

INTRODUCTION: WHAT IS STRATEGIC MANAGEMENT?

What is Strategy?

The term 'strategy' proliferates in discussions of business. Scholars and consultants have provided myriad models and frameworks for analysing strategic choice (Hambrick and Fredrickson, 2001). For us, the key issue that should unite all discussion of strategy is a clear sense of an organization's objectives and a sense of how it will achieve these objectives. It is also important that the organization has a clear sense of its distinctiveness. For the leading strategy guru, Michael Porter (1996), strategy is about achieving competitive advantage through being different – delivering a unique value added to the customer, having a clear and enactable view of how to position yourself uniquely in your industry, for example, in the ways in which Southwest Airlines positions itself in the airline industry and IKEA in furniture retailing, in the way that Marks & Spencer used to. To enact a successful strategy requires that there is fit among a company's activities, that they complement each other, and that they deliver value to the firm and its customers. The three companies we have just mentioned illustrate that industries are fluid and that success is not guaranteed. Two of the firms came to prominence by taking on industry incumbents and developing new value propositions. The third was extremely successful and lost this position. While there is much debate on substance, there is agreement that strategy is concerned with the match between a company's capabilities and its external environment. Analysts disagree on how this may be done. John Kay (2000) argues that strategy is no longer about planning or 'visioning' – because we are deluded if we think we can predict or, worse, control the future – it is about using careful analysis to understand and influence a company's position in the market place. Another leading strategy guru, Gary Hamel (2000), argues that the best strategy is geared towards radical change and creating a new vision of the future in which you are a leader rather than a follower of trends set by others. According to Hamel, *winning strategy* = *foresight* + *vision*.

Two Approaches to Strategy

The idea of strategy has received increasing attention in the management literature. The literature on strategy is now voluminous and strategic management texts grow ever larger to include all the relevant material. In this book our aim is not to cover the whole area of strategy – that would require yet another mammoth tome – but to present a clear, logical and succinct approach to the subject that will be of use to the practising manager. We do not attempt a summary of the field, rather we present what we see as a useful framework for analysing strategic problems based on our own experience of teaching the subject on a variety of courses and to a variety of audiences over the years. Our premise is that a firm needs a well defined sense of its mission, its unique place in its environment and scope and direction of growth. Such a sense of mission defines the firm's strategy. A firm also needs an approach to management itself that will harness the internal energies of the organization to the realization of its mission.

Historically, views of strategy fall into two camps. There are those who equate strategy with planning. According to this perspective, information is gathered, sifted and analysed, forecasts are made, senior managers reflect upon the work of the planning department and decide what is the best course for the organization. This is a top-down approach to strategy. Others have a less structured view of strategy as being more about the process of management. According to this second perspective, the key strategic issue is to put in place a system of management that will facilitate the capability of the organization to respond to an environment that is essentially unknowable, unpredictable and, therefore, not amenable to a planning approach. We will consider both these views in this text. Our own view is that good strategic management actually encompasses elements of each perspective.

There is no one best way of strategy. The planning approach can work in a stable, predictable environment. Its critics argue that such environments are becoming increasingly scarce, events make the plan redundant, creativity is buried beneath the weight and protocols of planning and communication rules. Furthermore, those not involved in devising the plan are never committed to its implementation. The second approach emphasizes speed of reaction and flexibility to enable the organization to function best in an environment that is fast-changing and essentially unpredictable. The essence of strategy, according to this view, is adaptability and incrementalism. This approach has been criticized for failing to give an adequate sense of where the organization is going and what its mission is. Critics speak disparagingly of the 'mushroom' approach to management. (Place in a dark room, shovel manure/money on the seeds, close the door, wait for it to grow!)

Elements of Strategy

Definitions of strategy have their roots in military strategy, which defines itself in terms of drafting the plan of war, shaping individual campaigns and, within these,

deciding on individual engagements (battles/skirmishes) with the enemy. Strategy in this military sense is the art of war, or, more precisely, the art of the general – the key decision maker. The analogy with business is that business too is on a war footing as competition becomes more and more fierce and survival more problematic. Companies and armies have much in common. They both, for example, pursue strategies of deterrence, offence, defence and alliance. One can think of a well developed business strategy in terms of probing opponents' weaknesses; withdrawing to consider how to act, given the knowledge of the opposition generated by such probing; forcing opponents to stretch their resources; concentrating one's own resources to attack an opponent's exposed position; overwhelming selected markets or market segments; establishing a leadership position of dominance in certain markets; then regrouping one's resources, deciding where to make the next thrust; then expanding from the base thus created to dominate a broader area.

Strategic thinking has been much influenced by military thinking about 'the strategy hierarchy' of goals, policies and programmes. Strategy itself sets the agenda for future action, strategic goals state what is to be achieved and when (but not how), policies set the guidelines and limits for permissible action in pursuit of the strategic goals, and programmes specify the step-by-step sequence of actions necessary to achieve major objectives and the timetable against which progress can be measured. A well defined strategy integrates an organization's major plans, objectives, policies and programmes and commitments into a cohesive whole. It marshals and allocates limited resources in the best way, which is defined by an analysis of a firm's unique strengths and weaknesses and of opportunities and threats in the environment. It considers how to deal with the potential actions of intelligent opponents.

Management is defined both in terms of its function as those activities that serve to ensure that the basic objectives of the enterprise, as set by the strategy, are achieved, and as a group of senior employees responsible for performing this function. Our working definition of strategic management is as follows: all that is necessary to position the firm a way that will assure its long-term survival in a competitive environment. A strategy is an organization's way of saying how it creates unique value and thus attracts the custom that is its lifeblood.

To understand the strategy of a particular firm we have to understand, unless we are in a start-up situation, what factors have made the firm what it is today. This involves answering questions such as: How did the organization reach its present state? Why is it producing its particular range of products and services? What kind of products or services does it intend to produce in the future – the same or different, and, if different, how different? If it is thinking of altering its current range, what are the reasons? Strategy usually reflects the thinking of a small group of senior individuals, or even one strong leader, the strategic apex of a company. Why are the people who make up the strategic apex in this position? How do they think? Are there other (more) fertile sources of strategic thinking elsewhere in the organization that could be usefully tapped? If necessary how can one go about learning from the 'collective wit' of the organization, the creative voice that so often remains silent? How are decisions made in the organization? What is its

management style – top-down or bottom-up, autocratic or democratic? Why is the organization structured in a particular way? What is the link between strategy and structure?

TASK

Apply these questions to your own organization or to an organization that you know. (We will return to them later!)

Our Model of Strategy

Our working model of the strategic management process is set out in figure 1.1. This is a model that works for us in terms of organizing our thinking about strategy and our attempts to understand the strategic issues facing particular firms. We do not suggest that it is the only model that is useful or that this is the best. (We just think it is!) Hopefully, in the course of your reading of this book, and other work on the subject, you will be critically analysing the various models suggested

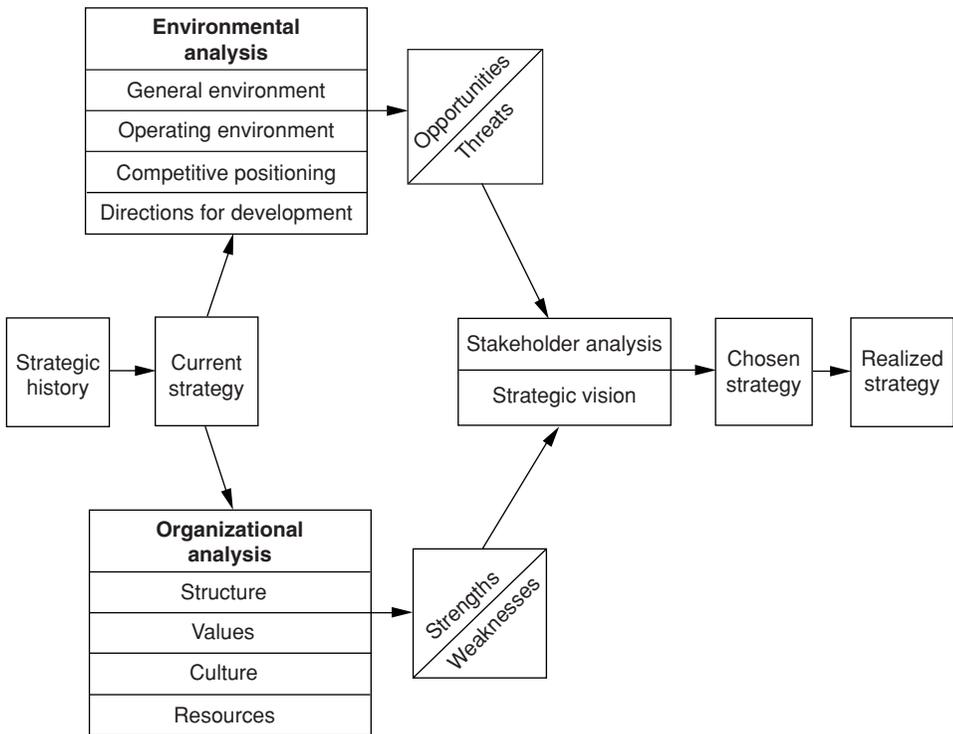


Figure 1.1 The strategic management process

and the concepts upon which they rest. You may come to this text with your own model, developed out of your own experience. We suggest that you try working with our model and examine the extent to which it complements or contradicts your own and others. The result of such a critical appraisal will be a model with which you are comfortable and find useful in practice. If you feel that the model you develop is far superior to our own, please tell us about it! Remember, there is no one best answer in strategic management. If a firm chooses a particular strategic direction and it works in the way that very successful firms like IBM or, on a smaller scale, Body Shop have, the fact that it is successful does not mean that the choice of strategy was optimal, that it was the best. Another strategic decision might have led to even greater success. Conversely, if a firm makes a choice that leads to disaster, this does not necessarily mean that it could have made a better choice (though, with better decision making, it hopefully could have done). The environmental conditions in its industry might have been such that this was the best choice, but that no choice, given its size or history, or the power of its competitors, could have changed its fate.

We will now explain our model, which provides the basis of subsequent chapters. *Current strategy* (italics indicate terms in the model) has its roots in the *strategic history* of a firm and its management and employees. We mention both management and employees here because, though in many cases senior management is the source of strategic decisions, it is the employees at the point of production or delivery of a product or service who are responsible for the actual implementation of a strategy. (Of course, in the final analysis it is management who are ultimately responsible for the performance of employees.) *Current strategy* is the result of the interaction of *intended strategy* and *emergent strategy*. The organization's actual strategy (its *realized strategy*) can be the direct result of strategic planning, the deliberate formulation and implementation of a plan. More often it is the outcome of the adaptation of such a plan to *emergent* issues in the environment. In some cases actual strategy can be very different from the strategy as planned or the firm may not have a very clear plan in the first place. In such cases the strategy can be described as *emergent* in the sense that strategy emerges from an ongoing series (sometimes described as a pattern or stream) of decisions.

Managers can decide that they are happy with their current strategy. They can take this decision in two ways. In a proactive sense they can scan their environment and the potential for change within their own organization and decide that to carry on doing what they are doing and what they are good at is the best way to face the future. In a less active, and far less satisfactory, way they can proceed on the basis of tradition – ‘This is the way we have always done it. It has worked so far. That’s good enough for us’ – or inertia. Or management may decide that change is necessary. Again this can come about in a variety of ways. They may scan their environment and decide that there are major changes occurring in their business world to which they have to adapt. Or they might decide, through internal analysis, that they have the ability to develop a new way of doing business that will redefine the nature of the business they are in. Another stimulus to change can be the new manager appointed to a senior position who wants to leave his or her mark on the company and changes strategy primarily for this self-centred reason.

If change is the order of the day, then two issues need to be addressed: *environmental (external) analysis* and *organizational (internal) analysis*. (Remember, this is the ideal way of proceeding. In practice, managers may adopt only a partial solution and analyse only external or internal factors.) For a change of strategy to work there must be alignment between internal capability and external opportunity. This is described as 'strategic fit'. The ideal situation is where there is a fit between the environment, a business need arising out of that environment that is strongly felt by a firm that has the sense of purpose (*mission*) and a management *system* that enables it to respond to this need with a coherent and practicable strategy. The potential to act in this way depends upon managerial judgement, managerial skill to exploit windows of opportunity and management ability to motivate other employees to support and commit themselves to the firm's new strategic objectives.

The analysis of the environment can be segmented into four interactive elements. There is the issue of the firm's *general environment*, the broad environment comprising a mix of general factors such as social and political issues. Then there is the firm's *operating environment*, its more specific industry/business environment. What kind of industry is the firm competing in? What 'forces' make up its 'industry structure'? Having examined its business environment, the issue then arises: how is the firm to compete in its industry? What is to be the unique source of its *competitive positioning* that will give it an edge over its competitors? Will it go for a broad market position, competing on a variety of fronts, or will it look for niches? Will it compete on the basis of cost or on the basis of added value, differentiating its products and charging a premium? What is the range of *options* that managers have to choose from? How are they to prioritize between these options? Does the company have strategic vision, a strong sense of mission, a 'reason for being' that distinguishes it from others? If change is necessary, what is to be the firm's *direction for development*? Having identified the major forces affecting its environment, how is the firm to approach the future?

Organizational analysis can also be thought of as fourfold. How is the firm organized? What is the *structure* of the organization, who reports to whom, how are the tasks defined, divided and integrated? How do the management systems work, the processes that determine how the organization gets things done from day to day – for example, information systems, capital budgeting systems, performance measurement systems, quality systems? What do organizational members believe in, what are they trying to achieve, what motivates them, what do they *value*? What is the *culture* of the organization? What are the basic beliefs of organizational members? Do they have a shared set of beliefs about how to proceed, about where they are going, about how they should behave? We know, thanks to Peters and Waterman's *In Search of Excellence*, that the basic values, assumptions and ideologies (systems of belief) which guide and fashion behaviour in organizations have a crucial role to play in business success (or failure). What *resources* does the organization have at its disposal – for example, capital, technology, people?

Management's role is to try to 'fit' the analysis of externalities and internalities, to balance the organization's *strengths and weaknesses* in the light of environmental

opportunities and threats. A concept that bridges internal and external analyses is that of *stakeholders*, the key groups whose legitimate interests have to be borne in mind when taking strategic decisions. These can be internal groups, such as managers themselves and employees, or the owners of the firm, shareholders. They can also be external groups: the stock market if it is a quoted company, banks, consumers, the government.

Senior management's task is to try and align the various interest groups in arriving at its *chosen strategy* in the light of the creation of an appropriate *strategic vision* for the organization. Increasingly important here is the issue of corporate responsibility, how the organization defines and acts upon its sense of responsibility to its stakeholders. The broad responsibility to society at large is important here in, for example, such areas as 'green' (ecological) issues. Sometimes the various interest groups may be at odds with each other and management will have to perform a delicate political balancing act between them.

Having chosen a strategy, there is the issue of implementation. Very few schemes go totally (or even approximately) according to plan. The business environment changes, new issues emerge – green ones, for example. Some demand to be taken on board so that in many, perhaps the majority, of cases emergent strategy asserts itself to the extent that the *realized strategy* differs markedly from the chosen/planned strategy. In time, the realized strategy becomes a part of the firm's strategic history . . . and the strategy process continues.

Strategic management in the public sector and the not-for-profit company

Most of what we will say in this book concerns the business firm looking to profit as the source of its survival. We would, however, contend that much of what we say can be applied to the public-sector organization or the not-for-profit firm. Similar principles of internal and external analysis apply.

The Growth Vector

Strategic management involves decisions concerning what a company might do, given the opportunities in its environment; what it can do, given the resources at its disposal; what it wants to do, given the personal values and aspirations of key decision makers; and what it should do, given the ethical and legal context in which it is operating. A firm needs a well defined sense of where it is going in the future and a firm concept of the business it is in. We can think of these in terms of the firm's 'product–market scope' and 'growth vector'. This specifies the particular products or services of the firm and the market(s) it is seeking to serve. A firm's 'growth vector' defines the direction in which the firm is moving with respect to its current product–market scope. The key components of the 'growth vector' are set out in figure 1.2. One qualification is necessary here. The use of the growth

Product Mission	Present	New
Present	Market penetration	Product development
New	Market development	Diversification

Figure 1.2 Product, mission and market choices. *Source:* adapted from Ansoff (1965)

vector assumes that the firm is indeed growing. This is obviously not always the case, and strategic decision making may therefore involve ‘downsizing’ and withdrawal from some areas of business.

The *growth vector* illustrates the key decisions concerning the directions in which a firm may choose to develop. *Market penetration* comes about when the firm chooses as its strategy to increase its market share for its present product markets. If the firm pursues *product development* it sets out to develop new products to complement or replace its current offerings while staying in the same markets. It retains its current *mission* in the sense of continuing to attempt to satisfy the same or related consumer needs. In *market development* the firm searches for new markets with its existing products. If a strategy of *diversification* is chosen, the firm has decided that its product range and market scope are no longer adequate, and it actively seeks to develop new kinds of products for new kinds of markets.

Let us illustrate the growth vector with an example concerning product–market strategy options in retailing. A retailing firm might decide to consolidate its position in its current markets by going for increased market share, perhaps through increased advertising. It might choose to develop new markets, perhaps expanding geographically into other areas, or even overseas, but retaining its current product range. It might choose to develop new retail products but stay in the same line of business – for example, increase its product range in clothing. It might choose to redefine the nature of these products. For example, the running shoe market was radically altered and expanded by redefining running shoes as leisure items, not merely as sports equipment. Finally, the firm might choose to move into

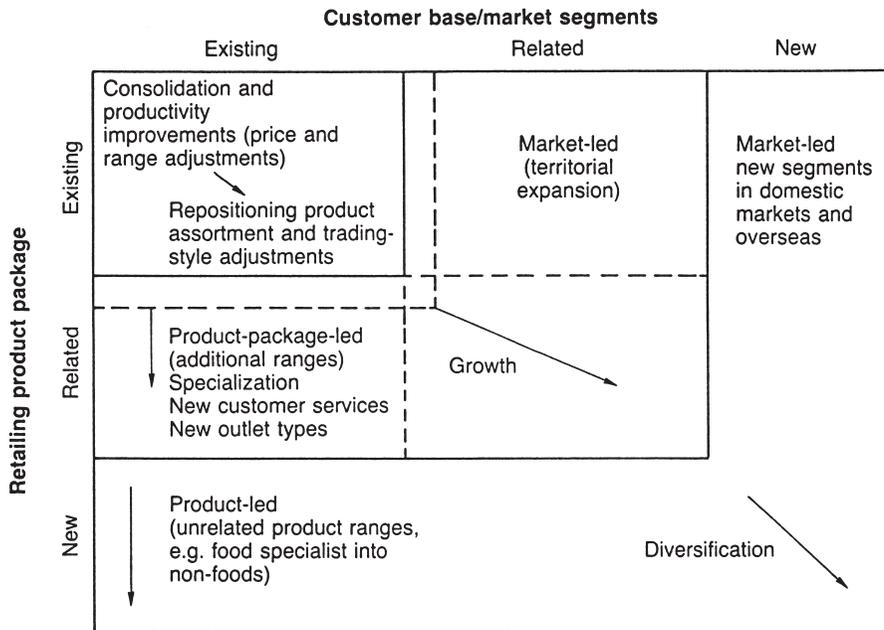


Figure 1.3 Retailing product–market strategy options. *Source:* Knee and Walters (1985)

totally different areas of business, for example, into financial services, as Marks & Spencer has done. The range of product–market strategy options in retailing is illustrated in figure 1.3.

Governing the choice between strategic options should be the notion of *competitive advantage*. The firm has to identify *unique* opportunities for itself in its chosen area(s). It has to identify particular characteristics within its approach to individual product–markets which will give it a strong competitive position. It might go for a large market share that would enable it to dominate particular markets and define the conditions of competition in them, for instance, as regards pricing policy. It might pursue technological dominance, looking for breakthrough products or a new manufacturing technology that would give it a technological edge over the competition, as Pilkington did, for example, with its development of the process for manufacturing float glass, which formed the foundation of the company's subsequent success. It might go for a better quality of product and service. In the automobile industry, Japanese manufacturers have rewritten the rules of the game regarding the quality of products and thus revolutionized consumer expectations. In the process they have made major inroads into Western markets historically dominated by Western firms. Or the firm might choose to combine some of these, as Sainsbury's has done with its 'good food' that 'costs less', an approach combining a low-cost advantage with a quality position in the world of supermarkets.

Mission Statements

The concept of mission has become increasingly fashionable in discussions of strategy. Indeed, some analysts go as far as asserting that a good 'mission statement' can provide an actual worthwhile alternative to the whole task of corporate planning. The definition of a firm's strategic *mission* encapsulated in the mission statement can be thought of as the first stage of the strategy process. Management guru Peter Drucker, the source of much contemporary thinking about the business mission, argues that asking the question 'What is our business?' is the same as asking the question 'What is our mission?' A business is defined by its mission. Only a clear definition of the mission of the organization makes possible clear and realistic business objectives, because the mission defines the purpose of the firm in terms of its enduring sense of its reason for being.

The mission defines the long-term vision of the organization in terms of what it wants to be and whom it wants to serve. A firm's mission should be clear and concise and distinguish it from any other firm. The mission statement has to be backed up with specific objectives and strategies, but these objectives and strategies are far more likely to be acted upon when there is a clear sense of mission informing action. A good mission statement will contain the following:

- the purpose of the organization – a statement of the principal activities of a business or organization;
- its principal business aims – its mission as regards the position it aims to achieve in its chosen business;
- the key beliefs and values of the company;
- definitions of who are the major stakeholders in the business;
- the guiding principles that define the code of conduct that tells employees how to behave.

Drucker illustrates the importance of a sense of mission with his story of three people working on a building site. All three were doing the same job but when asked what their job was gave very different answers. One answered, 'Breaking rocks,' another answered, 'Earning a living,' the third answered, 'Helping to build a cathedral.' There is a similar story told about three climbers. When asked what they were doing, one answered, 'Pitching camp,' the second answered, 'Collecting material for a film,' the third answered, 'Climbing Everest.' There are no prizes for deciding who was most committed to his/her task and who would be most motivated to perform to the best of his/her ability.

Drucker himself highlights the need to link a sense of mission with clear, achievable objectives. He makes the point when analysing the early success of Marks & Spencer:

Marks & Spencer redefined its business as the subversion of the class structure of nineteenth-century England by making available to the working and lower middle classes upper-class goods of better than upper-class quality, and yet at prices the working

and lower middle-class customer could well afford. . . . What made Marks & Spencer unique and successful . . . was its conversion of the definition of 'what our business is, and should be' into clear, specific, operationally effective and multiple objectives. (Drucker, 1974: 96)

In the twentieth-century computer industry Apple set as its mission 'To make a contribution to the world by making tools for the mind that advance humankind'. Thornton's, a UK premium chocolate manufacturer and retailer, talks about itself in this way: 'Our aim is to *delight* our customers with *exceptional* products and *caring* service. Our goal is to be *widely* recognized as the *best specialist retailer* and *manufacturer* of quality confectionery.' Tesco, a major UK supermarket chain, has talked about its mission with a similar stress on service and the customer: 'The strategy is to make our stores, our products and our people the very best in the business in the opinion of our customers.' Other companies have a different emphasis. Levi Strauss, for example, talks about its aspirations in terms of the kind of company it wants to create for its employees: 'we want satisfaction from accomplishments and friendships, balanced personal and professional lives, and to have fun with our endeavors'.

Missions can be extremely visionary and challenging. For example, during its heyday Body Shop proclaimed the following in its annual report: 'Make compassion, care, harmony and trust the foundation stones of business. Fall in love with new ideas.'

QUESTION

1 Do you agree with the view expressed in exhibit 1.1?

EXHIBIT 1.1 MISSION STATEMENTS

A study of mission statements in the United States argued that every organization should have one to motivate its employees. It claimed that firms with clear motivating mission statements were likely to perform better than those without. Classic mission statements cited include the Peter Drucker example of the men on the cathedral building site, President Kennedy's 'Put a man on the moon,' Canon's 'Beat Xerox' and Komatsu's 'Encircle Caterpillar.' The trouble is that most mission statements tend to provoke cynicism and confusion rather than clarity and commitment by trying to combine statements of objectives with statements of values.

Source: adapted from *Financial Times*, 3 April 1989.

CASE STUDY

Ford Motor Company

Figure 1.4 contains the mission statement of a leading multinational company, the Ford Motor Company. Examine this statement and ask yourself the following questions:

- 1 Do you find it a satisfying statement of the company's mission?
- 2 Is there anything in the statement that you would wish to criticize?
- 3 Would you alter the statement in any way, either taking something out or adding more information to it?
- 4 What is the purpose of the mission statement for Ford?
- 5 Is it likely to fulfil this purpose?
- 6 The mission statement was devised by Ford in America. Is the very idea of a mission statement somehow inappropriate for the British context? Do the more reticent British, for example, feel uncomfortable with this kind of 'up-front' approach? Or is it equally useful in the United Kingdom and Europe? If you think it inappropriate, is there an alternative?
- 7 What would be an appropriate mission statement for your own firm or organization?
- 8 How are mission statements likely to differ in small and large firms?

There are four approaches to setting a mission (Collins and Porras, 1991):

- *Targeting*. Setting a clear, definable target for the organization to aim at, such as the moon (the NASA moon mission statement!), financial/growth targets or standards of excellence in product markets.
- *Focusing on a common enemy*. Defeat of the common enemy guides strategic choice, e.g. Pepsi's 'Beat Coke', Honda's 'Crush, squash, slaughter' Yamaha, Nike's attack on Adidas. Honda was so successful in its mission that Yamaha actually made a public apology for its claim that it would defeat Honda.
- *Role modelling*. Sometimes used by smaller companies that model themselves on dominant players in their industry. In the computer industry IBM and Apple have provided – at least, until recently – very different kinds of models.
- *Internal transformation*. Used by older organizations faced with the need for radical change. This kind of mission has as its starting point the admission that its current mission is out of tune with the new realities it is facing.

QUESTION

- 1 Which kind of mission do you think is best? Why?

Mission

Ford Motor Company is a worldwide leader in automotive and automotive-related products and services as well as in new industries such as aerospace, communications, and financial services. Our mission is to improve continually our products and services to meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our stockholders, the owners of our business.

Values

How we accomplish our mission is as important as the mission itself. Fundamental to success for the Company are these basic values:

People – Our people are the source of our strength. They provide our corporate intelligence and determine our reputation and vitality. Involvement and teamwork are our core human values.

Products – Our products are the end result of our efforts, and they should be the best in serving customers worldwide. As our products are viewed, so are we viewed.

Profits – Profits are the ultimate measure of how efficiently we provide customers with the best products for their needs. Profits are required to survive and grow.

Guiding Principles

Quality comes first – To achieve customer satisfaction, the quality of our products and services must be our number one priority.

Customers are the focus of everything we do – Our work must be done with our customers in mind, providing better products and services than our competition.

Continuous improvement is essential to our success – We must strive for excellence in everything we do: in our products, in their safety and value – and in our services, our human relations, our competitiveness, and our profitability.

Employee involvement is our way of life – We are a team. We must treat each other with trust and respect.

Dealers and suppliers are our partners – The Company must maintain mutually beneficial relationships with dealers, suppliers, and our other business associates.

Integrity is never compromised – The conduct of our Company worldwide must be pursued in a manner that is socially responsible and commands respect for its integrity and for its positive contributions to society. Our doors are open to men and women alike without discrimination and without regard to ethnic origin or personal beliefs.

Figure 1.4 Ford Motor Company's statement of mission, values and guiding principles

The recent emphasis in strategy upon a sense of mission demonstrates the need companies feel to clarify their purpose and their values. In the large complex organization a sense of mission can serve as unifying factor. The mission tells employees what the company is about. It can also serve to give other stakeholders a sense that the company is clear about what it is doing and where it is going. The danger with missions is that they can come to be seen as empty rhetoric if senior management does not live according to their principles.

As the Ford case illustrates, strategy links with values when we consider mission. Public and private-sector organizations are likely to think of these differently.

Queen's Medical Centre, Nottingham, one of the United Kingdom's biggest providers of hospital-based medical services, defines its strategic aims in the following way:

- Provide quality services designed around the patient.
- Provide an environment in which the health care professional of tomorrow can be trained.
- Be knowledge organizations by promoting and investing in research and information.
- Be effective and supportive organizations for those working in both hospitals.
- Use our resources wisely.

Values support the achievement of these aims because 'values . . . drive the way we work and deliver care'. Queen's Medical Centre values include: care and service, striving for continuous improvement and supporting staff in delivering high-quality services and achieving a balance between their work and home lives.

CRITICAL VOICES

- 1 Some critics argue that the emphasis upon mission is misplaced, that mission statements are often more rhetoric than substance. Do you agree?
- 2 If a sense of mission is not the best way to give an organization a sense of direction, what is?

Identity

Mission and values are increasingly recognized as reflecting the identity of an organization – its central, enduring and distinctive character, and that which makes it unique. There is evidence that those organizations that do survive and prosper over the longer term do have a clear sense of identity, although they are also skilful enough to know when an existing identity needs to change as a result of major changes in the environment. For example, US railroads needed to recognize that the future was perilous if they clung to the identity of a railroad company. They could perhaps have coped better with a changing environment if they had refashioned themselves as a transport businesses, competing with the roads and the airlines. Such a change might have required major change, for new transport technologies might well have rendered their railroad identity obsolete. Firms can change too slowly and become increasingly vulnerable to change or lose out on major opportunities. Xerox is a case in point. It had all the knowledge and technical skills to become a major player in the computer industry but failed miserably (see chapter 8) because it could not see a way beyond its identity as a copier company. Other firms struggle to create a new identity at times of change. The Boots

Company, a major UK retailer, has struggled for a number of years to rethink its identity (see chapter 8).

Theory of the Business

In an influential *Harvard Business Review* article Peter Drucker argues that every organization has a ‘theory of the business’ (Drucker, 1994). When this theory fits the external reality, is internally coherent, and known and understood by everyone in the organization, then success follows – for example, in IBM in the 1950s, 1960s and 1970s; General Motors until the 1970s; Marks & Spencer until the mid-1990s. When external reality changes and the business model is taken for granted, then crisis and possibly failure ensue. Personal computers changed the driving force from hardware to software; lean manufacturing changed the economics of long runs, and the market for clothes became more of a lifestyle issue. In these situations adopting management recipes such as Total Quality Management, benchmarking, re-engineering and other management fads are not enough: the organization has to go back to re-examine its theory of the business.

Drucker argues that the theory of the business has three parts. While assumptions about the environment define what an organization is paid for, and assumptions about core competences define where an organization must excel, the assumptions about the specific mission ‘define what an organization considers to be meaningful results; in other words they point to how it envisions itself making a difference in the economy and society at large’. This fits well with our model of strategy and with the resource-based view of the firm (see chapter 7).

This argument is taken up by Campbell and Goold (1994), who argue that ‘people are more motivated and work more intelligently if they believe in what they are doing and trust the organization they are working with’. They acknowledge that motivation and commitment can also come from ‘clear strategy, from the excitement of achievement, from the honour of being the best and the thrill of winning’. But strategy alone is not enough. It needs to be nested in a clear sense of mission and, in Drucker’s terms, a viable and compelling theory of the firm.

Goold and Campbell define mission broadly as comprising:

- *a purpose*: some explanation of why the organization exists;
- *a strategy*: defining relevant product markets and the firm’s positioning in them;
- *a set of values*: the beliefs that underpin the organization’s management style, its relation to employees and other stakeholders and its ethics;
- *standards and behaviours*: a summary of some of the most important standards and behaviours in the organization.

This leaves top management with two main tasks in relation to mission:

- the intellectual task of defining purpose, developing strategies and values that reinforce each other and identifying the standards and behaviour that are the expression of the mission;

- a communication and management task of making the sense of mission come alive in the organization.

This is a theme we return to in chapter 6 when we consider Collins and Porras's work on organizations that were built to last. An enduring company's centre consists of core values ('the organization's essential and enduring tenets') and purpose ('the organization's fundamental reasons for existence beyond just making money').

Strategy Evaluation

Strategy can be neither formulated nor adjusted to changing circumstances without a process of strategy evaluation. Whether performed by an individual or as part of an organizational review procedure, strategy evaluation forms an essential step in the process of guiding an enterprise.

For many executives strategy evaluation is simply an appraisal of how well a business performs. Has it grown? Is the profit rate normal? If the answers to these questions are affirmative, it is argued that the firm's strategy must be sound. Despite its unassailable simplicity, this line of reasoning misses the whole point of strategy – that the critical factors determining the quality of current results are often not directly observable or simply measured, and that by the time strategic opportunities or threats do directly affect operating results it may well be too late for an effective response. Thus strategy evaluation is an attempt to look beyond the obvious facts regarding the short-term health of a business and appraise instead those more fundamental factors and trends that govern success in the chosen field of endeavour.

A strategy is a set of objectives, policies and plans that, taken together, define the scope of the enterprise and its approach to business. Rumelt suggests that three questions are central to the challenge of strategy evaluation:

- 1 Are the objectives of the business appropriate?
- 2 Are the major policies and plans appropriate?
- 3 Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?

He further suggests that strategy must satisfy four broad criteria:

- *Consistency.* The strategy must not present mutually inconsistent goals and policies.
- *Consonance.* The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.
- *Advantage.* Strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity.
- *Feasibility.* The strategy must neither overtax available resources nor create insoluble problems.

EXHIBIT 1.2 STRATEGY

Inconsistency in strategy is not simply a flaw in logic. A key function of strategy is to provide coherence to organizational action. A clear and explicit concept of strategy can foster a climate of tacit co-ordination that is more efficient than most administrative mechanisms. Many high-technology firms, for example, face a basic strategic choice between offering high-cost products with high custom-engineering content and lower-cost products that are more standardized and sold at higher volume. If senior management does not enunciate a clear, consistent sense of where the corporation stands on these issues, there will be continuing conflict between sales, design, engineering and manufacturing people. A clear, consistent strategy, by contrast, allows a sales engineer to negotiate a contract with a minimum of co-ordination – the trade-offs are an explicit part of the firm's posture.

Source: Rumelt (1988).

A strategy must be evaluated against each of these criteria; if it fails to meet one or more of them, the strategy is flawed. We will have more to say about strategy evaluation in the chapters that follow.

The Book in Brief

Overall, the chapters that follow provide a brief history of the evolution of thinking about strategy. In chapters 2–4 we address the microeconomic aspects of strategic analysis, focusing on the structure of the firm's business environment, its internal resources and the range of strategic options open to it. In chapters 4–5 we turn to the management process aspects of strategy, looking first of all at organizational issues such as structure and culture, then the management of strategic change. In chapter 7 we focus on current major debates in strategy – core competence and management; chapter 8 consists of ten case studies which you may like to read first.

As in chapter 1, the following chapters are interspersed with examples, cases (historical and current) and questions. There is no 'one best way' of strategy. There is, therefore, no one right answer to the questions posed. Strategic management means coping with complexity and ambiguity. The examples, illustrations and questions are meant to foster critical thought on the issues under discussion and to help you reflect critically on your own experience of strategy in action. Hopefully, you will finish the book a little closer to a 'model' of strategic management, a way of thinking about strategy with which you personally feel comfortable, and able to discuss with others engaged in the same difficult but crucially important task of improving their understanding of strategic issues facing their businesses.