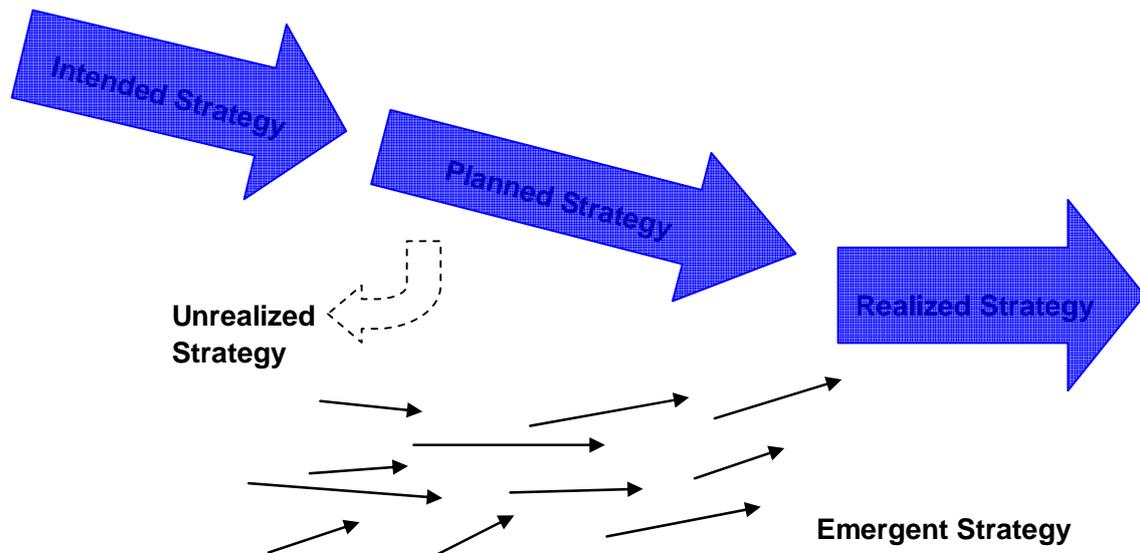
- (1) That environments can be analyzed.
- (2) That organizational members fully understand presented strategies, and move automatically according to the plan.
- (3) That a strategy arbiter is capable of numerating all strategic-alternative proposals and of foreseeing results thereof.

But the reality is not so. Sometimes “strategies are emanated out of behaviors.”

⇒Emergence of the “process-model strategy theory”

4.1.2 Process Perspective on Strategy—Process-Model Strategy Theory

- ◇Aspects of Mintzberg-style and Quinn-style regarding strategy
- ◇To capture strategy as a pattern of a series of decision-making or behavior
- ◇Some behavior or decision-making are not preliminarily contemplated.
These are termed the “emergent strategy.”



Source: Mintzberg, *Strategy Safari*, p.13, fig.1-2

4.2 Emergent Strategy

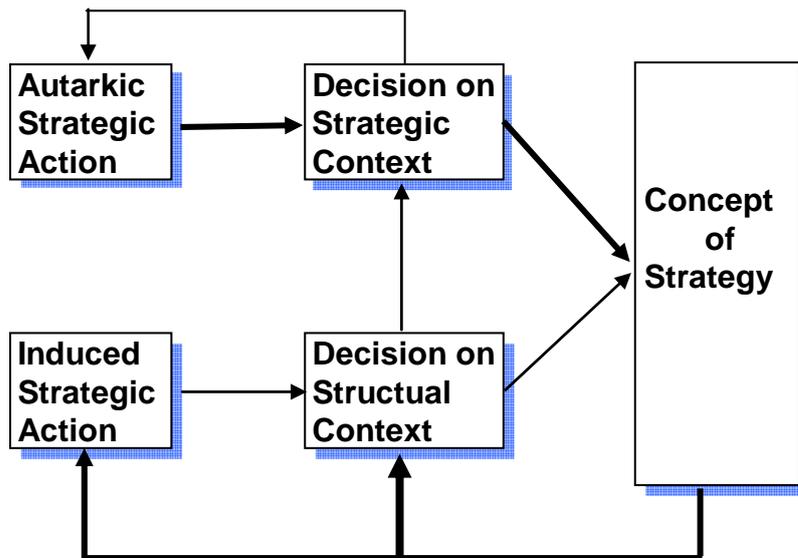
- ◇ As the criticism mounted against the analysis-model strategy theory (the anti-Porter controversy), the process-model strategy theory came to be given greater importance.
- ◇ Studies in early phase: Miles & Snow (1978), Mintzberg (1978), Quinn (1980), etc.
 - Quinn (1980): His follow-up study on a glass company's diversification strategy over approx. 5 years revealed that the firm, accumulating actions which had superficially appeared random, had steadily conducted itself toward one large current. He named this finding "Logical Incrementalism."

■ Characteristics of Process-Model Strategy Theory

- ① Capture the management strategy as a product of its process dynamics.
(Strategy comes to be generated in interactions with environments.)
- ② Capture that the management strategy comes up from an organizational process inside an organization.
(Not only top-ranking executives, but all members generate the strategy.)
- ③ Capture that "design" and "execution" of the strategy are not separate two steps, but that they are in an interdependent dynamic process.

4.3 Model of Strategy Formulation Process

■ Process of Strategy Formulation in Corporation



▼ Burgelman and Sales (1986). *Inside Corporate Innovation*, Free Press

◇ Two routes exist in the process of a strategy formulation that are mixed in single corporation.

- (1) Starting from an autarkic strategic action initiated by lower-level personnel of an organization (intrapreneurship, persons in charge of field), and in due course, to become sublimated into a company-wide strategy concept: Emergent strategy
- (2) Strategic action induced by a top-management layer's strategy: Intended strategy

5. Once Again, What is Management Strategy?

5.1 Definition of Strategy

■ Strategy is: "A corporate future vision and its vision-based basic pattern of its interdependence with environments, constituting a guideline for the decision-making of its inside people" (Ohtaki et al., 1997)

(1) "Future vision"

- There is a certain strategic intent in the management strategy that provides a future direction, functioning to furnish a long-term vision without an interferences of imminent phenomena. (Strategy as scope)

(2) "Basic pattern of its interdependence with environments"

- Management strategy concerns a relationship between a corporation and its environments (strategy as position), and with or without an intent regarding the way to get involved in such a relationship, there is a certain kind of pattern peculiar to that corporation. (Strategy as pattern)

(3) "Guideline for decision-making"

- Management strategy has a function to harmonize decisions made by a variety of

corporate people. (Strategy as plan)

5.2 Back to “Two Cases”

- ◇Yamato Transport
- ◇Honda Motor

5.3 Cautions about Discussing “Management Strategy”

- ◇Always pay attention to in what sense (context) one uses the term “strategy”.
 - ”Company A’s strategy is ...”

- ◇When analytical perspectives are different, so may be conclusions.
 - Case of Honda
 - ⇒Depending on purpose, one needs to carry out a discussion by selecting an appropriate framework.

