I

INTRODUCTION

1

The Concept of Strategy

Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

—SUN TZU, THE ART OF WAR

OUTLINE

Introduction and Objectives

Strategy is about winning. This chapter explains what strategy is and why it is important to success – both for organizations and individuals. We will distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter will be to introduce the basic framework for strategy analysis that underlies this book. I will introduce the two basic components of strategy analysis: analysis of the external environment of the firm (mainly industry analysis) and the analysis of the internal environment (primarily analysis of the firm's resources and capabilities).

By the time you have completed this chapter, you will be able to:

- Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations.
- Recognize the key characteristics of an effective strategy.
- Understand the basic framework of strategy analysis that underlies this book and that we shall use both for appraising a firm's current strategy and making recommendations for future strategy.
- Understand the major trends in the development of business strategy over recent decades.
- Understand how strategy is made within organizations and the role played by strategic planning systems.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

The Role of Strategy in Success

Strategy Capsules 1.1, 1.2, and 1.3 outline examples of success in three very different arenas: Madonna in popular entertainment, General Giap and the North Vietnamese armed forces in warfare, and Lance Armstrong in cycling. Can the success of these diverse individuals and the organizations they led be attributed to any common factors?

For none of these three examples can success be attributed to overwhelmingly superior resources:

- Madonna possesses vitality, intelligence, and magnetism, but lacks outstanding talents as a vocalist, musician or actress.
- The military, human, and economic resources of the Vietnamese communists were dwarfed by those of the United States and South Vietnam. Yet, with the US evacuation from Saigon in 1975, the world's most powerful nation was humiliated by one of the world's poorest.
- Lance Armstrong possessed a powerful combination of physical and psycological attributes. Yet these endowments were not markedly superior to other top-class cyclists – especially after Armstrong's near-death encounter with cancer.

Nor can their success be attributed either exclusively or primarily to luck. For all three, lucky breaks provided opportunities at critical junctures. None, however, was the beneficiary of a consistent run of good fortune. More important than luck was the ability to recognize opportunities when they appeared and to have the clarity of direction and the flexibility necessary to exploit these chances.

My contention is that the key common ingredient in all three success stories was the presence of a soundly formulated and effectively implemented *strategy*. These strategies did not exist as a plan; in most the strategy was not even made explicit. Yet, in all three, we can observe a consistency of direction based on a clear understanding of the "game" being played and a keen awareness of how to maneuver into a position of advantage.

1. Underpinning Madonna's many years as a superstar has been a strategy built on dedication, opportunism, periodic reinvention of image and product offerings, and a well-coordinated multimarket presence.
2. The victory of the Vietnamese communist forces over the French and then the Americans is a classic example of how a sound strategy pursued with total commitment over a long period can succeed against vastly superior resources. The key was Giap's strategy of a protracted war of limited engagement. With American forces constrained by domestic and international opinion from using their full military might, the strategy was unbeatable once it began to sap the willingness of the US government to persevere with a costly, unpopular foreign war.
3. Lance Armstrong's domination of the Tour de France from 1999 to 2005 was because he and his team did the most effective job of analyzing the requirements for success in the race, developing a strategy around those requirements, and executing it almost faultlessly.

STRATEGY CAPSULE 1.1

Madonna

August 2006 saw the 48th birthday of Madonna Louise Veronica Ciccone but no slowdown in her hectic career. Her world concert tour was in its European leg. *Confessions on a Dancefloor*, upon which the show was based, had reached number 1 position in 40 countries. Together with her earnings from film, video, books, record production, and managing other artists, it looked as though Madonna would be the world's highest earning female, entertainer for yet another year and still the best-known woman on earth.

In the summer of 1978, aged 19, Madonna arrived in New York with $35 to her name. After five years of struggle, she landed a recording contract. *Madonna* (1983) ultimately sold 10 million copies worldwide, while *Like a Virgin* (1984) topped 12 million copies. Between 1985 and 1990, six further albums, three world tours, and five movie roles had established Madonna with an image and persona that transcended any single field of entertainment: she was rock singer, actor, author, and pinup. Yet, she was more than this – as her website proclaims, she is "icon, artist, provocateur, diva, and mogul." She has also made a great deal of money.

What is the basis of Madonna's incredible and lasting success? Certainly not outstanding natural talent. As a vocalist, musician, dancer, songwriter, or actress, Madonna's talents seem modest. Few would regard her as an outstanding beauty.

She possesses relentless drive. Her wide range of activities – records, concerts, music videos, movies, books, and charity events – belies a remarkable dedication to a single goal: the quest for superstar status. For close to 30 years, Madonna has worked incessantly to establish, maintain, and renew her popular appeal. She is widely regarded as a workaholic who survives on little sleep and rarely takes vacations: "I am a very disciplined person. I sleep a certain number of hours each night, then I like to get up and get on with it. All that means that I am in charge of everything that comes out."

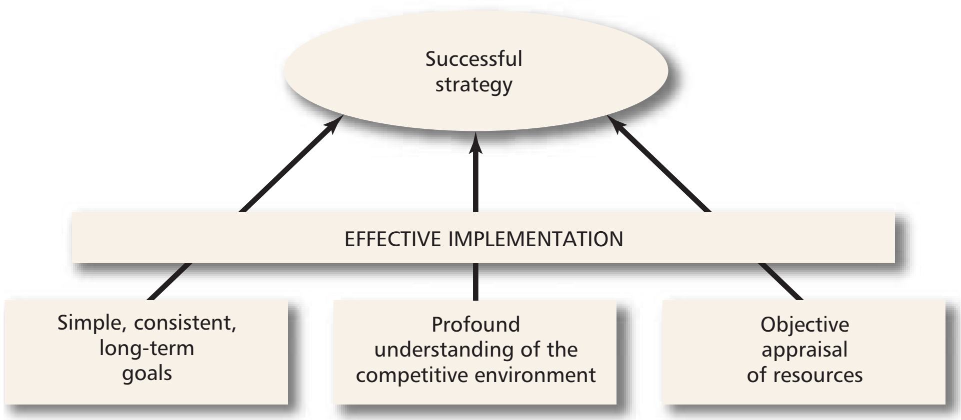
She has drawn heavily on the talents of others: writers, musicians, choreographers, and designers. Many of her personal relationships have been stepping stones to career transitions. Her transition from dance to music was assisted by relationships, first, with musician Steve Bray, then with disc jockey John Benitex. Her entry into Hollywood was accompanied by marriage to Sean Penn and an affair with Warren Beatty. Most striking has been her continuous reinvention of her image. From street-kid look of the early 1980s, to hard-core sexuality of the 90s, and spiritual image that accompanied motherhood, Madonna's fans have been treated with multiple reincarnations. As Jeff Katzenberg of Dreamworks observed: "She has always had a vision of exactly who she is, whether performer or businesswoman, and she has been strong enough to balance it all. Every time she comes up with a new look it is successful. When it happens once, OK, maybe it's luck, but twice is a coincidence, and three times it's got to be a remarkable talent. And Madonna's on her fifth or sixth time."

She was quick to learn the ropes both in Tin Pan Alley and in Hollywood. Like Evita Perón, whom Madonna portrayed in *Evita*, Madonna has combined determination, ambition, social astuteness, and mastery of the strategic use of sex. As a self-publicist she is without equal. In using sex as a marketing tool, she has courted controversy through nudity, pornographic imagery, suggestions of sexual deviance, and the juxtaposition of sexual and religious themes. But she is also astute at walking the fine line between the shocking and the unacceptable. In recent years Madonna has devoted increasing time to nurturing the talents of others, mainly through her recording, film production, and management company, Maverick Inc., a joint venture with Time Warner. Her protégés included Mirwais, William Orbit, Donna De Lory, and the Deftones, and the comedian Ali G: "I've met these people along the way in my career and I want to take them everywhere I go. I want to incorporate them into my little factory of ideas. I also come into contact with a lot of young talent that I feel entrepreneurial about."

We can go further. What do these examples tell us about the characteristics of a strategy that are conducive to success? In all three stories, four common factors stand out (see Figure 1.1):

1 *Goals that are simple, consistent, and long term*. All three individuals displayed a single-minded commitment to a clearly recognized goal that was pursued steadfastly over a substantial part of their lifetime.
   - Madonna's career featured a relentless drive for stardom in which other dimensions of her life were either subordinated to or absorbed within her career goals.
   - North Vietnamese efforts were unified and focused on the ultimate goal of reuniting Vietnam under communist rule and expelling a foreign army from Vietnamese soil. By contrast, US efforts in Vietnam were bedeviled by confused objectives. Was the United States supporting an ally, stabilizing Southeast Asia, engaging in a proxy war against the Soviet Union, or pursuing an ideological struggle against world communism?
   - On his return to professional cycling in 1998, Lance Armstrong committed to a single goal: winning the Tour de France.

FIGURE 1.1 Common elements in successful strategies



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STRATEGY CAPSULE 1.2

General Giap and the Vietnam Wars, 1948–75

As far as logistics and tactics were concerned, we succeeded in everything we set out to do. At the height of the war the army was able to move almost a million soldiers a year in and out of Vietnam, feed them, clothe them, house them, supply them with arms and ammunition and generally sustain them better than any army had ever been sustained in the field . . . On the battlefield itself, the army was unbeatable. In engagement after engagement the forces of the Vietcong and the North Vietnamese Army were thrown back with terrible losses. Yet, in the end, it was North Vietnam, not the United States that emerged victorious. How could we have succeeded so well yet failed so miserably?[1]

Despite having the largest army in Southeast Asia, North Vietnam was no match for South Vietnam so long as the South was backed by the world's most powerful military and industrial nation. South Vietnam and its United States ally were defeated not by superior resources but by a superior strategy. North Vietnam achieved what Sun Tzu claimed was the highest form of victory: the enemy gave up.

The prime mover in the formulation of North Vietnam's military strategy was General Vo Nguyen Giap. In 1944, Giap became head of the Vietminh guerrilla forces. He was commander-in-chief of the North Vietnamese Army until 1974 and Minister of Defense until 1980. Giap's strategy was based on Mao Tse Tung's three-phase theory of revolutionary war: first, passive resistance during which political support is mobilized; second, guerrilla warfare aimed at weakening the enemy and building military strength; finally, general counteroffensive. In 1954, Giap's brilliant victory over the French at Dien Bien Phu fully vindicated the strategy. Against South Vietnam and its US ally, the approach was similar.

Our strategy was . . . to wage a long-lasting battle . . . Only a long-term war could enable us to utilize to the maximum our political trump cards, to overcome our material handicap, and to transform our weakness into strength. To maintain and increase our forces was the principle to which we adhered, contenting ourselves with attacking when success was certain, refusing to give battle likely to incur losses.[2]

The strategy built on the one resource where the communists had overwhelming superiority: their will to fight. As Prime Minister Pham Van Dong explained: "The United States is the most powerful nation on earth. But Americans do not like long, inconclusive wars . . . We can outlast them and we can win in the end."[3] Limited military engagement and the charade of the Paris peace talks helped the North Vietnamese prolong the conflict, while diplomatic efforts to isolate the United States from its Western allies and to sustain the US peace movement accelerated the crumbling of American will to win.

The effectiveness of the US military response was limited by two key uncertainties: what were the objectives and who was the enemy? Was the US role one of supporting the South Vietnamese regime, fighting Vietcong terrorism, inflicting a military defeat on North Vietnam, or combating world communism? Lack of unanimity over goals translated into confusion as to who was the enemy and whether the war was military or political in scope. Diversity of opinion and a shifting balance of political and public opinion were fatal for establishing a consistent long-term strategy.

The consistency and strength of North Vietnam's strategy allowed it to survive errors in implementation. Giap was premature in launching his general offensive. Both the 1968 Tet Offensive and 1972 Easter Offensive were beaten back with heavy losses. By 1974, Giap recognized that the Watergate scandal had so weakened the US presidency that an effective American response to a new communist offensive was unlikely. On April 29, 1975, Operation Frequent Wind began evacuating all remaining Americans from South Vietnam, and the next morning North Vietnamese troops entered the Presidential Palace in Saigon.

Sources: [1] Col. Harry G. Summers Jr., *On Strategy* (Novato, CA: Presidio Press, 1982): 1; [2] Vo Nguyen Giap, *Selected Writings* (Hanoi: Foreign Language Publishing House, 1977); [3] J. Cameron, *Here Is Your Enemy* (New York: Holt, Rinehart, Winston, 1966).

2 *Profound understanding of the competitive environment*. All three individuals designed their strategies around a deep and insightful appreciation of the arena in which they were competing.
   - Fundamental to Madonna's continuing success has been a shrewd understanding of the ingredients of stardom and the basis of popular appeal. This extends from the basic marketing principle that "sex sells" to recognition of the need to manage gatekeepers of the critical media distribution channels. Her periodic reincarnations reflect an acute awareness of changing attitudes, styles, and social norms.
   - Giap understood his enemy and the battlefield conditions where he would engage them. Most important was appreciation of the political predicament of US presidents in their need for popular support in waging a foreign war.
   - Lance Armstrong and team director Johan Bruyneel took analysis of the requirements for success in the Tour de France to unprecedented levels of detail and sophistication.

3 *Objective appraisal of resources*. All three strategies were effective in exploiting internal strengths, while protecting areas of weakness.
   - By positioning herself as a "star," Madonna exploited her abilities to develop and project her image, to self-promote, and to exploit emerging trends, while avoiding being judged simply as a rock singer or an actress. Her live performances rely heavily on a large team of highly qualified dancers, musicians, vocalists, choreographers, and technicians, thus compensating for any weaknesses in her own performing capabilities.
   - Giap's strategy was carefully designed to protect against his army's deficiencies in arms and equipment, while exploiting the commitment and loyalty of his troops.
   - Armstrong's campaign to win the Tour de France was based on two key strengths: unmatched determination to win and superior team building capability.

STRATEGY CAPSULE 1.3

Lance Armstrong and the Tour de France

On July 24, 2005, Lance Armstrong became the first person ever to win the Tour de France seven times. Armstrong's unprecedented achievement was all the more remarkable for the fact that in 1996 Armstrong was treated for testicular cancer that had spread to his lungs and brain.

Even without cancer, Lance Armstrong was not an obvious candidate for title of the greatest cyclist ever. Despite certain natural advantages – notably a heart 30% larger than normal with an abnormally slow beat rate (32 times per minute while at rest) – Armstrong's aerobic rate was less than that of cycling greats such as **Miguel Indurain and Greg LeMond**. For most of his career, Armstrong was not the world's preeminent cyclist. He won the world championship just once (1993) and his Olympic best was a bronze medal in 2000 Sydney games.

Armstrong's seven-year dominance of the Tour de France resulted from a combination of factors, not least of which was his single-minded focus, not just on cycling, but on a single race. Between his 1999 and 2005 Tour de France victories, Armstrong was overall winner in only five other cycle races.

Armstrong raised planning for the Tour to a new level of sophistication. His meticulous preparations included: ". . . computer calculations that balanced my body weight and my equipment weight with the potential velocity of my bike," and "careful computer graphs of my training rides, calibrating the distances, wattages, and thresholds." Armstrong abilities were well-suited to the Tour – as well as all-round strengths as a cyclist, he developed mastery of bluff and psychological warfare. His feigning exhaustion at critical junctures before devastating his rivals with a powerful breakaway has been deemed "worthy of a Hollywood Oscar." However, it was in team planning and coordination where the major differences between Armstrong and his competitors were most evident.

While the principal prize in the Tour de France is for the individual who achieves the fastest overall time, cyclists compete within teams. The team coordination and the willingness of the other team members (*domestiques*) to sacrifice themselves for the team leader is critical to individual success. Armstrong's US Postal Service team (which became the Discovery Channel team for the 2005 Tour) was remarkable not just for the quality of other team members, but the willingness of these world class cyclists to serve their leader. Olympic gold medal winner Viatcheslav Ekimov – "The Russian Power House" – was critical to pulling Armstrong through the flatter stages of the Tour. Roberto Heras and Jose Asevedo were Armstrong's main support in the mountains – shielding him from the wind and supporting him during breakaways. George Hinkapie rode in all seven of Armstrong's Tour victories as a versatile all-rounder. Why did the team show a unique degree of loyalty to their team leader? Part was Armstrong's infectious commitment, part was his willingness to pay bonuses out of his own pocket to other riders, but also important was reciprocity – while team members gave total support to Armstrong on the Tour de France, in other competitions the roles were reversed and Armstrong served as a *domestique* to other team members.

The team's strategy genius was director, Johan Bruyneel, whose unrivaled knowledge of the Tour spanned sports physiology, game theory, psychology, and tactics. As well as selecting team members, assigning roles, designing overall strategy and planning tactics for individual stages, Bruyneel managed a network of secret agreements with other teams. In return for financial support, other teams agreed to support Armstrong should he find himself split from his own team members. In addition to the conventional roles as team decision maker, enforcer of team discipline, preparation and planning, Bruyneel gave continuous attention to team dynamics: he was a careful listener, encouraged discussion, and welcomed new ideas. Together, Armstrong and Bruyneel recognized a critical ingredient for success: in a sport of independently minded individualists where only the team leader is recognized as the winner, team commitment and loyalty are critical and fragile. A unique feature of the USPS/Discovery team was Armstrong and Bruyneel's fostering of camaraderie, joint ambition, mutual support, and shared emotions.

4 *Effective implementation*. Without effective implementation, the best-laid strategies are of little use. Critical to the success of Madonna, Giap, and Armstong was their effectiveness as leaders in terms of capacity to reach decisions, energy in implementing them, and effectiveness in instilling loyalty and commitment among subordinates. All three built organizations that allowed effective marshaling of resources and capabilities, and quick responses to changes in the competitive environment.

These observations about the role of strategy in success can be made in relation to most fields of human endeavor. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome of a purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on the basic four elements almost always play an influential role.

Look at the "high achievers" in any competitive area. Whether we review the world's political leaders, the CEOs of the Fortune 500, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively – typically by combining the four strategic factors mentioned above. They are goal focused; their career goals have taken primacy over the multitude of life's other goals – friendship, love, leisure, knowledge, spiritual fulfillment – which the majority of us spend most of our lives juggling and reconciling. They know the environments within which they play and tend to be fast learners in terms of understanding the keys to advancement. They know themselves in terms of both strengths and weaknesses. And they implement their career strategies with commitment, consistency, and determination. As the late Peter Drucker observed: "we must learn how to be the CEO of our own careers."[1]

There is a downside, however. Focus on a single goal may lead to outstanding success, but may be matched by dismal failure in other areas of life. Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Jean Paul Getty in business, Richard Nixon and Joseph Stalin in politics, Marilyn Monroe and Elvis Presley in entertainment, Joe Louis and O. J. Simpson in sport, and Bobby Fischer in chess. Fulfillment in our personal lives is likely to require broad-based lifetime strategies.[2]

These same ingredients of successful strategies – clear goals, understanding the competitive environment, resource appraisal, and effective implementation – form the key components of our analysis of business strategy.

The Basic Framework for Strategy Analysis

Figure 1.2 shows the basic framework for strategy analysis that we shall use throughout the book. The four elements of a successful strategy shown in Figure 1.1 are recast into two groups – the firm and the industry environment – with strategy forming a link between the two. The firm embodies three sets of these elements: goals and values ("simple, consistent, long-term goals"), resources and capabilities ("objective appraisal of resources"), and structure and systems ("effective implementation").

The industry environment ("profound understanding of the competitive environment") represents the core of the firm's external environment and is defined by the firm's relationships with customers, competitors, and suppliers. Hence, we view strategy as forming a link between the firm and its external environment.

The task of business strategy, then, is to determine how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how to organize itself to implement that strategy.

What's Wrong With SWOT?

Distinguishing between the external and the internal environment of the firm is common to most approaches to strategy analysis. The best known and most widely used of these approaches is the "SWOT" framework, which classifies the various influences on a firm's strategy into four categories: Strengths, Weaknesses, Opportunities, and Threats. The first two – strengths and weaknesses – relate to the internal environment; the last two – opportunities and threats – relate to the external environment.[3]

Which is better, a two-way distinction between internal and external influences or the four-way SWOT taxonomy? The key issue is whether it is sensible and worth while to classify internal factors into strengths and weaknesses and external factors into opportunities and threats. In practice, such distinctions are difficult:

FIGURE 1.2 The basic framework: strategy as a link between the firm and its environment

- Is BMW's German home base a strength or a weakness for BMW? Its German origins are fundamental for its reputation for engineering excellence and the skills of its German-based engineers and technicians are essential to its claim to be the "world's ultimate driving machine." At the same time, Germany is a high-cost country with an inflexible labor market and is subject to a plethora of European Union regulations. Hence, BMW's German home base is both a strength and a weakness.
- Is global warming a threat or an opportunity to the world's automobile producers? Global warming may encourage governments to raise taxes on motor fuels and support public transport, thereby threatening the demand for private motoring. At the same time, these circumstances create an opportunity for developing new, fuel-efficient cars that may encourage consumers to scrap their gas-guzzlers.

The lesson here is that an arbitrary classification of external factors into opportunities and threats, and internal factors into strengths and weaknesses, is less important than a careful identification of these external and internal factors followed by an appraisal of their implications. My approach to strategy analysis favors a simple two-way classification of *internal* and *external* factors. What will characterize our strategic appraisal will be the rigor and depth of our analysis of these factors, rather than a superficial categorization into strengths or weaknesses, and opportunities or threats.

Strategic Fit

Fundamental to this view of strategy as a link between the firm and its external environment is the notion of *strategic fit*. For a strategy to be successful, it must be consistent with the firm's external environment, and with its internal environment – its goals and values, resources and capabilities, and structure and systems. As we shall see, the failure of many companies is caused by lack of consistency with either the internal or external environment. During 2006, Vodafone – the world's leading supplier of cellphone services – suffered declining profits and asset write-downs. The problem was a growth-oriented, acquisition-based strategy that emphasized superior content that no longer fitted the commoditizing market for cellphone services, where there were few advantages from global spread. In other cases, many companies have failed to align their strategies to their internal resources and capabilities. A critical issue for Nintendo in the coming years will be whether it possesses the financial and technological resources to continue to compete head-to-head with Sony and Microsoft in the market for video game consoles.

A Brief History of Business Strategy

Origins and Military Antecedents

Enterprises need business strategies for much the same reasons that armies need military strategies – to give direction and purpose, to deploy resources in the most effective manner, and to coordinate the decisions made by different individuals. Indeed, the concepts and theories of business strategy have their antecedents in military strategy. The term *strategy* derives from the Greek word *strategia*, meaning "generalship." However, the concept of strategy did not originate with the Greeks. Sun Tzu's classic *The Art of War*, written about 500 BC, is regarded as the first treatise on strategy.[4]

Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics. *Strategy* is the overall plan for deploying resources to establish a favorable position; a *tactic* is a scheme for a specific action. Whereas tactics are concerned with the maneuvers necessary to win battles, strategy is concerned with winning the war. Strategic decisions, whether in military or business spheres, share three common characteristics:

- They are important.
- They involve a significant commitment of resources.
- They are not easily reversible.

Many of the principles of military strategy have been applied to business situations. These include the relative strengths of offensive and defensive strategies; the merits of outflanking over frontal assault; the roles of graduated responses to aggressive initiatives; the benefits of surprise; and the potential for deception, envelopment, escalation, and attrition.[5] At the same time, the differences between business competition and military conflict must be recognized. The objective of war is (usually) to defeat the enemy. The purpose of business rivalry is seldom so aggressive: most business enterprises limit their competitive ambitions, seeking coexistence rather than the destruction of competitors.

The tendency for the principles of military and business strategy to develop along separate paths indicates the absence of a general theory of strategy. The publication of Von Neumann and Morgenstern's *Theory of Games* in 1944 gave rise to the hope that a general theory of competitive behavior would emerge. During the subsequent six decades, game theory has revolutionized the study of competitive interaction, not just in business but in politics, military conflict, and international relations as well.[6] Yet, as we shall see in Chapter 4, game theory has achieved only limited success as a practical and broadly applicable general theory of strategy.[7]

From Corporate Planning to Strategic Management

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory. During the 1950s and 1960s, senior executives were experiencing increasing difficulty in coordinating decisions and maintaining control in companies that were growing in size and complexity. Financial budgeting provided the basic framework for annual financial planning, while discounted cash flow (DCF) approaches to capital budgeting provided a new approach to appraising individual investment projects. Corporate planning was devised as a framework for co-ordinating individual capital investment decisions and planning the long-term development of the firm. Macroeconomic forecasts provided the foundation for the new corporate planning. The typical format was a five-year corporate planning document that set goals and objectives, forecast key economic trends (including market demand, the company's market share, revenue, costs, and margins), established priorities for different products and business areas of the firm, and allocated capital expenditures. The diffusion of corporate planning was accelerated by

STRATEGY CAPSULE 1.4

Corporate Planning in a Large US Steel Company, 1965

The first step in developing long-range plans was to forecast the product demand for future years. After calculating the tonnage needed in each sales district to provide the "target" fraction of the total forecast demand, the optimal production level for each area was determined. A computer program that incorporated the projected demand, existing production capacity, freight costs etc., was used for this purpose.

When the optimum production rate in each area was found, the additional facilities needed to produce the desired tonnage were specified. Then the capital costs for the necessary equipment, buildings, and layout were estimated by the Chief Engineer of the corporation and various district engineers. Alternative plans for achieving company goals were also developed for some areas, and investment proposals were formulated after considering the amount of available capital and the company debt policy. The Vice President who was responsible for long-range planning recommended certain plans to the President, and after the top executives and the Board of Directors reviewed alternative plans, they made the necessary decisions about future activities.

Source: Harold W. Henry, *Long Range Planning Processes in 45 Industrial Companies* (Englewood Cliffs, NJ: Prentice-Hall, 1967): 65.

a flood of articles and books addressing this new science.[8] By 1963, most large US companies had set up corporate planning departments. Strategy Capsule 1.4 provides an example of such formalized corporate planning.

During the 1960s and early 1970s, diversification became the major emphasis of corporate planning for many large companies. Igor Ansoff, one of the founding figures of the new discipline of corporate strategy, claimed that: "Strategic decisions are primarily concerned . . . with the selection of the product-mix that the firm will produce and the markets to which it will sell."[9]

During the 1970s and early 1980s, confidence in corporate planning and infatuation with scientific approaches to management were severely shaken. Not only did diversification fail to deliver the anticipated synergies, but the oil shocks of 1974 and 1979 ushered in a new era of macroeconomic instability, combined with increased international competition from resurgent Japanese, European, and Southeast Asian firms. Faced with a more turbulent business environment, firms could no longer plan their investments, new product introductions, and personnel requirements three to five years ahead, simply because they couldn't forecast that far into the future.

The result was a shift in emphasis from *planning* to *strategy making*, where the focus was less on the detailed management of companies' growth paths than on positioning the company in markets and in relation to competitors in order to maximize the potential for profit. This transition from *corporate planning* to what became termed *strategic management* was associated with increasing focus on competition as the central characteristic of the business environment and competitive advantage as the primary goal of strategy.

This emphasis on strategy as a quest for performance directed attention to the sources of profitability. During the late 1970s and into the 1980s, attention focused on sources of profit within the industry environment. Michael Porter of Harvard Business School pioneered the application of industrial organization economics to analyzing industry profitability.[10] Other researchers focused on how profits were distributed between the different firms in an industry. The Boston Consulting Group pioneered a series of studies into the impact of market share and learning upon costs and profits.[11] These two lines of inquiry – the determinants of industry profitability and determinants of profitability differences within industries – provided the basis of the empirical analysis undertaken by the Strategic Planning Institute's PIMS (Profit Impact of Market Strategy) project.[12]

During the 1990s, the focus of strategy analysis shifted from the sources of profit in the external environment to the sources of profit within the firm. Increasingly the resources and capabilities of the firm became regarded as the main source of competitive advantage and the primary basis for formulating strategy.[13] This emphasis on what has been called the *resource-based view of the firm* represented a substantial shift in thinking about strategy. Rather than firms pursuing similar strategies, as in seeking attractive markets and favorable competitive positions, emphasis on internal resources and capabilities has encouraged firms to identify how they are different from their competitors and design strategies that exploit these differences. Michael Porter, answering the question "What is strategy?", makes the point: "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value."[14]

The technology boom of the late 1990s – fueled by digitization, mobile telephony, and the internet – ushered in a wave of new thinking about business strategy. The new knowledge-based, post-industrial economy was seen to offer unprecedented entrepreneurial opportunities and compelled established firms to "reinvent" themselves – or else succumb to "disruptive technologies."[15] Tom Peters urged companies toward the imperative of "strategic innovation" while Gary Hamel summoned executives to "join the revolution."[16] Fundamental to strategic innovation was the quest for new business models – new approaches to the creation and exploitation of value. E-commerce offered unparalleled opportunity for devising new business models: eBay in person-to-person auctions, E-Trade in online stock broking, WebVan and Peapod in grocery retailing, Enron in electricity trading.

The stock market meltdown of 2001 and 2002 and the demise of many of the brightest stars of the TMT (technology, media, and telecommunications) sector – including giants such as Enron and WorldCom – marked the end of "irrational exuberance" and deflated optimism over the power of strategic innovation to create new markets and new sources of competitive advantage. Nevertheless, digital technologies have continued to be major drivers of change and sources of new threats and opportunities – the networked economy, battles over rival technical standards (e.g. HD-DVD vs. BluRay),[17] and the rise of "winner-take-all markets" (e.g. eBay in internet auctions).[18] The turbulence and unpredictability caused by technology, competition and geopolitical forces has meant that strategy has become as much about managing uncertainty as a quest for profit. One outcome has been increased interest in the application of real option thinking to the management of flexibility.[19]

In terms of new developments, the reaction against excesses of greed and unbridled shareholder value maximization has taken the form of renewed interest in business ethics and corporate social responsibility (CSR).[20] These trends have been reinforced by greater awareness of the fragility of Earth's ecosystem, stimulated by accelerating global warning. As optimism over the capacity of the "new economy" to generate new business opportunities waned, companies looked elsewhere for new business opportunities. Increasingly, Western companies looked to emerging countries – India and China in particular – as sources of future growth.[21]

Figure 1.3 summarizes the main developments in strategic management over the past 60 years.

Strategic Management Today

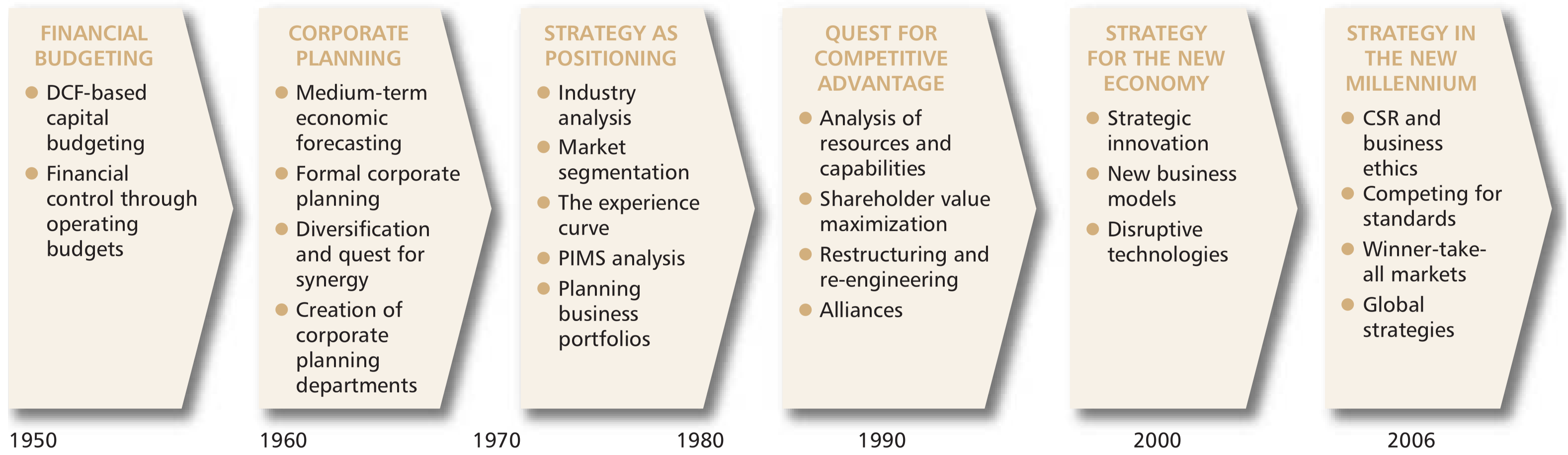
What Is Strategy?

In its broadest sense, strategy is the means by which individuals or organizations achieve their objectives. By "means" I am referring not to detailed actions but the plans, policies, and principles that guide and unify a number of specific actions. Table 1.1 presents a number of definitions of the terms strategy. Common to definitions of business strategy is the notion that strategy is focused on achieving certain *goals*; that the critical actions that make up a strategy involve *allocation of resources*; and that strategy implies some *consistency*, *integration* or *cohesiveness*.

TABLE 1.1 Some Definitions of Strategy

- Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect.
  —*Wordsmyth Dictionary*
- Lost Boy: "Injuns! Let's go get 'em!"
  John Darling: "Hold on a minute. First we must have a strategy."
  Lost Boy: "Uhh? What's a *strategy*?"
  John Darling: "It's, er . . . it's a plan of attack."
  —Walt Disney's *Peter Pan*
- The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
  —Alfred Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962)
- A strategy is the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocate an organization's resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.
  —James Brian Quinn, *Strategies for Change: Logical Incrementalism* (Homewood, IL: Irwin, 1980)
- Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.
  —Kenneth Andrews, *The Concept of Corporate Strategy* (Homewood, IL: Irwin, 1971)

FIGURE 1.3 Evolution of Strategic Management; Dominant Themes



Yet, as we have seen in our historical review, the conception of firm strategy has changed greatly over the past half century. As the business environment has become more unstable and unpredictable, so strategy has become less concerned with detailed plans, and more about mission, vision, principles, guidelines, and targets. This is consistent with our starting point to the chapter. If we think back to our three introductory examples – Madonna, General Giap, and Lance Armstrong – none wrote detailed strategic plans, but all possessed clear ideas of what they wanted to achieve and how they would achieve it. This shift in emphasis from strategy as plan to strategy as direction does not imply any downgrading of the role of strategy. Certainly, in a turbulent environment, strategy must embrace flexibility and responsiveness. But it is precisely in these conditions that strategy becomes more rather than less important. When the firm is buffeted by unforeseen threats and where new opportunities are constantly appearing, then strategy becomes a vital tool to navigate the firm through stormy seas.

In an environment of uncertainty and change, a clear sense of direction is essential to the pursuit of objectives. As Michael Porter has emphasized, strategy is not about doing things better – this is the concern of operational effectiveness – strategy is about doing things *differently*; hence, the essence of strategy is *making choices*.[22]

Strategic choices can be distilled to two basic questions:

- *Where* to compete?
- *How* to compete?

The answers to these questions also define the major areas of a firm's strategy: *corporate strategy* and *business strategy*.

Corporate and Business Strategy

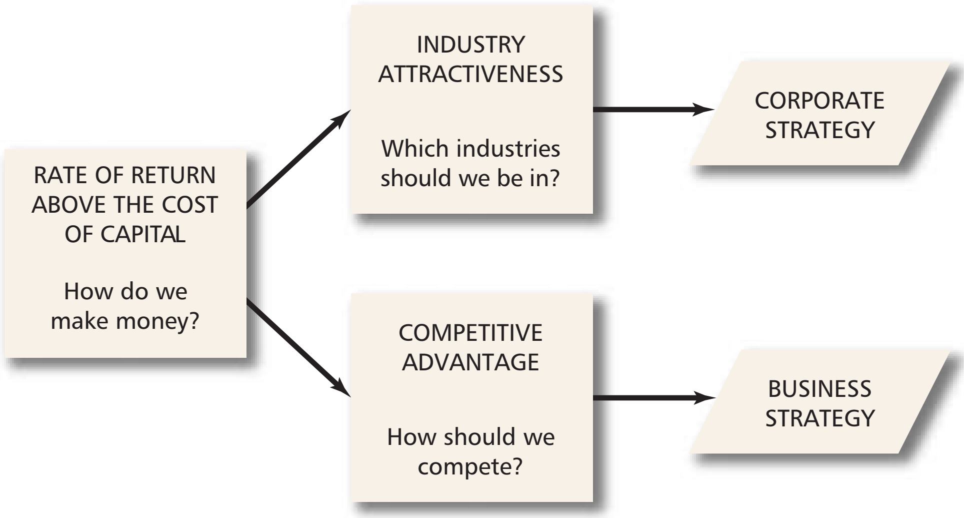
If we start from basics, the purpose of strategy is to achieve certain goals. For the firm, the basic goal is to survive and prosper. Survival, over the long term, requires that the firm earns a rate of return on its capital that exceeds its cost of capital. There are two possible ways of achieving this. First, the firm may locate within an industry where overall rates of return are attractive. Second, the firm may attain a position of advantage vis-à-vis its competitors within an industry, allowing it to earn a return in excess of the industry average (see Figure 1.4).

These two sources of superior performance define the two basic levels of strategy within an enterprise:

- *Corporate strategy* defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments.
- *Business strategy* is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as *competitive strategy*.

Using different terminology, Jay Bourgeois has referred to corporate strategy as the task of *domain selection* and business strategy as the task of *domain navigation*.[23]

FIGURE 1.4 The sources of superior profitability



This distinction may be expressed in even simpler terms. The basic question facing the firm is: "How do we make money?" The answer to this question corresponds to the two basic strategic choices we identified above: "Where to compete" (i.e. "In which industries and markets should we be in?") and "How should we compete?"

The distinction between corporate strategy and business strategy corresponds to the organization structure of most large companies. Corporate strategy is the responsibility of the top management team and the corporate strategy staff. Business strategy is primarily the responsibility of divisional management.

As an integrated approach to firm strategy, this book deals with both business and corporate strategy. However, my primary emphasis will be business strategy. This is because the critical requirement for a company's success is its ability to establish competitive advantage. Hence, issues of business strategy precede those of corporate strategy. At the same time, these two dimensions of strategy are closely linked: the scope of a firm's business has implications for the sources of competitive advantage, and the nature of a firm's competitive advantage determines the range of businesses it can be successful in.

Describing a Firm's Strategy

Where do we go looking for a firm's strategy? Strategy resides primarily within the minds of top managers. In the case of an entrepreneurial startup, strategy will exist primarily within the mind of the founder. However, to learn about firm strategies we do not need to be mind readers – most companies find it helpful to articulate their strategies in one form or another. In the case of the startup enterprise, strategy is usually written down in the business plan that was prepared to raise finance. In the case of established companies, strategy is communicated in a number of ways:

- *Vision* is an aspirational view of what the organization will be like in the future. Charlotte Villiers defines vision as: "an ideal picture of what the company could be if it fulfilled all of its potential and all the human potential of its staff." However, the vision statements found on most companies' websites tend to be too idealized to offer clear guidance to their strategies.
- *Mission* is a statement of purpose: what the organization seeks to achieve over the long term. Like vision, mission does not provide a distinct statement of strategy but offers a pointer to the overall direction in which strategy will take the organization.
- *Business models*. As noted earlier, business models came into vogue during the e-commerce boom of the late 1990s when firms were devising innovative ways for harvesting profit from internet-based businesses. A business model is a statement of the basis on which a business will generate revenue and profit. Most firms operate with a very simple business model: supply a product that meets a consumer need and sell it at a price that exceeds the cost of production. Other companies have more complex business models. Broadcasters supply radio and TV programming free to consumers, but charge for advertising (hence the threat to this business model posed by TiVo and other technologies that allow consumers to eliminate advertising from their viewing and listening). A business model is a preliminary to a strategy: it is only concerned with the viability of the basic business concept; even if the business model is sound, the firm still needs a strategy that will allow it to survive against competitors that are using the same business model.[24]
- *Strategic plans*. A firm's strategic plan documents its strategy in terms of performance goals, approaches to achieving those goals, and planned resource commitments over a specific time period (typically three to five years). For large, multibusiness companies, strategic plans comprise business plans for individual businesses and divisions and the overall corporate plan. Companies may formulate regional, country, and functional plans as well. Most large companies create their strategic plans through a regular, sequential process – the strategic planning cycle. In most large companies there is an annual cycle.

Strategy Capsules 1.5 and 1.6 give examples of how two companies have articulated their strategies.

Suppose that a firm is not explicit about its strategy, how do we go about describing a firm's strategy? A useful starting point is the two basic questions we identified as defining a firm's basic strategic position: *where is the firm competing? how is it competing?* Strategy Capsule 1.7 uses basic information about the Coca-Cola Company to describe its strategy.

How Is Strategy Made? Design vs. Emergence

So far, the picture I have painted has involved strategies being created deliberately by top management utilizing the tools and techniques of strategic analysis. But is this how strategies are really made? When we examined Madonna's career, we discerned a consistency and pattern to her career decisions that we described as a strategy, yet there is no evidence that she engaged in any systematic strategic planning or articulated her strategy. Similarly with many successful companies, Wal-Mart's incredibly successful strategy based on large store formats, hub-and-spoke distribution system,

STRATEGY CAPSULE 1.5

Nokia's Strategy

OUR VISION: Life goes Mobile!

Ten years ago, we had a vision that seemed revolutionary for the times: Voice Goes Mobile! As history shows, this vision became reality in an incredibly short amount of time. With more than 1.6 billion mobile phone subscriptions globally – and more mobile phones than fixed-line phones in use – we see that mobility has transformed the way people live their lives.

Today, Nokia sees mobility expanding into new areas such as imaging, games, entertainment, media, and enterprises. There are new mobile services already taking our industry forward and creating new opportunities. At the same time, major opportunities still exist in bringing mobile voice to completely new users.

If it can go mobile – it will!

MISSION: Connecting People

By connecting people, we help fulfill a fundamental human need for social connections and contact. Nokia builds bridges between people – both when they are far apart and face-to-face – and also bridges the gap between people and the information they need.

STRATEGY

The Nokia Strategy continues to focus on three activities to expand mobile communications in terms of volume and value:

- **Expand mobile voice**: We can further develop the mobile voice market – both in markets where mobile telephony is just taking off as well as in more mature markets. Nokia estimates the number of mobile subscriptions to surpass three billion in 2008. Nokia's position in mobile voice is strong thanks to our key assets and excellent logistics capabilities.
- **Drive consumer multimedia**: Nokia is playing a key role in shaping this emerging complex market by focusing on the fastest growth areas: imaging, music, and games, to name a few.
- **Bring extended mobility to enterprises**: Nokia will provide a range of competitive, specifically targeted handsets, platforms, and connectivity solutions so enterprises can boost productivity through the power of mobility.

Source: www.nokia.com/P11879 accessed March 22, 2006

small-town locations, and unique approach to employee motivation was not the result of grand design – it was the result of Sam Walton's hunches and intuition plus a series of historical accidents.

How organizations make strategy has emerged as an area of intense debate within the strategy field. Henry Mintzberg distinguishes *intended*, *realized*, and *emergent* strategies. *Intended strategy* is strategy as conceived of by the top management team. Even here, rationality is limited and the intended strategy is the result of a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization. However, *realized strategy* – the actual strategy that is implemented – is only partly related to that which was intended (Mintzberg suggests

STRATEGY CAPSULE 1.6

Apple Computer, Inc.: Business Strategy

The Company is committed to bringing the best personal computing and music experience to students, educators, creative professionals, businesses, government agencies, and consumers through its innovative hardware, software, peripherals, services, and internet offerings. The Company's business strategy leverages its unique ability, through the design and development of its own operating system, hardware, and many software applications and technologies, to bring to its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design. The Company believes continual investment in research and development is critical to facilitate innovation of new and improved products and technologies. Besides updates to its existing line of personal computers and related software, services, peripherals, and networking solutions, the Company continues to capitalize on the convergence of digital consumer electronics and the computer by creating innovations like the iPod and iTunes Music Store. The Company's strategy also includes expanding its distribution network to effectively reach more of its targeted customers and provide them a high-quality sales and after-sales support experience.

Source: Apple Computer Inc., 10K Report, 2005.

only 10–30 percent of intended strategy is realized). The primary determinant of realized strategy is what Mintzberg terms *emergent strategy* – the decisions that emerge from the complex processes in which individual managers interpret the intended strategy and adapt to changing external circumstances.[25]

Analysis of Honda's successful entry into the US motorcycle market has provided a battleground for the debate between those who view strategy making as primarily a rational, analytical process of deliberate planning (the *design school*) and those that envisage strategy as emerging from a complex process of organizational decision making (the *emergence* or *learning school* of strategy).[26] Boston Consulting Group identified Honda as pursuing a global strategy based on exploiting economies of scale and volume to establish unassailable cost leadership.[27] However, subsequent interviews with the Honda managers in charge of US market entry revealed a different story: a haphazard approach to entry, with little analysis and no clear plan.[28] As Mintzberg observes: "Brilliant as its strategy may have looked after the fact, Honda's managers made almost every conceivable mistake until the market finally hit them over the head with the right formula."[29]

Henry Mintzberg's critique over analytical approaches to strategy design goes further. Not only is rational design an inaccurate account of how strategies are actually formulated, it is a poor way of making strategy. "The notion that strategy is something that should happen way up there, far removed from the details of running an organization on a daily basis, is one of the great fallacies of conventional strategic management."[30] At the basis of this fallacy is that it fails to allow for learning though a continuous interaction between strategy formulation and strategy implementation in which strategy is constantly being adjusted and revised in light of experience.

STRATEGY CAPSULE 1.7

Describing the Strategy of The Coca-Cola Company

Coca-Cola's mission statement – "To refresh the world . . . To inspire moments of optimism . . . To create value in everything we do . . ." – is ethereal, but doesn't say much about how these lofty goals are translated into strategy. However, on the basis of some basic facts about the company's operation and intentions, we can provide a more explicit statement of its strategy. Our starting point is to answer the two basic questions of *where* and *how* it competes.

The *where* question can be answered as follows:

- Coca-Cola competes in the soft drinks industry where it supplies concentrate for its branded carbonated drinks (e.g. Coca-Cola, Sprite, Fanta, Tab, and Fresca) and supplies other drinks (e.g. Minute Maid, Hi-C, and Fiver Alive fruit juices and Dasani bottled water).
- Geographically, Coca-Cola competes in 200 countries, with 27% of sales in the US and a further 27% in its next four biggest markets (Mexico, Brazil, Japan, and China).
- In terms of vertical scope, Coca-Cola is primarily engaged in product development, brand management, and the manufacture of concentrate. It relies on franchised local bottlers for bottling and distribution. Coca-Cola holds equity interest in over half of its larger bottlers.

With regard to *how*: Coca-Cola pursues a differentiation strategy in which it relies on brand image developed through heavy advertising and promotion. It seeks market share leadership through its mass marketing and through close relationships with the leading bottlers in every country where it does business.

These facts outline Coca-Cola's strategy only in the *static* sense of describing its current competitive stance. Strategy is also *dynamic* – it's about the direction in which a company is developing. Coca-Cola's company reports tell us a good deal about what the company is currently doing to change its competitive position. In particular, it is committed to continuous growth of both volume and earnings, and to the reinforcement of its world leadership. Its major growth opportunities will be in fast-growing countries outside the US, such as China, Russia, and Turkey. (During 2001–5, the international portion of its capital expenditure budget increased from 56% to 71%.) Coca-Cola also sought to capitalize on increasing demand for low carbohydrate and natural ingredient drinks. However, its primary emphasis will be on marketing its core brands – particularly targeting younger consumers through linking Coca-Cola products with sport and music. Acquisition will play an important role in building and reinforcing Coca-Cola's international market position.

Source: www2.coca-cola.com/investors/index.html

While the debate between these schools rumbles on,[31] it is apparent that the central issue is not "who is right?" but "how can the two views complement one another to give us a richer understanding of how strategy is made?" In most organizations, strategy is made through a combination of design and emergence. At the formal, deliberate level, strategy is made in board meetings, meetings of the top management team, and within the strategic planning process. At the same time, strategy is being continually enacted through decisions that are made by every member of the organization – by middle management especially. The decentralized, bottom–up process of strategy emergence may lead formal, top–down strategy formulation. Intel's historic decision to abandon memory chips and concentrate on microprocessors was initiated through a host of decentralized decisions taken by divisional and plant managers that were subsequently acknowledged by top management and promulgated into strategy.[32] Maximizing responsiveness and adaptability requires that strategic management processes combine design and emergence. Thus, the strategic planning process typically combines both top–down and bottom–up strategy making. Corporate headquarters sets guidelines in the form of mission statements, business principles, and performance targets while the individual business units take the lead in formulating strategic plans. Within the strategic plans that are decided, divisional and business unit managers have considerable freedom to adjust, adapt, and experiment. This predominant pattern of strategic planning may be described as one of "planned emergence."[33]

This idea of strategy providing overall direction for an emergent, adaptive, responsive process of strategic decision making is central to Bain & Company's advocacy of *strategic principles* to guide the organization. A strategic principle is a "pithy, memorable distillation of strategy that guides employees as it empowers them." Thus, America's most successful airline, Southwest, encapsulates its strategy in a simple statement: "Meet customers' short-haul travel needs at fares competitive with the cost of automobile travel." This principle provides a clear strategy focus of the company while allowing employees to enact the strategy in adaptive, innovative ways.[34]

The notion of fostering strategic adaptation through establishing a few broad principles and directives to guide decentralized decision making is consistent with the tenets of complexity theory. Jack Welch's management of General Electric combined simple directives ("Be number 1 or number 2 in your sector," "Simplicity . . . Self-confidence," "Achieve six-sigma quality"), strong performance incentives, and considerable autonomy for divisional managers. The result was that one of the world's biggest and most complex companies achieved outstanding financial performance, rapid response to change, and a high level of internal cohesiveness.[35] We shall explore the implications of complexity theory more fully in Chapter 17.

The optimal balance between design and emergence depends on the stability of the external environment. The Roman Catholic Church and the US Postal Service inhabit relatively stable environments. They can use top–down, formalized approaches to planning strategy. Organizations whose environments are fast changing and unpredictable – Google Inc. or the Baghdad Home Security Services Ltd. – must limit their strategic planning to a few principles and guidelines; the rest must emerge as circumstances unfold.

Multiple Roles of Strategy

What emerges from this discussion is that strategy making is not some abstract analysis for devising the optimal strategy for the firm. Strategy making is part of an ongoing management process. The reason that *strategic management* has displaced the terms *long-range planning* and *corporate planning* is partly to disassociate strategy from planning, but also to emphasize that strategy making is a central component of what managers do. Viewing strategy making as a part of the management process allows us to see that strategy plays multiple roles within organizations.

Strategy as Decision Support I have described strategy as a pattern or theme that gives coherence to the decisions of an individual or organization. But why can't individuals or organizations make optimal decisions in the absence of such a unifying theme? Consider the 1997 "man-versus-computer" chess epic in which Garry Kasparov was defeated by IBM's "Deep Blue." Deep Blue did not need strategy. Its phenomenal memory and computing power allowed it to identify its optimal moves based on a huge decision tree.[36] Kasparov – although the world's greatest chess player – was subject to *bounded rationality*: his decision analysis was subject to the cognitive limitations that constrain all human beings.[37] For chess players, a strategy offers guidelines and decision criteria that assist positioning and help create opportunities.

Strategy improves decision making in several ways. First, strategy simplifies decision making by *constraining* the range of decision alternatives considered and by acting as a *heuristic* – a rule of thumb that reduces the search required to find an acceptable solution to a decision problem. Second, a strategy-making process permits the knowledge of different individuals to be pooled and integrated. Third, a strategy-making process facilitates the use of analytic tools – the frameworks and techniques that we will encounter in the ensuing chapters of this book.

Strategy as a Coordinating Device The greatest challenge of managing an organization is coordinating the actions of different organizational members. Strategy can promote coordination in several ways. First, it is a communication device. Statements of strategy are a powerful means through which the CEO can communicate the identity, goals, and competitive stance of the company to all organizational members. However, communication alone is not enough. For coordination to be effective, buy-in is essential from the different groups and functions that make up the organization. The strategic planning process can provide a forum in which views are exchanged and consensus developed. Once formulated, the implementation of strategy through goals, commitments, and performance targets that are monitored over the strategic planning period also provides a mechanism to ensure that the organization moves forward in a consistent direction.

Strategy as Target Strategy is forward looking. It is concerned not only with how the firm will compete now, but also with what the firm will become in the future. A key purpose of a forward-looking strategy is not only to establish a direction of the firm's development, but also to set aspirations that can motivate and inspire the members of the organization. Gary Hamel and C. K. Prahalad use the term "strategic intent" to describe the articulation of a desired leadership position. They argue that: ". . . strategic intent creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by building new competitive advantages."[38] The implication they draw is that strategy should be less about fit and resource allocation, and more about *stretch* and *resource leverage*.[39] The evidence from Toyota, Virgin, and Southwest Airlines is that resource scarcity may engender ambition, innovation, and a "success-against-the-odds" culture. Jim Collins and Jerry Porras make a similar point: US companies that have been sector leaders for 50 years or more – Merck, Walt Disney, 3M, IBM, and Ford – have all generated commitment and drive through setting "Big, Hairy, Ambitious Goals."[40] Ambitious, inspirational goals are typical of most organizations' statements of vision and mission. One of the best known is the goal set by President Kennedy for NASA's space program: ". . . before this decade is out, of landing a man on the moon and returning him safely to Earth." British Airways aspires to be "The World's Favorite Airline," while Coca-Cola's drive for growth is driven by the quest to "have a Coca-Cola within arm's reach of everyone in the world."

The Role of Analysis in Strategy Formulation

Despite the criticism of rational, analytical approaches to strategy formulation by Henry Mintzberg and others, the approach of this book is to emphasize analytic approaches to strategy formulation. This is not because I wish to downplay the role of intuition, creativity and spontaneity – these qualities are essential ingredients of successful strategies. Nevertheless, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, systematic analysis is a vital input into the strategy process. Without analysis, strategic decisions are susceptible to power battles, individual whims, fads, and wishful thinking. Concepts, theories, and analytic tools are complements not substitutes for experience, commitment, and creativity. Their role is to provide frameworks for organizing discussion, processing information and opinions, and assisting communication and consensus.

This is not to endorse current approaches to strategy analysis. The weakness of our existing toolbox of strategy concepts and techniques is that they have failed to take adequate account of expertise and experiential knowledge, of creativity, and of the merits of decentralized, emergent processes of strategy making. My purpose is not to defend conventional approaches to business strategy analysis, but to do better. The challenge is to extend our analytic tools to take account of the role of values and goals, the drivers of innovation, the value of flexibility and adaptability, and the conditions conducive to rapid evolutionary development in complex adaptive systems. In the course of the book you will encounter concepts such as real options, tacit knowledge, hypercompetition, and complexity science that can help us extend our tools of strategy analysis to remedy many of the inadeqacies addressed by Mintzberg and others.

We must also recognize the nature of strategy analysis. Unlike many of the analytical techniques in accounting, finance, market research, or production management, strategy analysis does not generate solutions to problems. It does not yield scheduling algorithms or identify which investment project has the greatest net present value. The strategic questions that companies face (like those that we face in our own careers and lives) are simply too complex to be programmed.

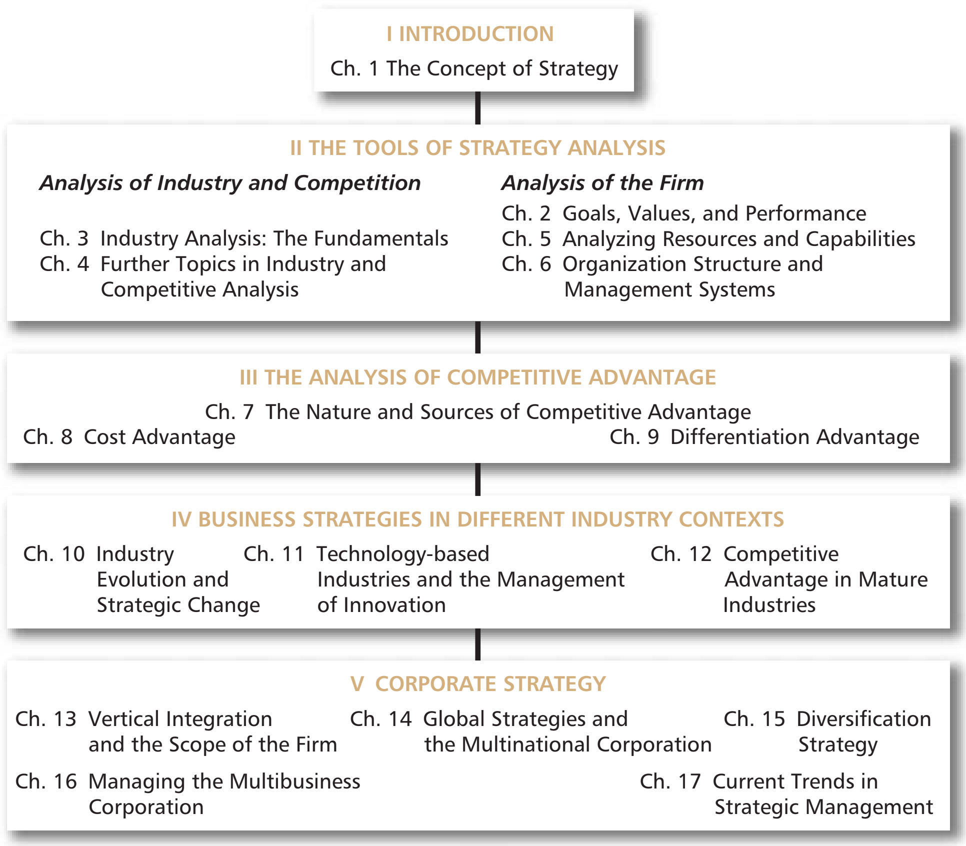
The purpose of strategy analysis is not to provide answers but to help us understand the issues. Most of the analytic techniques introduced in this book are frameworks that allow us to identify, classify, and understand the principal factors relevant to strategic decisions. Such frameworks are invaluable in allowing us to come to terms with the complexities of strategy decisions. In some instances, the most useful contribution may be in assisting us to make a start on the problem. By guiding us to the questions we need to answer, and by providing a framework for organizing the information gathered, we are in a superior position to a manager who relies exclusively on experience and intuition. Finally, analytic frameworks and techniques can improve our flexibility as managers. The analysis in this book is general in its applicability; it is not specific to particular industries, companies, or situations. Hence, it can help increase our confidence and effectiveness in understanding and responding to new situations and new circumstances. By encouraging depth of understanding in fundamental issues concerning competitive advantage, customer needs, organizational capabilities, and the basis of competition, the concepts, frameworks, and techniques in this book will encourage rather than constrain innovation, flexibility, and opportunism.

Summary

This chapter has covered a great deal of ground – I hope that you are not suffering from indigestion. If you are feeling a little overwhelmed, not to worry: we shall be returning to most of the themes and issues raised in this chapter in the subsequent chapters of the book.

The next stage is to delve further into the basic strategy framework shown in Figure 1.2. Each element of this framework – goals and values, the industry environment, resources and capabilities, and structure and systems – comprise the basic components of strategy analysis. Part II of the book will devote a separate chapter to each. (In the case of industry analysis – two chapters.) We then deploy these tools in the analysis of competitive advantage (Part III), in the formulation and implementation of business strategies in different industry contexts (Part IV), and then in the development of corporate strategy (Part V). Figure 1.5 shows the framework for the book.

FIGURE 1.5 The structure of the book



Self-Study Questions

1 In relation to the four characteristics of successful strategies (clear, consistent, long-term objectives; profound understanding of the environment; objective appraisal of resources; and effective implementation), assess the US strategy towards Iraq during 2003–7.

2 To what extent does McDonald's Corporation achieve a close *strategic fit* between its strategy, the characteristics of its external environment, and its internal resources and capabilities? Are changes occurring in its external environment weakening this strategic fit? If so, how should McDonald's adjust its strategy?

3 My discussion of the evolution of business strategy ("From Corporate Planning to Strategic Management") established that the characteristics of a firm's strategic plans and its strategic planning process are strongly influenced by the volatility and unpredictability of its external environment. On this basis, what differences would you expect in the strategic plans and strategic planning processes of Coca-Cola Company and Google Inc.?

4 I have noted that a firm's strategy can be described in terms of the answers to two questions: where are we competing? and how are we competing? ("Describing a Firm's Strategy"). Applying these two questions, provide a concise description of the Madonna's career strategy (see Strategy Capsule 1.1).

5 What is your career strategy for the next five years? To what extent does your strategy fit with your long-term goals, the characteristics of the external environment, and your own strengths and weaknesses?

Notes

1 P. F. Drucker, "Managing Oneself," *Harvard Business Review* (March–April 1999): 65–74.
2 Stephen Covey (*The Seven Habits of Highly Effective People*, Simon & Schuster, 1989) advises us to start at the end – to visualize our own funerals and imagine what we would like the funeral speakers to say about us and our lives. On this basis, he recommends that we develop lifetime mission statements based on the multiple roles that we occupy in life.
3 On SWOT analysis see entries in Wikipedia (http:/en.wikipedia.org/wiki/SWOT) or Mindtools (www.mindtools.com/pages/articles/newTMC_05.htm).
4 Sun Tzu, *The Art of Strategy: A New Translation of Sun Tzu's Classic "The Art of War,"* trans. R. L. Wing (New York: Doubleday, 1988).
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7 For practical and accessible introductions to the application of game theory, see T. C. Schelling, *The Strategy of Conflict*, 2nd edn (Cambridge, MA: Harvard University Press, 1980); A. K. Dixit and B. J. Nalebuff, *Thinking Strategically* (New York: W. W. Norton, 1991); and A. Brandenburger and B. J. Nalebuff, *Co-opetition* (New York: Doubleday, 1996).
8 During the late 1950s, *Harvard Business Review* featured a number of articles on corporate planning, e.g. D. W. Ewing, "Looking Around: Long-range Business Planning," *Harvard Business Review* (July–August 1956): 135–46; B. Payne, "Steps in Long-range Planning," *Harvard Business Review* (March–April 1957): 95–101.

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18 R. H. Frank and P. J. Cook, *The Winner-Take-All Society* (New York: Penguin, 1997).
19 On option theory and strategy see: T. Copeland and V. Antikarov, *Real Options: A Practitioner's Guide* (Texere, 2001); A. van Putten and I. C. Macmillan, "Making Real Options Really Work," *Harvard Business Review* (December 2004): 134–41.
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21 "Survey: India and China," *Economist* (March 3, 2005).
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