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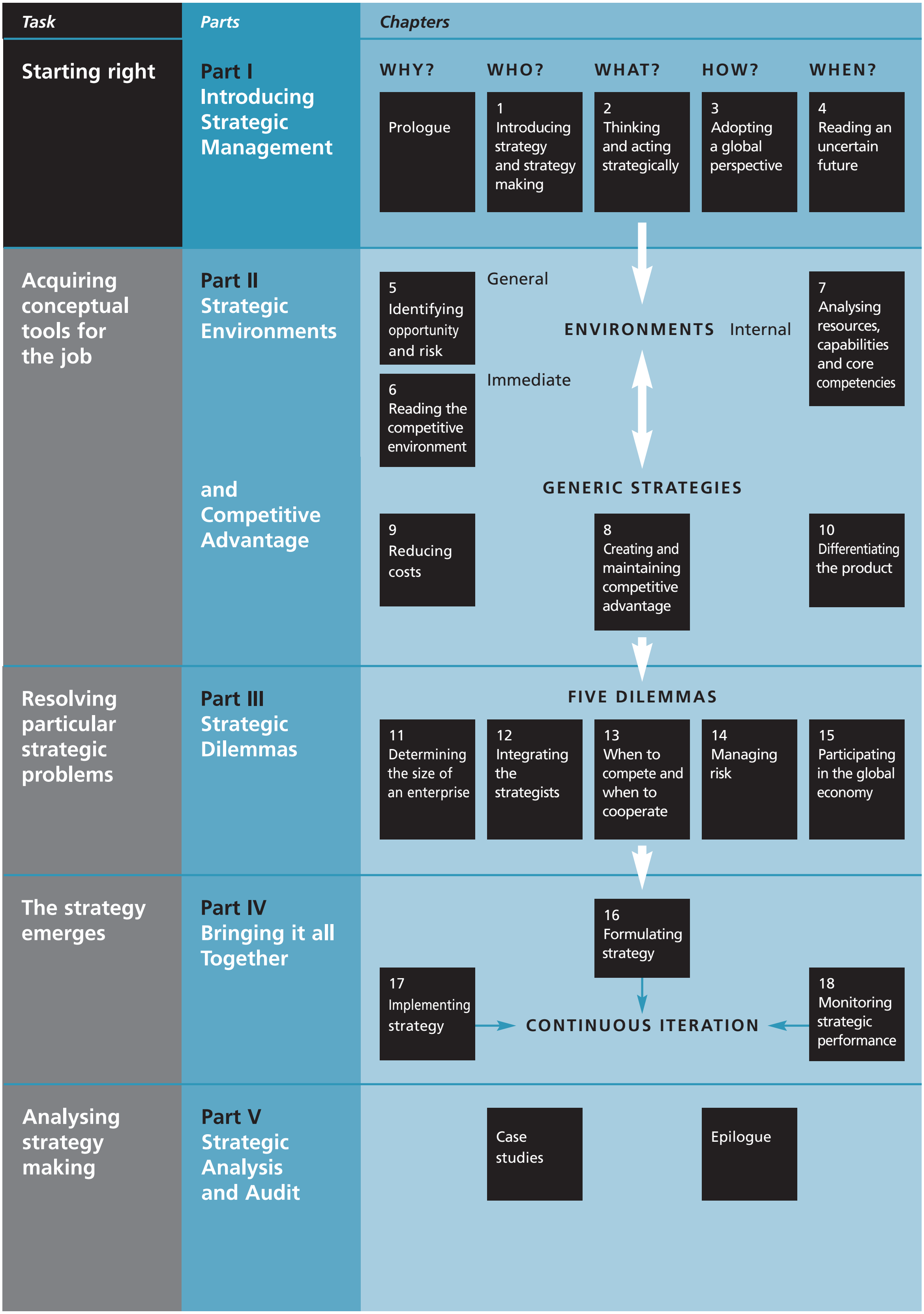
Part I

Introducing Strategic Management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All good business performance requires a good strategy; sometimes that strategy is implicit, sometimes explicit; where possible it is always better to make it explicit. The four chapters in Part I are introductory in the sense that they indicate the context in which strategy making is organized and the constraints on content and procedures, constraints which are mainly of a cognitive and organizational nature. There are serious limits on what a strategy can be.

- Chapter 1, Introducing strategy and strategy making, addresses the 'who' of strategy making. It identifies and discusses three particular groups – those who have developed the theory and practice of strategy making, those who at any time are the strategists and those who are stakeholders with a significant interest in strategy.
- Chapter 2, Thinking and acting strategically, addresses the 'what' of strategy making. It carefully distinguishes between strategic thinking, strategic management and strategic planning. It notes that strategy is a combination of the use of creative imagination and applied reason.
- Chapter 3, Adopting a global perspective, addresses the 'how' of strategy making, although it could be analysed as the 'where'. The key question asked, whether strategy making is different in a global context from a domestic or local context, is answered in the affirmative.
- Chapter 4, Reading an uncertain future, addresses the 'when' of strategy making. By its nature all strategy is concerned with the future and forecasting what that future might look like, allowing for the capacity of the organization itself to remake the future environment.

1 Introducing strategy and strategy making

Why can't strategy be 'everything a company does or consists of'? Is that not strategy as perspective – in contrast to position? (MINTZBERG AND LAMPEL, *1999: 26*)

Strategy formation is judgmental designing, intuitive visioning, and emergent learning; it is about transformation as well as perpetuation; it must involve individual cognition and social interaction, cooperative as well as conflictive; it has to include analysing before and programming after as well as negotiating during: and all this must be in response to what may be a demanding environment. (MINTZBERG AND LAMPEL, *1999: 27*)

Power takes that entity called organization and fragments it; culture knits a collection of individuals into an integrated entity called organization. In effect, one focuses primarily on self-interest, the other on common interest. (MINTZBERG ET AL., *1998: 264*)

Learning objectives

After reading this chapter you will be able to:

- familiarize yourself with strategy as both a theoretical concept and a working tool
- trace the history of the development and use of the strategy concept
- explore the various meanings of the term 'strategy'
- make the link between different meanings and the different academic disciplines behind those meanings
- identify different stakeholder groups and their likely influence on strategy making
- discover the political, social and cognitive constraints on the process of strategy making

Key strategic challenge

Why is strategy important to me as a manager?

Strategic dangers

That strategy is not viewed realistically, with full account of its complexity, but as an oversimplified idea and, as a consequence, the various definitions of strategy are seen as competing and mutually exclusive, rather than representing different aspects of a multifaceted activity.

Strategy is arguably the most important concept in management studies. Strategy making is arguably the most important activity of a practising manager. Yet it is a concept difficult to define, and an activity difficult to pursue with effectiveness.

There are many people involved in the process of strategy making. There are also many different ways of interpreting what strategy is. The main aim of the introductory chapter is to explore the different possible meanings of strategy and to highlight the practical constraints on what strategists and strategy can do. There are clear practical limitations on what is possible which must be understood from the start.

What is strategy?

In its simplest conception strategy is regarded as a unifying idea which links purpose and action. For de Wit and Meyer (1998), in an intelligent treatment of the subject, strategy is any course of action for achieving an organization's purpose(s). In the words of Alfred Chandler, the first modern business strategy theorist, strategy in the area of business is defined as 'the determination of the basic, long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for those goals' (Chandler, 1962: 13). Although still tentative and preliminary as a definition, it is possible to advance a little further and say that strategy is 'a coordinated series of actions which involve the deployment of resources to which one has access for the achievement of a given purpose.'

Strategy therefore combines the articulation of human goals and the organization of human activity to achieve those goals. The setting of goals involves the identification of opportunity. Strategy is a process of translating perceived opportunity into successful outcomes, by means of purposive action sustained over a significant period of time. At a minimum there must be a clear intent translatable into specific objectives and some defined and effective means of achieving these objectives by deliberate action involving the use of resources to which one has access (Figure 1.1). Strategy may or may not reflect a fully self-conscious, deliberative and systematic approach to the setting of objectives and their achievement which then require detailed planning. It may be an implicit or unconscious activity.

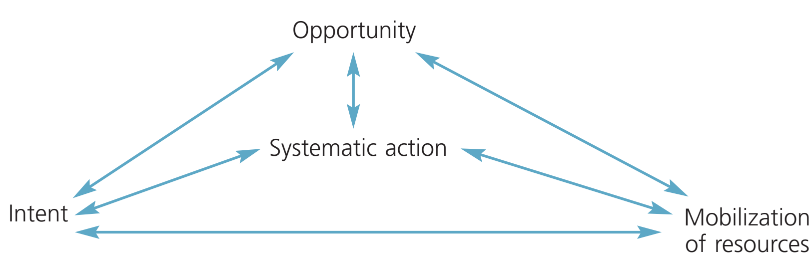


Figure 1.1 **The four main elements of strategy**

Two types of strategic thinking

Strategy comprises thinking about action in two different ways: vertical (rational) thinking and lateral (intuitive) thinking. It deals with convergent problems, that is, those with one solution, and divergent problems, that is, those with a number of possible solutions. Strategy demands from the strategist(s) both creativity – lateral thinking, often applied to divergent problems, and rationality – vertical thinking, often applied to convergent problems. This means that, in the area of business, strategy combines a vision and managerial effectiveness in realizing that vision, referred to as *operational effectiveness*, and therefore both the harnessing of intuition and the application of reason. In the business world, strategy is about successful entrepreneurship and good management. There is therefore an inherent contradiction in strategic thinking, which makes its full meaning hard to grasp. These two strands of strategic thinking are both essential parts of a strategic orientation and both must be included in any analysis of strategy making (Figure 1.2).

Ways of thinking	Application of creativity, intuition or imagination (lateral thinking)	Application of reason (vertical thinking)
Nature of problem	Divergent: with many solutions	Convergent: with one solution
Area of relevance	Creating the vision: establishing strategic objectives	Realizing the vision: achieving operational effectiveness

Figure 1.2 **Two approaches to strategic thinking**

Different strategic perspectives

The text has introduced the four main elements of strategy and the two main ways of engaging in strategic thinking. A strategic approach also involves a number of distinctive perspectives, which follow from the analysis above. Any strategy lacking the following perspectives is unlikely to be successful:

- Strategy involves looking into the future, not simply focusing on the present or extrapolating what has happened in the past. It involves intent, which both establishes a future direction or destination, and the importance of time because that intent cannot be realized immediately.
- Strategy tries to achieve a balance between flexibility and stability and so avoid either the straitjacket of excessive rigidity or the anarchy of repeated and random changes of direction.
- Strategy emphasizes asking pertinent question(s) as much as providing the answer(s). This means the finding of a problem worthy of serious consideration as much as the resolution of marginal problems thrown up by current operations. Others may be happily unaware that a problem exists or that such a question can even be asked. In this way the strategist moves from known into unknown territory.
- Strategy is complex, dealing in highly intricate systems of cause and effect. It is concerned with what have been called, rather aptly, ‘wicked problems of organized complexity’ (de Wit and Meyer, 1998: 47).
- Strategy is itself holistic in that it recognizes the many interconnections between superficially different aspects of business activity and different problems. Strategy integrates all the functional business activities – marketing, finance, human resource management, information systems – and gives them coherence.

- Strategy is rooted in particular historical experiences – it is always path-dependent, reflecting the experience through which an organization has reached its present situation.
- Strategy is interactive. The quality of a strategy reflects the degree to which it takes account of the strategies of other players – competitors, governments and cooperators.

Focus on Theory
Strategy

Strategy and a strategic orientation:
- look to the future
- aim for a balance between stability and flexibility
- ask new questions rather than answers old questions
- are holistic and integrative
- are complex
- are path-dependent
- are interactive

Levels of strategy making

Which organizations make strategy and at what levels of an economy? There are inevitably different levels of strategy making, from the functional level within an enterprise to the level of government in a country. Strategy is about the location and significance of boundaries. Such boundaries define an outside and an inside, and thereby potentially a strategy-making unit. These boundaries define the scope of strategy at the different levels, whether the boundaries are between functional departments, strategic business units, corporations, communities or networks, or even countries.

Every boundary can be crossed. Increasingly, corporations actively interact with their outside environment and change it, and through the action of players outside the enterprise, that environment in various ways penetrates the corporation and changes it. This interpenetration is changing its nature over time and is the stuff of strategy making. Simultaneously, there may be a function strategy, a business strategy, a corporate strategy, an industry strategy, a community strategy, even a country strategy, all intertwining with each other.

Does the nature of strategy differ from level to level? Has the internationalization of business, for example, changed strategy making? The content of strategy at the two levels definitely differs. What the local coffee shop does clearly differs from what a large multinational corporation does. Strategy in a global world has begun to change from what it was in a domestic context, if only because of the increasing scale of all the activities. The achievement of competitive advantage and the management of risk at the global level involve different kinds and amounts of functional activity. The global context has begun to have a powerful influence on the strategic dimensions of every enterprise or organization.

Who are the strategists?

Initially, strategy making assumes the existence of at least one strategist, commonly the chief executive officer, who takes responsibility for the successful formulation and implementation of strategy. Few commercial enterprises are run as a democracy, and very few not-for-profit organizations. However, in practice, strategy making is usually done by a large number of people, not just a few. It is often a group activity, involving cooperation.

Not all strategists realize that they are strategists. However, with hindsight, strategy making can always be recognized. Strategy is often conducted in an intuitive way, implicit rather than explicit. Because strategy is universal, embracing a multitude of different activities and circumstances, appropriate definition is difficult. In one sense the whole of this book is part of an attempted definition, one specifically relevant to the area of business, the last chapter providing an informed guide to the making of such a definition.

A brief history of the concept

Today strategy is one of the most commonly used words in management studies, but its use was not, and is not, limited to that area. Thinking and writing about strategy has a history stretching back far earlier than management studies, a history which is interesting in its own right. It has been one of the most debated concepts, both in its definition and significance.

Origins

The history goes back to Greek and Chinese military thinkers, whose insights it has recently become fashionable to quote. In ancient Greek the term *strategos* means an army or its leader. Strategic thinking, in the sense of systematized and institutionalized military thinking, was revived by German military thinkers during the nineteenth century.

In war the overall aim is obvious, the military defeat of the enemy, but the means of achieving that aim need to be carefully articulated. A clear distinction is made between strategy and tactics. For example, Carl von Clausewitz (1984) distinguished tactics from strategy: 'tactics ... [involve] the use of armed forces in the engagement, strategy [is] the use of engagements for the object of war' (quoted in Ghemawat, 1999: 2). Strategy involves both the formulation of the overall aim as specific military objectives and the successful implementation of these objectives. It therefore involves both the marshalling of a wide range of resources to the task and their deployment in a way which maximizes their effectiveness, but also the simultaneous anticipation of what the enemy will do, given its own resources and its likely knowledge of the enemy's resources. The strategy needs to be efficiently implemented, which involves careful preparation, good training and the use of effective tactics. More attention is often concentrated on the effective use of tactics by, for example, Julius Caesar, Alexander the Great or Napoleon than on their ability to get the strategy right, the core of which is the repeated concentration of strength in the right place at the right time.

The military link has continued through to the present day. Many still see a parallel between military strategy and business strategy, drawing a further parallel between tactics and management. The influence of this view clearly underpins the assumptions of the classical approach to strategy discussed below.

While the business enterprise remained small and of low capital intensity and while the invisible hand of Adam Smith appeared to rule economic life, strategy remained dormant as an idea relevant to the business world. When, in the second half of the nineteenth century, the large modern business corporation emerged and, alongside it, the visible hand of deliberate business policy, strategy began its life as a practical application to the business world of a simple principle, shaping one's own fate. As enterprises grew larger, they began to try to control market forces and impose their stamp upon their environment. The first real practitioner in any systematic way was probably Alfred Sloan of General Motors and the first academic commentator was Alfred Chandler (1962), who chronicled, using a number of comparative treatments, the history of the modern business enterprise. Alfred Chandler's main achievement was to explore the implications for strategy of the emergence of the modern corporation. In particular he traced in some detail the interaction between strategy and organizational structure.

Strategy and planning

Strategy is related to planning. Its rise and fall in popularity is linked with the change in attitude to planning. During the twentieth century the techniques of formal and systematic planning became popular in both communist and capitalist economies. It is fitting that the total mobilization of resources for two world wars provided a model of how planning might work. Business planning has quite a long history, both as a practical matter and as a subject of teaching, notably in American business schools such as the Harvard Business School. The case study approach, pioneered by Harvard Business School, highlighted the way in which, in the same industry, different outcomes for enterprises reflected different strategies and different planning models.

The stages of development of strategy

Theory often evolves to cope with a changing world, although the development of such theory tends to lag behind practice. An interesting interpretation of the history of the strategy concept sees it developing over the period from 1945 to the present in four stages, which are defined by the changing problems imposed on enterprises by an evolving socioeconomic environment (see Drejer, 2002: 22–4).

Stage 1

From 1945 to the mid- to late 1960s, the economic context was a relatively stable one, simple to understand, but expansionary. Most economies had been exhausted by war. In 1945, levels of production were well below pre-war levels. During this period overall demand in the world economy tended to be greater than overall supply. There was considerable pent-up demand. There was also a backlog of unexploited technology. The immediate aim of enterprises was the meeting of that demand. Satisfying precise consumer requirements did not matter too much; almost any output was better than none.

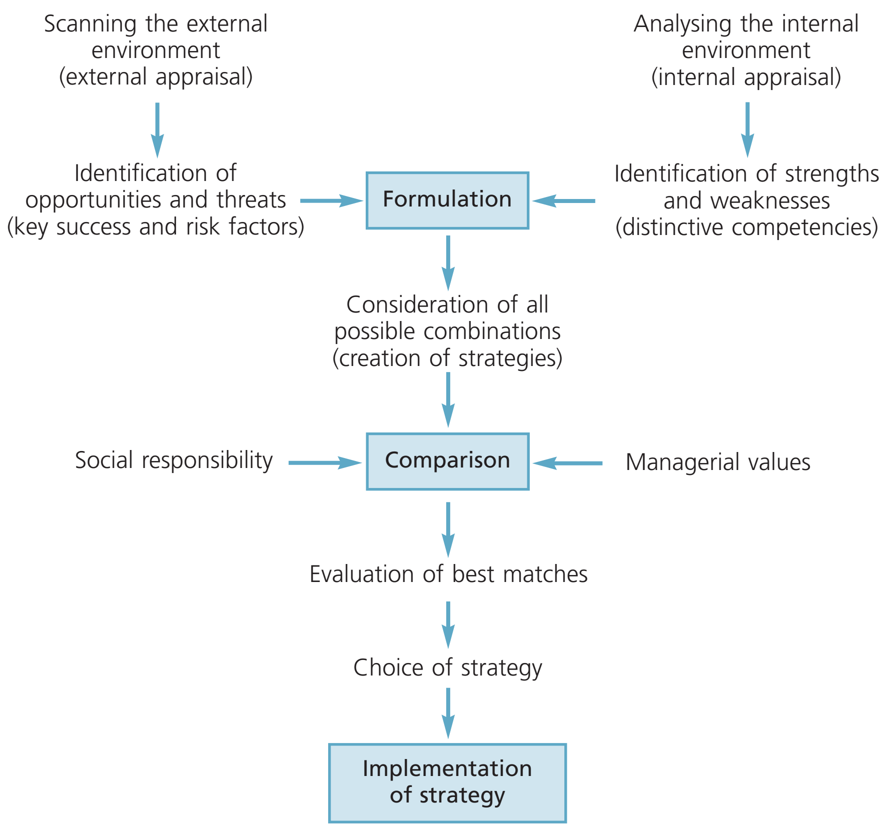
The role of strategy in such a context was to mobilize economic resources in an orderly fashion to support a rapid expansion in supply, at first in order to implement recovery from the war and later to use already existing technology to meet the pent-up investment and consumer demand. During this period long-range planning was still accepted as at the heart of any strategy, since economic priorities were clear. Strategy consisted of budgets and programmes put together in one overall plan. The main problem was to plan financially in order to integrate the enterprise internally around the broad aim of profit satisficing within the framework of the plan.

As a separate branch of management studies, strategy was born in 1965 with the publication of two significant books: Learned, Christensen, Andrews and Guth's *Business Policy: text and cases* (1965) (wherein Andrews wrote the text and the other authors wrote the cases) and Ansoff's *Corporate Strategy* (1965). Work in these areas was clearly well developed.

The basic design school model (Figure 1.3), most closely associated with the name of Andrews, is a prescriptive conception. It is intended as a practical guide for dealing with a complex environment in which there are external as well as internal contexts relevant to the enterprise. The approach is best encapsulated in the SWOT model (Strengths, Weaknesses, Opportunities, Threats), probably the most commonly applied method in strategy making. It is often reproduced in flow charts which separate out the key steps in strategy making.

On the other hand, Ansoff prescribed an extremely detailed but potentially overly rigid form of strategic planning, reflecting the nature of long-term planning as it had emerged. He recognized the severe constraints placed on businesses by their existing resources.

During this early period there was a marked reluctance to overgeneralize about strategy and a desire to acknowledge the uniqueness of each experience, as shown by the case study approach. While academics were reluctant to make excessive



Source: Adapted from Learned et al. 1965.

Figure 1.3 **The design school model**

claims for strategy making of any kind, enterprises themselves were not so constrained. They did not display the same circumspection.

Stage 2

From the late 1960s to the late 1970s, there was more rapid and extensive change, but change of a reasonably predictable kind. Most developed economies were now operating close to the frontier of best-practice technology. Inflationary forces began to emerge, particularly cost inflation involving various commodities and labour, but were still under broad control.

Prioritization became less significant as supply began to catch up with and even run ahead of demand. The consumer became more discriminating. The need to satisfy the consumer in order to make a profit rose in importance. Strategy became more concerned with directing resources into the most promising areas. It began to change its nature, as a changing environment prompted the first efforts to cope with that outside environment, including the choice of desired products and markets. Where an enterprise positioned itself became important.

Further development of strategic thinking resulted from the work of the new consultancies. In the words of the founder of the Boston Consulting Group, BCG was in 'the business of selling powerful oversimplifications' (Ghemawat, 1999: 9), which is true of all consultancies. This work was for the most part based on simplified concepts or partial models which only dealt with parts of a broad strategy, although any recommendations made often involved quite sophisticated modelling. The notion of the experience curve, the growth/share matrix and the profit impact of marketing strategies (PIMS) are well-known examples of the new methods.

Another consultancy, McKinsey's, in conjunction with General Electric, a company which pioneered and developed many different techniques of strategy making (see the case study in Chapter 16), developed the notion of the strategic business unit. Both this and the growth/share matrix marked the entry of portfolio analysis into the area of strategy making. Such techniques were highly relevant to conglomerate and diversified companies in choosing their business units. The practice of some kind of portfolio analysis became common among American enterprises. All these techniques soon came under attack for being overly mechanistic and static in their view of a rapidly changing business world.

Stage 3

Between the mid-1970s and the mid-1980s change became discontinuous. This was the era of the oil price shocks and the later debt crisis in the developing world. Inflation accelerated and growth slowed. The rate of growth temporarily decelerated as the easy gains of the 1950s and 60s were exhausted. In the era of stagflation, inflationary forces temporarily concealed the tendency of supply to run ahead of demand.

The main need of any good strategy was now to allocate resources, including cash flow, in order to develop a competitive advantage, which, in turn, was necessary in order to yield the profits that generated the investment funds required. The focus fell on the portfolio of an enterprise's products and services and the nature of competitive behaviour in the markets. Strategy was increasingly being made at various levels, including business, functional and corporate levels.

In the area of strategy, the 1980s were dominated by Michael Porter, who has done more to develop the theory and application of strategy than any other theorist or practitioner. He published *Competitive Strategy* in 1980 and followed it up with a series of long books, representing a comprehensive approach to the subject. Many of his insights were encapsulated in neat diagrams and summaries which have had a wide and continuing influence, such as the five forces of competition and the competitive diamond, both discussed later in this book.

Porter's originality was to insert the Andrews' approach into the framework of an academic discipline; economics. For the first time an academic was willing to generalize. Porter sought to position the enterprise, and/or its strategic business units, in its strategic environment, principally its competitive environment. It was a matter of selecting appropriate arenas for business activity and a desired mix of products, markets and functional activities. He therefore concentrated his attention on the environmental side of Andrews' analysis. Paradoxically for many readers, this would have the effect of reducing the significance of strategy by assuming away the unique identity of the individual organization.

Stage 4

Finally, during the 1980s, change became not only discontinuous but rather more unpredictable, with new and more complicated dimensions added, as the communications/information revolution began to bite and other demands on business emerged. In the 1990s, growth once more accelerated but in a context in which there were the beginnings of deflationary tendencies. Overcapacity emerged in various sectors of the economy.

It became necessary for strategy to manage and integrate problems in many different areas, including government deregulation, contrasting economic circumstances, rapidly changing technology and new conservationist and environmental demands. Strategy had to expand to embrace these new areas, including a return to a proper consideration of the enterprise's available resources to meet these various requirements.

The 1990s saw the focus of interest shift once again, this time, as might be anticipated, to a greater attention to the other half of the Andrews' concern, the internal resource position of the enterprise. There was an explosion of articles on the so-called 'resource-based view' (RBV) of strategy. The elaboration of this view was not associated with one particular commentator. The debate considered specific capabilities, competencies and even the management of technology as well as resources in general. Various researchers began to explore the context in which the process of strategy making itself occurs, focusing on the social and political constraints on strategy making.

The account above indicates how strategy was cumulative in its build-up of techniques. No strategic method from earlier stages was discarded. Rather they were all improved and used where and when appropriate. As a result, the complexity of strategic management increased enormously. No exact blueprint for strategy making emerged from this history, rather a proliferation of different views about how it should be done.

A careful analysis, as shown in the next section, shows that the difference between strategic methods is much less than often appears, once the changing conditions and fashions of different decades and the changing circumstances for which the different approaches are valid are allowed for. Much has been accomplished in a relatively short history. There is already a good base to build upon in constructing an integrated approach to strategy making.

A multiplicity of meanings

Strategy means something different to every person who uses the concept. There are countless books and articles using different definitions of the term. A powerful concept can have, perhaps should have, a measure of ambiguity in its meaning but it cannot mean all things to all people; it requires some degree of precision in its definition. On the one hand, the multitude of different usages indicates the importance of the concept, the sheer breadth of its scope. On the other, it suggests dangers in the indiscriminate use of such an ambiguous term. Concepts which develop such an elasticity of meaning often lose their significance; their use can become a mere cliché. One aim of this book is to assess:

- the maximum degree of precision possible in defining the term
- the minimum degree required for producing a workable concept.

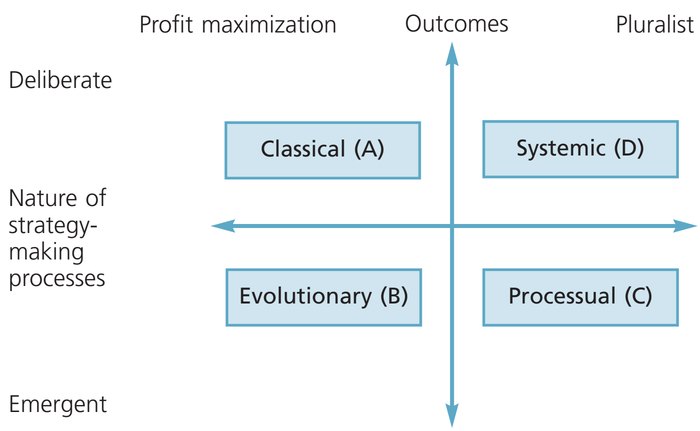
A starting point – four possible general approaches

An interesting starting point for defining strategy are four general approaches which can be clearly distinguished (see Whittington, 1997; Egan, 1995). Each of these perspectives differs in the way in which it combines two defining elements:

1. Whether the processes of strategy making are deliberate, explicit and handed down from above or emergent and often implicit, coming from different levels of the enterprise, including the bottom, and involving continuous modification of the content of any strategy.
2. Whether the outcomes reflect the single motivation of profit maximization or a more pluralistic motivation, such as satisfying the various stakeholder groups.

Choice of these elements reflects the different emphases obvious in the literature, and indicates a way of separating particular views about what is important in defining strategy making. These are by no means the only elements which could be used to classify different perspectives, but they are undoubtedly significant ones. The combinations of the two elements define four possible perspectives which might dominate (Figure 1.4):

(A) Classical – the traditional view of strategy making. It regards strategy making as comprising deliberate, explicit and rational analysis and emphasizes profit maximization as the only acceptable motivation for any strategy. Classical strategy combines the thinking of the military strategist with some aspects of the economist. Leadership is seen as a key element, since the leader chooses the strategy. The strategy is handed down by the leader, the strategist, to be implemented by the managers. The formulation and implementation of strategy are seen as separate and sequential activities.



Source: Whittington, 1997: 3.

Figure 1.4 **Dominant perspectives in strategy making**

(B) Evolutionary – the view of the typical economist. It adopts a fatalistic stance, putting the emphasis on the emergence of a strategy as the outcome of the competitive discipline of the market, that is, as the outcome of blind forces weeding out the failures and leaving only the successful. The market operates rather like the process of natural selection in biology, removing those who fail to adjust successfully to a changing environment and leaving only that strategy which is best adapted to the changing economic environment.

Such a perspective stresses an unavoidable profit maximization which is imposed on the enterprise by the dictates of the market environment. In other words, even if managers do not deliberately adopt profit maximization as an objective, they are obliged to do so by the forces of competition. There is in reality little room for strategy in such a situation. This is very much the invisible hand of Adam Smith rather than the visible hand of Alfred Chandler.

According to this view, complex organizations move more slowly than the environments in which they have to operate. Either enterprises adjust sufficiently to the changing environment or they are culled. The most that the leader of an enterprise can do is to recognize the inevitable and encourage mechanisms of successful adaptation when and where they occur.

(C) Processual – the view of the social realist. It moves the observer away from an emphasis on economic rationality and profit maximization, and away from the conception of the market or the organization's leader as infallible. It takes a subtle, more pragmatic view of behaviour and stresses a number of key constraints on the process of strategy making:

- so-called bounded rationality, that is, rationality constrained by the limited knowledge of individuals and their limited capacity to process incoming information
- the messy nature of political bargaining and negotiation
- the prevalence of satisficing in environments which are tolerant of some measure

of underperformance and allow the appearance of significant organizational slack, both typical features of the real world. In such a world, business activity is designed to produce a satisfactory rather than a maximum return.

In this approach strategy is viewed as defined by the nature of the strategy-making process rather than the particular content of any strategy. In this world strategy is usually a matter of incremental change, since nothing more is possible.

(D) Systemic – the view of the social relativist. Strategy reflects the nature of the social system – its attitudes, values and behavioural patterns. Strategy is what different societies make it. Such a view emphasizes a deliberate but relativist approach, one which sees strategy as imposed from above but business behaviour as embedded in a network of particular social and political relations. The motivation of a strategy is itself culturally conditioned, reflecting the society in which the strategy is developed. Both institutional and cultural contexts differ from society to society. For example, in the business world there are enormous differences in the accepted role of government or the family firm.

Each of the major approaches by no means excludes the relevance of the others at the national level; each has its area of relevance, whatever the economic system:

- The *classical* approach is seen as most relevant in mature, stable and relatively predictable environments and for industries where capital-intensive technology predominates and/or some degree of monopoly is the norm. The conditions which favour such an approach are quite rare. In practice the classical approach is more likely to be adopted by start-up companies or those in crisis and attempting a turnaround, if there is the time and the resources to make an explicit strategy. The founder or saviour is often expected to adopt such an approach, at least implicitly.
- The *evolutionary* approach best relates to new industries or those subject to rapid and dramatic change, particularly where a large number of small enterprises exist and compete vigorously with each other. Such competitive conditions are also rare, but apply mostly to what commentators have called the 'new economy', particularly in the period between the action of a first mover in creating a new sector or branch, and the emergence of a mature new sector of the economy. Where technology and tastes are fluid and rapidly changing, the evolutionary approach represents an accurate description of the possibilities for strategy making.
- The *processual* approach is relevant to any 'bureaucratic' system, which means in some way all organizational structures, but it has particular relevance to complex organizational forms. It is most relevant to protected bureaucracies or knowledge-based enterprises where a continuous flow of incremental change coming from the bottom is enough to keep the enterprises competitive.
- The *systemic* approach simply asserts that any strategy must fit its context whatever it is and be dictated by the culture, which varies by time and place. That context determines both what can be done and what is likely to be included in a strategy.

Systemic differences at the global level

The last approach to strategy highlights differences which reflect the social and cultural milieu in which the strategy is made. For example, the first three approaches are preferred in different kinds of society. Many economists in Anglo-Saxon market economies take the evolutionary point of view and see little value in committing significant resources to strategy making. Others in the developed market economies, notably in Japan and Continental Europe, are more closely allied with the classical position. Inevitably in the less developed world the processual approach, with its emphasis on constraints, has much more credibility.

Even views about the nature and role of strategy itself are culturally determined. For example, attitudes on the value of time, the exercise of power or the level of uncertainty differ enormously and colour the whole approach to strategy making:

- Some societies are happy to focus on benefits which are only realized well into the distant future. They are much more ready to take a long-term point of view, while others take a short-term view.
- Some are always looking for the decisive exercise of leadership, others see decision making as requiring a collective consensus. Some accept a significant degree of individual initiative outside the normal processes of collective decision making, while others suppress the exercise of individual initiative in any way.
- Some are prone to be risk-averse, others have a much greater appetite for risk.

There are pronounced national differences in all these areas. Such differences are bound to influence the nature of strategy making in different societies.

In these societies there are relevant institutional differences which involve the roles of market and government and other organizations such as the family. The Anglo-Saxon mode (or American), which is the focus of most textbooks on strategy, is not a good description of what happens in many other economies. It focuses on the business enterprise, and therefore on corporate strategy. It assumes that the family enterprise is not significant and that government adopts, or at least should adopt, a stance of non-intervention in the market. At the beginning of the 1990s, before the persistent problems confronting Japan became evident, an obvious distinction was made between the American and Japanese approaches to strategy. The frequent recurrence in very different societies of various kinds of national planning creates market systems which diverge significantly from the American model. The prevalence of family firms or large conglomerates also affects the nature of strategy making. Others have distinguished a larger number of variants of the capitalist or market economy and therefore of strategy making itself (Hampden and Trompenaars, 1993). For example, there are various European variants, not just one.

Different schools of strategy making

The general approaches described above are very broad. It is helpful to move beyond these to identify the main elements which, according to different authorities, go to constitute strategy making. It is easy to do this by distinguishing as many schools of strategy making as can be found. Mintzberg et al. (1998) distinguished 10 different schools, although as many as 14 are discussed in the literature, each implying a different definition of strategy. The number could be further expanded but the differences then become trivial.

The schools discussed below differ in a substantive way, taking different aspects of strategy and elevating them to the role of defining element. Some of them consider the process of strategy making itself as the starting point, others take the content or context as the initial element. The first three are prescriptive, laying down what strategists should be doing. The others are descriptive, in that they describe what actually happens in strategy making:

1. *Strategy as design*

A good strategy is designed to fit organizational capability with environmental opportunity. It is best summarized by the SWOT approach and has very close links with the case study approach pioneered by the Harvard Business School.

This school sees strategy as based on the classical approach. It is the rational product of a senior manager, usually the chief executive officer, consciously and deliberately finding a fit between the internal strengths and weaknesses of an enterprise and the external threats and opportunities it faces. A strategy is viewed as an explicit, simple and unique conception. Formulation precedes implementation and is separate from it. There is often a range of options from which the strategy to be implemented is chosen. The one which provides the best fit or best design is chosen. This was the dominant school until the 1970s but still has enormous influence.

2. *Strategy as planning*

The strategy as plan is a detailed scheme for allocating resources to achieve the objectives specified according to a prescribed timetable. In the view of this school specialist staff planners take over the strategy role. Strategy becomes a highly formalized process, divided into easily decomposable steps, delineated by checklists of necessary actions, and supported by techniques relating to the specification of objectives, the establishment of budgets, the spelling out of programmes and operating plans. This school's view of strategy is again fully consistent with the classical approach. By the mid-1970s this was the predominant school.

3. *Strategy as positioning*

Strategy is seen by this school as a matter of choosing an appropriate industry or sector to be in, finding the best market segments and focusing on the preferred value-adding activities. This requires detailed analysis of the data relating to the industrial situations in which the enterprise has to operate. Such positioning is consistent with either the classical or the evolutionary approach. By the 1980s this had become the dominant school.

4. *Strategy as entrepreneurship*

The strategist, seen by this school as the leader, usually the founder and chief executive officer, is concerned with closely controlling the enterprise in order to realize his or her vision. The leader is an innovator who often works by intuition or imagination to create something new. This shifts the definition of a strategy from a precise design, plan or position to an imprecise vision or even a broad perspective which has to be realized. However, the maintenance of an entrepreneurial orientation continues to be important even beyond the period during which the founder is dominant, if the enterprise is to continue to be successful. This school has strong classical elements. This interpretation is not new and has never been absent from strategy making.

5. Strategy as the reflection of an organizational culture or social web

Strategy is viewed as a social process, albeit a complex one. The nature of an organization and its culture constrains what is possible, predisposing the strategic process to certain channels and certain outcomes. Strategy is about integrating disparate elements of the 'social web' and finding common interests among those elements. It is about conserving what the enterprise already has and using its resources to its best ability. It stresses the dangers of dissipating resources which are embedded in the organization itself. This approach is consistent with both the processual and systemic approaches. The debate in the 1960s, which widened the view that economists had of the firm, first introduced such issues. During the 1980s, comparison between the prominent capitalist models and the Japanese variant also promoted this kind of approach among commentators on management.

6. Strategy as a political process

Here the emphasis is on the exercise of power, whether within the enterprise or outside it, specifically as it relates to the making of strategy. The various interests or stakeholder groups, often fragmented and divided, who share power within an enterprise have to persuade and be persuaded, to confront and be confronted. The enterprise itself has to negotiate its way through strategic alliances, joint ventures and other network relationships in order to make a strategy. Strategy results from bargaining, compromise and the exercise of power by the relevant groups. This school is unashamedly processual.

7. Strategy as a learning process

In this conception strategy is seen as a process of exploration and incremental discovery. Strategic knowledge emerges gradually as the result of the interaction of a large number of strategists, possibly all the employees of an organization but certainly key individuals spread throughout that enterprise. There is no difference between strategy formulation and implementation; they occur simultaneously. Strategy emerges from a process of discovery and learning. The views of this school are consistent with the evolutionary and the processual approaches.

8. Strategy as an episodic or transformative process

This school sees strategy as contingent on particular circumstances and moments in the life of an organization. It is a matter of the unfolding in real time of different situations, all heavily contingent on different circumstances, and the temporary emergence of specific configurations. This school emphasizes for different situations the elements highlighted by other schools. It puts the stress on the same enterprise in different circumstances and its ability to handle the relevant transitions. In particular it analyses the quantum leaps from one situation to another, the so-called transformation situation, for example during the start-up of new enterprises or turnarounds of enterprises in trouble. Strategy is a matter of dealing with the demands of these different episodes in an appropriate way. In such an unfolding context, strategy is sometimes classical, sometimes evolutionary and sometimes processual.

9. Strategy as an expression of cognitive psychology

This school concentrates on what goes on in the mind of the strategist, the mental or psychological processes involved in strategy making. It focuses on the cognitive biases of strategists and, even more importantly, on the process of cognition itself, including the way in which information is filtered, knowledge is mapped and conceptualization itself occurs. It emphasizes the subjective element of interpretation rather than the objective reading of reality, but considers both. It takes account of motivation as well as the different ways in which a mind works, using reason, intuition or any other faculty which is relevant. This is present in all types of strategy making.

10. Strategy as consisting in rhetoric or a language game
This school sees strategy as concerned with the way in which strategy is talked about, the kinds of conversations or discussions, both formal and informal, which take place in organizations making a strategy. These are usually aimed at achieving a consensus and encouraging certain kinds of strategic actions. It is about the language required to persuade employees to think strategically or to act to promote a particular strategy. This interpretation of strategy is closely linked with the cognitive interpretation. This occurs in all strategy making.

11. Strategy as a reactive adaptation to environmental circumstances
Strategy is seen by this school as similar to ecological adaptation, leaving little room for the strategic manoeuvre usually associated with a strategy. Strategic action is reactive rather than proactive. This is a variant of the evolutionary approach. Circumstances largely dictate what a strategist should do, although there may be a number of different possible contingencies. Often all the strategist can do is reinforce behaviour which is adaptive to whatever new environment appears. Adaptation is the key to success and strategy is understood as comprising this adaptation. There is an element of this in all strategies.

12. Strategy as an expression of ethics or as moral philosophy
This school sees the strategist as a moral agent, engaging in ethical conduct. The strategy embodies the values of the strategists. Strategy is as much about the nature of the ends and goals of all stakeholders and how they are reconciled. It is also about what strategic action is acceptable. The concern with values might be for good reasons, since a failure to behave ethically can have disastrous results. Strategy is as much about the reputation of the enterprise, particularly in the eyes of its stakeholders, as it is about profit, although in many cases being ethical may not be incompatible with being profitable. The stress is on the content of the strategy.

13. Strategy as the systematic application of rationality
Strategy is applied reason, the application of reason to the leadership and conduct of management within any organization. This school sees an equivalence between strategy and its many elements and an attempt by a strategist to use the differing kinds of rationality. It interprets strategy as only qualifying as strategy if it is an attempt to apply reason to the organization of business activity. The school is concerned with excluding the irrational from strategy making, that is, elements such as whim or intuition. This interpretation of strategy is only consistent with the classical view.

14. Strategy as the use of simple rules
This school interprets strategy in a highly practical way as the application of a limited number of simple rules derived from both general experience and the exper-

ience of particular industries. The rules exist because of the degree to which behavior is repeated and particular types of problem recur. Through these rules, strategy enables enterprises to successfully seize opportunities in fast-moving markets and environments of rapid change when there is not enough time for following more elaborate procedures. The rules can apply to a whole range of decision-making areas – notably the 'how to' of business behaviour, setting the boundaries of various types of business activity, fixing priorities for the achievement of objectives and the timing of key decisions, such as when to exit from certain business areas. Such a view is consistent with the processual approach.

There may appear to be a ragbag of other interpretations of strategy which do not have the intellectual standing of those above but nevertheless express important truths (Singer, 1996). For example, formal strategy making may play a number of different roles: acting as ritual, reinforcing a culture of rationality; as glue, bringing together or uniting managers: as a battery, energizing or providing a source of motivation; as a status symbol, for those with access to the secret information: and as pliers, to extract information from subordinates. The use of such graphic metaphors helps us to better understand the multiple roles of strategy making, but do not constitute a sufficient difference of content or process to be the basis for forming different schools.

Each of the different schools illuminates a different aspect of strategy making. The first four indicate what should be done, not what is commonly done. Some are concerned more with process than content. Moreover, they indicate the limits on the process, whether these are cognitive, ethical, social or political. Mintzberg and Lampel (1999) have reduced these in a simplified scheme to the four 'p's – strategy as plan, perspective, position and ploy.

The author likes the term 'strategic thinking without boundaries' (Singer, 1996), which justifies a widening of scope to include the many different elements described above. This book takes all the different schools into account. How a business plan or model or a strategic plan is drawn up is a matter for individual managers to decide, according to the requirements of the particular industry or sector. The main purpose of the book is to clarify the theoretical issues preparatory to actually thinking and managing in a strategic way. The appropriate way of doing this in particular cases should become obvious after the practitioner has analysed the relevant concepts. Analysis of the relevant concepts is not a luxury, it is a necessary preliminary to actual strategy making.

Assumptions and metatheories

Often practitioners find it paradoxical to theorize about a highly practical activity such as business management. Businesspeople are often disparaging of theorists who lack management experience and are therefore dismissive of theory itself. Such an attitude can make its holders vulnerable to an unthought-out addiction to current, or even out-of-date, fashion. All can become prisoners of theorists who unbeknown to them pioneered the fashionable views adopted by many practitioners.

Intellectual influences

The intellectual influences on a mode of behaviour are often hidden and unconscious. There is a gain in making these influences transparent and deliberate. Otherwise a person may hold contradictory attitudes, some of them at odds with the nature of the world in which he or she operates. Formative years make attitudes but the world changes and, if a person is not careful, he or she does not. Without theory it is impossible to learn since it cannot be known what should be learned. Everyone can gain from occasionally being reflective. Very few people are intuitively right for more than a brief period of time, nor can they know, without systematic thought, when they are right and why they are often wrong.

Differing interpretations of the world lead to different interpretations of what the term strategy means. Each of the above schools has a link with a particular academic discipline, sometimes a strong link. These links sometimes enhance the potential strategy, sometimes they limit what it can be and do. All disciplines have different preconceptions of how the world works. It is necessary to see the link between the preconceptions implanted by the relevant discipline and to have an understanding of what strategy is. This assists in developing an understanding of what strategy making involves.

Whittington (2001: 23) has asserted that strategies 'are a way in which managers try to simplify and order a world which is too complex and chaotic for them to comprehend'. He goes on to point out that for every manager the strategy-making process starts with a fundamental strategic choice: which theoretical picture of human activity and environment fits most closely with his or her own view of the world, his or her personal 'theory of action'. It is impossible to write a book about strategy without taking all sorts of positions, usually implicitly, on such issues as what motivates human beings, or even what constitutes a valid approach to the application of theory to practical activities. Hopefully the assumptions made throughout the book are consistent but it is impossible to justify at length all the positions taken. This would itself constitute another book. It is necessary to make explicit some of the premises on which the book is built.

Supporting theories

There must be some treatment of what are called metatheories, that is, the broad cognitive maps which underpin a specific way of thinking. Anyone who reflects even for moment on the nature of the human condition has a veritable atlas of such maps to inspect. These are the implicit models of how the world works and how people behave in that world, models which underpin any text, whatever the discipline, and any mode of thinking. There are economic, political, social, even biological metatheories relevant to management studies. Such metatheories are usually taken for granted or assumed as universally accepted by those working within the discipline in which the text falls. This is seen by the consistency of approach and terminology in most discipline journals.

To take just one example; the body of economic theory known as 'neoclassical economics' is based on a metatheory, a set of assumptions about human behaviour known as 'economic rationalism'. In its extreme form, it claims that all human behaviour conforms to the assumption of economic rationalism; all known human actors are rational economic men. Many management theorists operate within this metatheory. It has been important in the development of thinking on strategy. Part of its power derives from the fact that economic theory is more homogeneous than the theory of other social sciences.

There are three different areas of focus for metatheory which are particularly relevant to any book on management:

1. an underlying view of the nature of the world
2. a position on how it is possible to learn about that world
3. an attitude on what determines human behaviour in that world.

The approach adopted in this book is very much a pragmatic one. It presents an eclectic theory, that is, borrows from different theories. It is both positivist, with significant reservations, and postmodernist, also with significant reservations. It rejects both the total dominance of rationality and the extreme relativist point of view. Human motivation is as much intuitive as rational but the mix is culturally determined.

Uniformity and diversity

Most textbooks on management are written from an American perspective. For this reason these texts use the metatheories which are accepted in the USA. Neoclassical economic theory is certainly part of that perspective. The American perspective includes the assumption that management and the management context is the same the world over, largely because economic theory considers specific cultures largely irrelevant to any economic behaviour. The assumption is that if the world is not like America, it should become so and is, in any event, likely to become so in the very near future. There is some measure of truth in this view but it is far from being the whole truth.

There is one obvious source of difference in understanding both what management is and the activities it involves, that of 'cultural divergence'. There is some literature which explicitly shows the falsity of the assumption of a uniform global culture, and therefore of management practices, but it is not vast. Hofstede (1983, 1991) pioneered this work, showing that Americans have certain characteristics which stand in marked contrast with those of the inhabitants of other countries. Using the terminology of Hofstede, Americans are:

- rational rather than intuitive in their approach
- extremely individualistic
- firmly short term in their orientation
- quite masculine in attitude
- weak in uncertainty avoidance and power distance.

These attitudes are well suited to a reliance on the market in economic life. They also define the nature of management studies in the US. There is a self-reinforcing cycle at work. The market reinforces such attitudes and such attitudes predispose society in favour of the market as the basic mechanism for the allocation of resources and the distribution of incomes. They are also important in defining what is meant by strategy in different societies.

Trompenaars (1983, 1998) has confirmed the different nature of capitalism, and therefore the different role of markets, in different parts of the world. Such different contexts influence the role of strategy. Because of these differences, strategy can mean different things in different countries. Strategic management in the USA is not the same thing as strategic management in Germany or Japan, let alone Kenya or Indonesia. Pascale (1982) reports that the Japanese do not even have a phrase for 'corporate strategy'. The American concept rests, developed in the relatively prosperous and stable world of the 1950s and 60s, on an assumption of 'cultural voluntarism', the exercise of free will, rather than determinism. Global strategic management is itself a problematic concept. Throughout this book there is reference to the fact that operating at the global level requires a sensitivity to these differences. Almost every chapter includes reference to the various ways in which particular strategic questions are answered in different countries.

Academic disciplines see strategy in very different ways. Some disciplines are closely associated with particular schools of thought on strategy. For example, the positioning school has a rather obvious base in economic theory. It is not accidental that economic theory has had the most influence on thinking about strategy. In many ways it is the most rigorously developed discipline in the social sciences. The economic discipline is the one which aspires to be closest to the scientific reliance on a body of logical, internally coherent theory. There are some excellent books on strategy which receive their coherence from the systematic application of such economic theory (Ghemawat, 1999). It is paradoxical, therefore, that strictly speaking economic theory implies either no role, or a minor role, for strategy. Indeed many economists, notably those most wedded to the core neoclassical approach, are disdainful of management studies, except insofar as it is a reflection of the body of microeconomics used by them.

Other disciplines are used to provide an organizing framework in management studies. Psychology, political theory and anthropology link up in rather obvious ways with the cognitive, power and cultural schools which have grown in importance recently and have cast a new light on the relevant aspects of strategy. Management studies is gloriously eclectic in its borrowing from different disciplines. Each of these schools has a very different view of the world. This is not surprising since the solutions to the problems confronted require an interdisciplinary approach.

Language itself is the filter through which it is possible to see and understand the world. It is significant that American English is increasingly the language of business, but even this form of universality has its limitations. The same word has by no means the same meaning for different people. The number of languages in the world may be in the process of significant reduction but there are still enough to guarantee serious disagreement on the meaning of apparently simple concepts.

The opposite position, which stresses a uniformity of approach, is also untenable. Extreme relativism is unacceptable. All players are not islands of comprehension far distant from each other, since it is possible to share understandings. There is also a real world out there and a sequence of events which occurs independently of the observer and is the object of study, a world against which generalizations can be tested. Any strategy must be subjected to a reality check, even if inevitably it is imperfect. All theorizing is improved by such regular reality checks. It is possible to share understandings about those events.

Asking questions

One way of approaching these issues is to keep asking relevant questions since such questions lay out the agenda:

> What are the sources of order? How do we create organizational coherence, where activities correspond to purpose? How do we create structures that move with change, that are flexible and adaptive, even boundaryless, that enable rather than constrain? How do we simplify things without losing both control and differentiation? How do we resolve personal needs for freedom and autonomy with organizational needs for prediction and control? (Wheatley, 2000: 8).

Any serious theorist of management must remember to ask these questions, or a similar group of questions. The reader should add his or her own questions. Such questions lead straight to a confrontation with the metatheories talked about above.

A textbook on strategy is inevitably prescriptive. It advocates a position which should be taken up, in this case with regard to the kind of strategy which is desirable. Prescription must be based on both accurate description, that is, an empirical approach to the world as it is, and careful analysis of that world, expressed in an interpretation or theory of how the world functions, and finally on the way in which the two are brought together. The relative emphasis on each of these aspects, theory and practice, varies throughout the book, but the other is never far way.

Avoiding the fashionable

Some commentaries on strategy reveal a marked lack of historical perspective, a tendency to accept assertions which gain their main strength from constant repetition rather than what is happening in the world of business. There are three myths which illustrate this:

1. The world is one in which it is necessary to take account of continuous change and profit from technical innovation. It is often asserted that the current world is one of unprecedented technical change, with the emphasis on unprecedented. Does this mean that the underlying rate of productivity has increased and, as a consequence, economic growth has accelerated, and if so, by how much? The issue is more complex than often assumed; it is by no means certain that it is true.

   The world is in the middle of one of the great waves of technical change, one which can be called the 'communications/information revolution'. This does not mean that the core of any strategy must be to develop an e-commerce capability, regardless of the other big issues of strategy. In some cases this is appropriate, in others not. Some textbooks give the impression that a failure to apply e-commerce immediately is a sure prescription for disaster. The emergence of the new economy does not suspend all the persistent and surprisingly robust relationships which have always characterized economies. What is happening now is not in substance any different from previous technical revolutions.
2. Another fad is globalization. What is meant by the repetition of the refrain that 'the world is a global one', when on analysis nearly all economic activities continue to have a home country bias? Have the ratios of internationally traded output or internationally financed gross domestic capital formation really risen? If so, over what period of time and by how much? What makes our world more 'global' than any previous world? Surely a robust home country bias is some-

thing which every strategist should take into account? It also needs explanation since the explanation will better inform any 'global' strategy.

3. The alleged 'turbulence' of our times has now entered, in textbooks, into the headings of chapters on strategy. Why? Was the second half of the twentieth century more turbulent than the first, with its world wars, its revolutions and its Great Depression. It would be hard to argue the case. It is easy to argue more persuasively that turbulence has declined, that the current world is more ordered than previous worlds. It is the very regularity of the modern world which promotes the efficient operation of a capitalist economy. The patterns of behaviour are more predictable and less risky than in non-capitalist economies.

None of the usual assertions about technical change, globalization or turbulence should be taken for granted. It is necessary to ask questions concerning each of these issues, ones not very often confronted, let alone answered. In tackling these questions it is necessary to stand back and view, with a degree of justified scepticism, the twist put on current events by many commentators. A sensitive historical perspective is needed, as well as a holistic one, not limited in any way by discipline, fad or personal interest. It is necessary to stand back and to look at empirical data with a dispassionate eye, a historical eye, noting the obsessions of different generations and putting them in a proper perspective. The strategic perspective recommended in this book is meant to be good for all seasons, not just one particular historical conjuncture. Good strategy is born of a sceptical mind. A good strategist reads books on history and novels, even the Bible or Koran and sometimes learns more from them than from management texts. It is better to read both kinds of texts, and even more important to read with an open mind.

Equally to be avoided are excessive claims made for the ability of certain actions to solve major problems. One tendency which mars many commentaries on management is the obsession with the concerns of the immediate present which often turn out to be fickle fashions or fads which come and go at a rapid rate. Management studies are particularly subject to such fads. Its practitioners churn out the appropriate 'buzzword', such as total quality management, re-engineering, downsizing or even downscoping, to name but a few, like a magical incantation. Each of these has some validity, but none has the universal ability to solve all managerial problems.

Focus on Humour
A fad or buzzword

In order to test how authentic a buzzword is, we can apply five tests:

1. It must come from what purports to be an *authoritative* source.
2. It must provide an *instant cure* to your real or imagined problem.
3. It must cause the hearts of managers to go *pitty-pat* with anticipation.
4. It must of necessity *obscure the obvious* and at the same time make the uninitiated feel painfully inadequate for not recognizing the brilliant truth encapsulated in the buzzword.
5. Finally, it must inspire *pseudo-activity*; that is, it must make people think something important is happening while everything remains safely in place.

Source: Vaghefi and Huellmantel, 1999: 24.

Strategists and stakeholders

There is one sense in which all members of an organization are strategists, since all would benefit from thinking strategically, and another sense in which there is but one strategist, the person who leads strategically, usually the chief executive officer. These are extreme positions, but each has some validity.

One key issue is how the strategic thinking of any individual employee fits in with the strategic thinking of the enterprise as a whole. Since the interests of all employees differ, their objectives also differ. This is part of a much broader problem, the existence of various groups of stakeholders with markedly different interests in the organization. There are different aims and objectives envisaged for the enterprise, each reflecting the nature of the different stakeholder groups. One of the first goals of strategy is to reconcile the different strategic interests of these stakeholder groups. The reconciling of these different points of view is a prerequisite for the articulation of the strategic intent of any organization, that is, for a clear indication of what the strategy is trying to achieve.

Before considering the nature of the strategic intent, it is necessary to define what exactly is meant by a stakeholder and classify the stakeholder groups, in the process indicating which stakeholder groups are likely to be important in the making of strategy. There are two elements relevant to defining a stakeholder:

1. An interest in the operation of the enterprise and the nature of that specific interest. The interest may arise because the stakeholder group makes an input vital to the operation of the organization, or it might be an interest which arises because the outcome of any strategy influences the wellbeing of the stakeholder in a significant way, although the stakeholder may be a purely passive recipient of any impact.

A stakeholder has either an explicit claim on the enterprise – service payments on a debt, wage and salary rewards – or the potential to benefit from successful performance, for example lower prices or higher dividend payments. The stakeholder can also suffer from the enterprise's poor performance, for example the receipt of lower taxes or vulnerability to the effects of environmental damage.

Each stakeholder is capable of contributing value to the products or services in return for a reward, which comes in various forms. How much reward is extracted depends on the bargaining strength of the stakeholder.

2. The impact of action by the interest group on the performance of the organization. This action can have a powerful influence on the realization of the strategic intent. The ability of the stakeholder to take action which impinges on the activities, strategic or otherwise, of the enterprise, often as a response to the first element, is a significant factor in the performance of the organization.

Is the stakeholder group in a position to promote the aims of the organization or obstruct the implementation of that strategy? There are many such responses which can harm – a readiness to sell ownership shares, industrial action by workers, political action by community groups or, most importantly, the withdrawal of custom. Such actions constitute potential threats for the enterprise.

A stakeholder is anyone with a significant interest in the performance of an organization and/or an influence on that performance.

The stakeholders

The way in which various stakeholder groups are organized and operate differs from society to society. This is particularly true of the medical industry, where in different countries stakeholder groups have varying influences on the decision making of a pharmaceutical company. These influences reflect, on the one hand, the attitudes, norms and behavioural patterns of the different societies, in short the national culture and, on the other, the attitudes, norms and behavioural patterns of the enterprise, the corporate culture and the way in which these two cultures interact. For example, those societies with a strong civil society have a proliferation of organized groups, outside those which are purely government or commercial, groups which often represent the different stakeholder groups. They have a habit of interacting positively to resolve contradictory interests. This is easily extended to business operations relevant to strategy making.

Focus on Theory
Stakeholders in pharmaceutical companies

There are a number of important players in the pharmaceutical industry, alongside the pharmaceutical companies themselves – patients (the ultimate customers), governments, doctors, pharmacists, insurance companies, health managers of various kinds and biotech research companies. Figure 1.5 indicates the nature of the interactions between these groups.

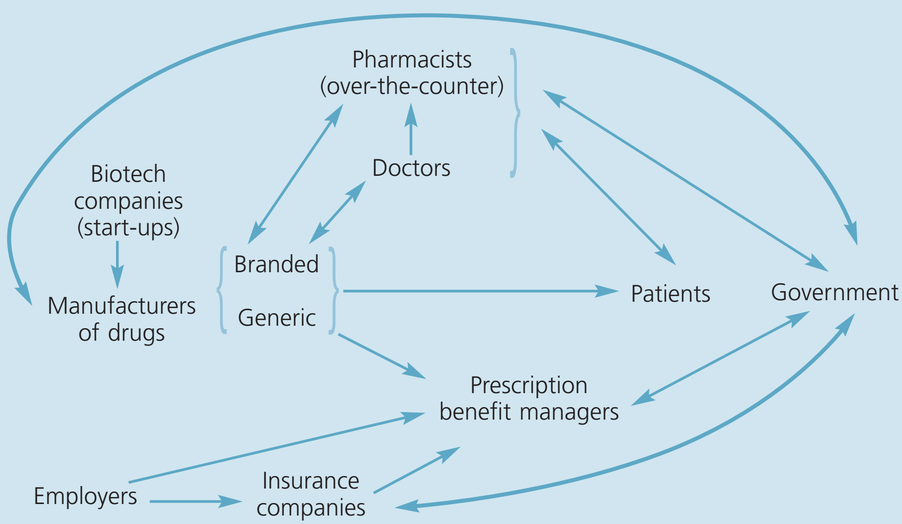


Figure 1.5 **Stakeholders in the pharmaceutical industry (US style)**

Attention is concentrated on the enterprise, but the analysis can easily be extended to any organization, including non-profit-making organizations. Usually the stakeholders are divided into three groups, two external and one internal to that enterprise (Figure 1.6).

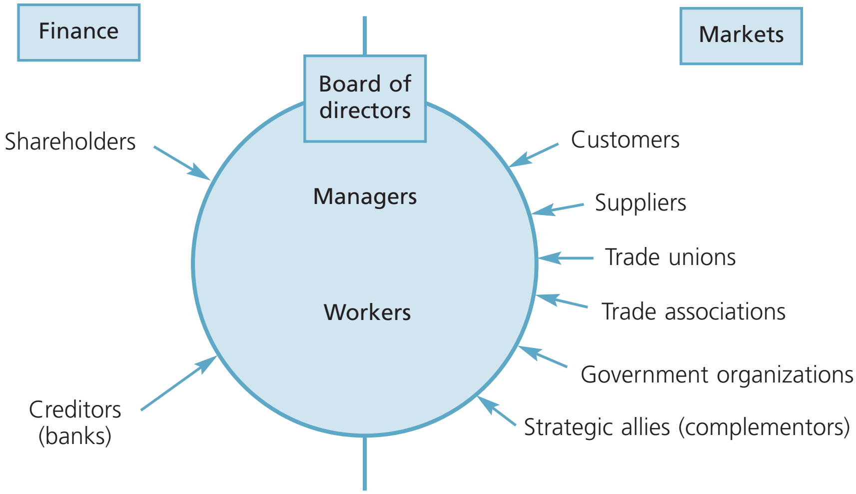


Figure 1.6 **The stakeholders (external and internal)**

Diverse aims

The broad aims and expectations of the different stakeholder groups are disparate and often out of alignment with each other. The aim can be seen as either increasing the benefits or minimizing the damage received by the particular group. For different groups this can take the form of increasing profit, creating more employment, enhancing individual or group power or status, raising tax revenue, protecting the environment or reducing prices. Most commonly the generation of greater profit for the owners is at the cost of employment, higher price levels or even to the detriment of the quality of the environment. There is often a trade-off between the respective benefits or damages, the exact nature of which reflects both the political and market strengths of the different groups.

The diversity of aims has been articulated in the so-called triple bottom line in which the goal of profit maximization is complemented by aims which reflect social and environmental objectives for different stakeholder groups, notably workers and community groups. A criticism often levelled at the triple bottom line is that the social and environmental aims cannot be quantified in a simple way. Whereas profit is in theory an easily quantified index, it is difficult to find alternative success criteria for the other stakeholder groups as apparently straighforward. At best there are a number of quantitative indicators and a mass of qualitative ones, with a problem of weighting each to yield an unambiguous measure. There is considerable controversy about how far enterprises should be influenced by the kind of thinking which underpins the triple bottom line. If the triple bottom line is accepted, why should a quadruple or a quintuple bottom line not be accepted in order to take account of all stakeholder groups, not just three or four?

The most discussed stakeholder groups are still the owners and the managers. The division between ownership and control has always been the focus of considerable attention since the appearance of the public company. The issue needs to be discussed at length, particularly in the context of governance, how a board of directors representing the owners oversees the management of a company.

Profit maximization

The aims of different stakeholder groups are the logical starting point for determining any strategic intent. The simplest model considers only one stakeholder group, the owners, and therefore only one aim, profit maximization. There is a need to specify the relevant time period, profit maximization over the short or long term. The time horizon makes a significant difference. There are many actions which can increase short-term profit at the expense of long-term profit; there are rather obvious trade-offs, often ignored. This simple prescription of profit maximization ignores the interests of the managers who formulate and implement any strategy, an interest which might be very different from the owners. For example, their status and power may be enhanced by simply making the company larger. For the moment it is helpful to assume that long-term profit maximization is an appropriate aim, but that it requires sensitivity to the interests of all stakeholder groups since all are in a position to undermine the ability of the enterprise to make profit.

Social responsibility and profit maximization

The easiest way to alienate various stakeholder groups is to behave unethically, stressing short-term profit at any price. Profits can be increased by cheating customers, exploiting workers, damaging the environment or tax avoidance or evasion. Such behaviour may be unsustainable for a number of reasons – a major loss of customers, the departure of key workers or managers, a seriously negative feedback from environmental damage or the ill will and retaliation of government, at minimum a loss of influence over government policy. By undermining the reputation of the enterprise through these reactions, short-term profit seeking may threaten the level of long-term profit. The aim of managers is usually to perpetuate the existence of the enterprise, not to end it by allowing some members to pillage its sources of capital. One of the functions of stakeholder groups, not always successfully carried out, is to put a check on such pillaging.

Most interests are served by an increase in profit. Such an increase allows action to benefit all stakeholder groups. Increased profit usually means increased dividends and higher share prices and may also mean higher investment and more rapid growth, with increased promotion and employment prospects. Investment may also increase the chance of lower product prices and improved quality in the future. Greater profit may also mean increased scope for supporting community projects. On the other hand, an enterprise which does not make a profit is at serious risk of failure, when all stakeholder groups are likely to suffer.

The twin issues of ethics and sustainability arise in this context. Unethical behaviour threatens the long-term profit of the enterprise by threatening its reputation. Equally, damage done to the environment by practices which are not sustainable over the long term also threatens the good name of the enterprise. In both areas there may be a trade-off between short-term profit and long-term reputation.

Stakeholder groups' organization

The voices of the stakeholder groups might be heard informally or there may be formal channels of communication. This may be a matter of the composition of the board of directors or it may involve a much broader range of communication. Stakeholders have different degrees of organization.

Stakeholders are sometimes aggregated into groups which can express and promote their interests. The power of these groupings varies, both with respect to the enterprise and society at large. Some groups are well organized in certain societies, such as workers in their unions or conservationists in political parties, others are much more diffusely distributed, such as consumers or suppliers. Even these are sometimes organized into consumer or trade associations. There are various ways of institutionalizing the paths of influence from these interest groups to the organization. For example, in Germany, under a system of industrial democracy, workers are represented on supervisory management boards.

There are a number of specific questions which must be addressed in more detail:

- What degrees of aggregation of strategic intent exist? There may be a tacit understanding that different groups will be listened to, an assumption that all groups will be accommodated.
- How is any conflict between the groups resolved and how is a common strategic intent articulated? General aims have to be translated within a strategic perspective into specific objectives. It is at this stage that conflict usually arises.
- Is it critical to have just one general intent, or can intent itself be broken down into separate components which provide the detailed inputs? In this situation the process of iteration, described later in the book, comes into play, as the objectives are defined and refined in the process of transmission from group to company and back.

The government: stakeholder and lawmaker

The government, as maker of the rules of business behaviour and the defender of public interest, is a very important stakeholder. The profitability of a company can be enhanced by its efforts to change the rules of the game or prevent what is perceived as an unfavourable change in those rules. Large multinational enterprises have considerable ability to influence the strategy of government.

The effort of the automobile industry in the USA to shield itself against both Japanese competition and pressure from the environmental lobby is a good example. The exercise of this influence through lobbying, political donations and even corruption is itself part of a company's strategy. All these actions, particularly if they receive significant publicity, will almost inevitably elicit a negative response from other stakeholder groups.

Focus on Practice
The political economy of the automobile industry

From the 1970s onwards, the US automobile industry, so long dominant in its ability to outcompete the automobile industries of other countries, came under threat from two directions – firstly from Japanese vehicle imports flooding into the USA, and secondly from a growing safety and conservation movement which saw the automobile as a major source of environmental damage and a threat to individual life and health. What was the reaction of the big three producers, General Motors, Ford and Chrysler, to these threats?

The chief strategy was to seek to influence the government to change the rules and/or retain those rules which already favoured US industry. The big three used their immense resources and significant role in the economy to lobby the government. They repeatedly emphasized the threat to employment in the USA from both foreign competition and stricter environmental rules. They sought and achieved informal

Focus on Practice cont'd

quotas which shut out the full tide of imports, largely on the grounds of the threat of a significant potential loss of jobs. They also looked to limit the regulatory restrictions on the design of cars, which were intended to improve safety, reduce damaging emissions of pollutants and improve fuel efficiency, all of which they argued would impose an enormous cost on the industry, and which, in the view of the automobile manufacturers, were in some cases impossible to achieve. When bankruptcy threatened Chrysler, another strategy was actively to solicit the financial support of government.

Another strategic response by the automobile manufacturers was to imitate the more efficient methods of the Japanese which made them competitive in the first place, and develop a mentality of innovation, meeting more readily the changing tastes of consumers. In the long term, this strategy was likely to be more effective, since it would satisfy a broader range of stakeholder groups. However, it was more difficult to achieve.

The nature of any political economy, that is, any system of business decision making, draws attention to any inputs which influence market outcomes through their impact on the rules of the game. It is blindness to ignore this aspect of strategy, which is inevitably important for large companies. The larger the company, the more likely that this aspect of strategy becomes important.

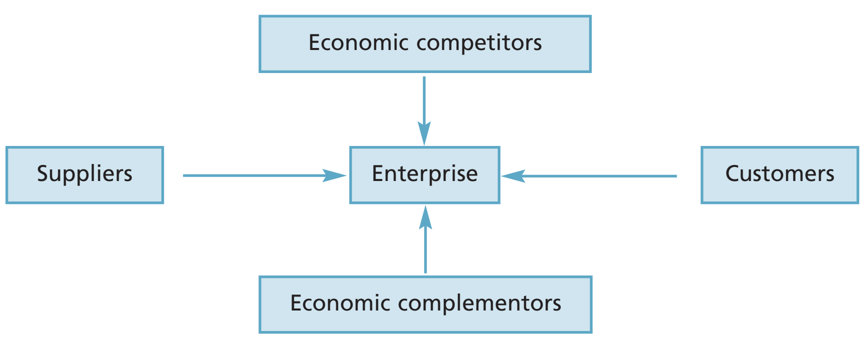
Sources: Ingrassia and White, 1994; Luger, 2000.

Mapping stakeholder groups

There is a simple way of presenting the role of external stakeholder groups. This is to map the stakeholder groups and their role in the making of strategy. There are various possible contexts. For example, it is possible to distinguish the market context from the political context. Depending on the problem being discussed, it may be possible to distinguish other contexts. There is a common template, based on the *value net*, which can be used as a basis for mapping the particular situations. This template can be modified to suit different contexts.

In its market activity, the aim of any company is to create a maximum value added. The market context is depicted in Figure 1.7.

Complementors comprise all the groups that can benefit the company in some way. Other producers can act as either competitors or complementors, that is, they can either hinder or help the creation of value by the company. Increasingly they may



Source: Brandenburger and Nalebuff, 1996: 17.

Figure 1.7 **A map of economic stakeholders**

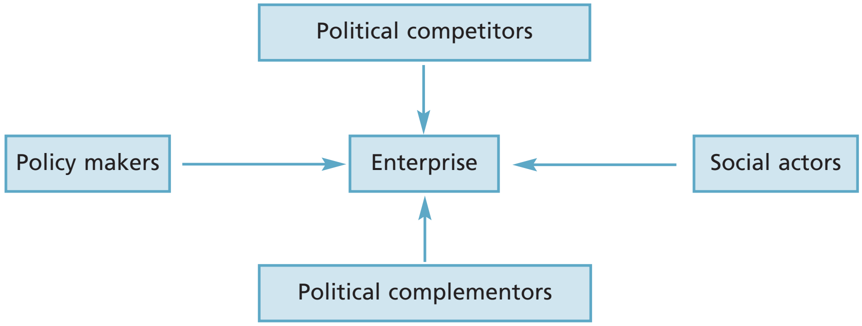


Figure 1.8 **A map of political stakeholders**

help, both deliberately in partnerships or strategic alliances and without any such organized cooperation. In the economic value-adding process, all these groups are relevant. The way in which they are relevant to strategy making will be developed at some length in this book.

The political context would be similar, but with different players (Figure 1.8). The political aim of the company is to create the kind of *political value*, which can be translated into greater profit or the preservation of existing profit. Political value comes from two sources:

1. the political advantage to be won by instituting a change in government policy or regulation, or even by retaining existing advantageous rules
2. the gaining of social legitimacy by managing important social issues in such a way as to win support for the company and enhance its reputation.

Focus on Theory
Complementing

A complementary product or service is one whose use promotes the demand for another product or service. Very often the successful production or consumption of a product or service does not depend solely on the operations of one company. There are complementors, that is, other company players from whom customers buy products or services complementary to the relevant one, or to which suppliers sell complementary components or resources. In the first case, the complementory consumption enhances the satisfaction received in consuming the main product or service. In the latter case, the supplier has synergies in the supply to different customers which reduce its costs of supply. Complementors, as Figure 1.7 suggests, are therefore the mirror image of competitors. They are players who take action which either increases the buyers' willingness to buy products or the suppliers' willingness to provide inputs. They add value to the product or service.

There are players from whom customers buy or consume resources complementary to the product or service of the enterprise, and in so doing increase the value to the customers of consuming that product or service and consequently the prices that they are willing to pay. Consumption often requires the existence of complementary products, for example the products are consumed together. In the absence of one the other either cannot be enjoyed at all or only in a seriously diminished way:

Focus on Theory cont'd

- An improvement in the network of roads makes the ownership and use of an automobile more valuable. Some of the complementary goods may therefore be public goods, or goods supplied by a quasi-government organization. An infrastructure capable of reliably supplying petrol and at a reasonable price is also essential. If the hydrogen cell is ever to become the source of energy for the motorcar, there needs to be an infrastructure supplying hydrogen.
- In the pharmaceutical industry, doctors might be regarded as playing the role of complementor, since they are not customers but facilitate the purchase of drugs which complement any treatment recommended.
- The same relationship would apply to that between Intel with its Pentium microprocessor and Microsoft with its Windows operating system; they are complementory. One assists the sale of the other.
- Electricity is used with almost any consumer durable or books with any educational programme. They are both complementary goods.

On the production side, suppliers often need complementary inputs to enhance the quality of their own input or reduce its price:

- This might involve the existence of a training or educational system which improves the quality of human inputs, even making possible the use of some technologies.
- Alternatively the suppliers can take advantage of complementary outputs which reduce the costs of developing or supplying a product. A specific example might be a project mapping the human genome, knowledge which is of definite assistance to a biotechnology company in developing a new drug.
- Wine bottles can be used to contain other beverages. If there are significant economies of scale this might have a dramatic impact on cost. A breakthrough in the technology of glass making may affect all consumers of bottles.
- An explosion of tourist outlets, including restaurants, in or close to a winery will increase the demand for wine by drawing potential customers into the area.
- The makers of films, television programmes or music, in order to sell their product, seek out those who control communication outlets. For the makers of the creative product the communication controllers are complementary, for the communication controllers the makers are complementary.

The social web and the 'political' process of strategy making

The context of strategy making

The context in which strategy making occurs constrains what can be done and therefore determines how the process of strategy making is structured. That limiting context consists of four main parts:

1. a cognitive or intellectual part, which constrains how an individual thinks about strategy
2. an ethical part, which tells the strategist what is socially responsible and what is not
3. a political part which shows what bargaining or negotiation can achieve in support of a particular strategy
4. a social part which consists of the web of rich human interactions in which strategy making is embedded.

A preliminary exploration of the ethical issues is made in the final section of this chapter. The next chapter, in its analysis of strategic thinking, considers some of the cognitive limits. This section deals with the other two limiting parts – the social and the political. Both are important and are dealt with in turn. Here the emphasis is on the internal context of the organization. They are further touched on in the next section as they relate to the external context of the organization.

The human interactions which occur within enterprises involve all the rich characteristics of social life – for example the emotional reactions to people and events and the ever-changing moods of human actors, the continuing likes and dislikes of colleagues, the enjoyment of communication for its own sake and the broad pursuit of personal interests and personal advantage, however defined. Much of the interaction is unstructured and outside formal rules, or becomes structured only slowly. This social web is highly relevant to strategy since strategy making necessarily occurs within the framework of, and partly results from, such an interaction. For example, ideas tend to be thrown about by groups whose members enjoy interacting. Good strategy must take account of the realities of informal organizational behaviour; in such a world, the informal are as important as the formal structures. For example, personal and institutional authority, and therefore influence on decision making, frequently do not reside in the same people.

Corporate culture and strategic stances

Together the formal and informal aspects of enterprise activity mould a corporate culture, a set of attitudes, values and behavioural patterns particular to an organization. Such culture differs from one enterprise to another. It is impossible deliberately to create a corporate culture overnight, or even change an existing one; key aspects of it are often accidental in origin. Something as simple as corporate culture can evolve in unexpected directions without deliberate action. How far culture can be used as a tool in creating good strategy depends on the nature of the organization. Corporate culture is partly the result of the example given by leaders who play an important role in its evolution. They seek to shape the culture and move it in a certain direction, sometimes in order to realize a particular strategy.

Before starting to analyse the kind of corporate culture which an enterprise might need in order to realize its strategy, an observer needs to understand its strategic situation and why an enterprise might adopt a particular stance. There are three possible *strategic stances*:

1. The enterprise might be deliberately seeking to shape, or reshape, its environment. In Gary Hamel's (1996) terminology, it might play the revolutionary and seek to break or remake the rules of the game. This requires a culture which stresses the acceptance and promotion of change.
2. It might try to adapt incrementally to changes in its environment simply to remain viable. This does not threaten the existing culture, provided the changes are small and the adjustment marginal.
3. It might reserve the right to postpone strategic action until it reads the changing environment better, and therefore adopts a stance of inaction, at least temporarily. This is the most conservative of the stances, the one least likely to upset the existing culture.

Many commentators have noted that revolutionary change is unusual, limited to start-up or turnaround situations. There is an obvious temptation for any organization to adopt the last position, unless forced to do otherwise. The best description of the normal pace of change is logical incrementalism, that is, incremental or marginal change which logically grows out of the existing situation; this broadly corresponds to the second stance.

The paradigm

Logical incrementalism is the normal stance, because an enterprise has an existing paradigm, which is difficult to change. The paradigm can be defined as 'the core set of beliefs and assumptions which fashion an organisation's view of itself and its environment' (Johnson and Scholes, 1993). The ideology at the core of the enterprise encapsulates the identity of that enterprise, how it wishes others to see it. The paradigm is closely related to the corporate culture.

The paradigm may involve a ruthless pursuit of profit. It may reflect an obsession with being first, always innovating. The values, and therefore the paradigm, of any organization often go well beyond a desire to maximize profit and involve behaviour towards a whole series of different stakeholders, not just the owners. The values may involve behaving in a way which is honest and transparent, one which returns significant benefit to the community as well as to workers or customers. It may place an emphasis on a good reputation for ethical behaviour, respect for the environment and therefore sustainability. It may place corporate social responsibility at the heart of the enterprise's value system.

Every organization has a web of behavioural modes which are heavily influenced by the values and attitudes and therefore are consistent with and reinforce the paradigm. Broadly these patterns of behaviour can be considered as belonging to six overlapping areas:

1. The repeated patterns of behaviour:
   - The *routines* which govern everyday activity. Most activities are structured into repeated patterns of behaviour which reflect the demands of work but also the shaping of any activity by habit.
   - The *rituals* which mark special occasions. Rituals relate to the way that less usual events are organized, particularly in such areas as training, promotion, new appointments or retirements.

2. The *control systems* which seek to regulate behaviour and guide it into paths acceptable to the organization. These may include:
   - Any measuring systems which are used to benchmark and monitor performance.
   - Any reward systems which link up with these measures to reward the desired behaviour, and provide the incentives to guide behaviour in the desired direction.

   Clearly these control systems link up and interact with routines and rituals, both influencing them and being influenced by them. On occasions there may be some tension between them but usually an accommodation is reached in which the two do not contradict each other too seriously.

3. *Organizational systems*, both formal and informal, are the ways in which an organisation is both integrated and divided into specialized units. The divisions are both horizontal and vertical:

- The horizontal comprises the division of the organization into separate functional units
- The vertical includes the separation of different layers of hierarchy, each level with its ability to integrate those below. Many organizational systems are highly detailed, particularly at the bottom level of the hierarchy.

4. The *power structures*, again some formal and others informal. A formal authority structure defines the span of control of individual office holders. The exercise of power is discussed in more detail in the next section.

5. Many *symbolic expressions of its identity* and the authority held within them. The logos, trademarks and slogans are outward, and often vivid, marks of the identity of the organization. Others are easily understood expressions of identity, and therefore power, within the organization, such as the size and location of offices, the brand of company car for a particular job level or the distribution of parking spaces.

6. The *stories or legends*, sometimes amounting to myths, which encapsulate the meaning and history of an enterprise, usually stories of great success or great failure. The founders are often referred to in these stories. These exist to give expression to the values and beliefs which are part of the paradigm and act as a measuring rod against which current employees assess themselves.

All these areas interact within the central paradigm to create a cognitive, and even emotive, structure through which individuals interpret the world of the organization for which they work. They also ensure that strategy is viewed in a way that is understood by all staff. Both the intellectual and emotional support of the individual employee is harnessed by the use of such mechanisms.

At times such a structure becomes a conservative force which inhibits change. Built for one purpose, it is difficult to divert to another. All the problems thrown up by the external environment, whatever their impact, are interpreted in the light of the paradigm, with the result that the amount of change accepted is nearly always limited and often resisted. As a consequence, in most organizations there is a tendency to strategic inertia, which can be interpreted as an inability to change strategy in anything other than a marginal manner and a tendency to defend the status quo. This is a good explanation of the prevalence of logical incrementalism.

Strategic drift, turnaround and paradigm shift

The most difficult problem is how to achieve a paradigm shift, that is, a significant change in the existing paradigm. Such a shift usually requires and is associated with simultaneous change in all the above areas, and is difficult to achieve. In practice, most change arises as a result of the emergence of new enterprises or organizations. This also explains why there is a continuous churn of enterprises, some rising rapidly, others falling almost as fast. The situation of McDonald's indicates the results of such drift and the need for a turnaround.

The typical picture is one in which an enterprise is subject to strategic drift as it adapts incrementally to environmental change. Strategic drift is the result of a process of gradual adaptation in a context of change which requires more than just adaptation. As a result the organization's strategy imperceptibly moves away from

Focus on Theory
The turnaround situation

A turnaround situation arises when an enterprise's performance deteriorates to the point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. The example used is the fast-food chain McDonald's, which, after many years of success and continuous growth, has entered a potential turnaround situation.

Causes

The loss of competitive advantage underlying the need for a turnaround may be due to a number of possible factors:

- Poor management at any level, but particularly the top
- The enterprise overexpanding to exhaust the market and in the process reducing the quality of the product
- Inadequate financial controls and the resulting high costs
- New competition, sometimes arising from innovation
- A significant change in tastes which is unforeseen
- Organizational inertia or complacency: the success breeds failure syndrome

For McDonald's, the particular causes are:

- An extremely rapid rate of expansion throughout the world
- A change in attitude to fast food, now perceived by many as unhealthy food
- An enormous growth in competition, for example Wendy's and Panera Bread in the USA
- Some organizational inertia and management failure

Characteristics

- Slowing in the rate of profit growth, culminating in reduced profit and actual loss making
- Slowing in the growth of sales, culminating in an actual fall of sales
- Loss of market share in key markets
- Loss of share value

For McDonald's:

- First ever quarterly loss
- Fall in sales
- Significant fall in share price

Consequences

- Consolidation and divestment
- Change in business model
- Change of key personnel
- Change in strategy
- Change in structure
- Change in culture

Within the old model, McDonald's is trying to:

- Improve the current business model by reducing prices and speeding up service
- Initiate an ambitious advertising campaign (US$20 million)
- Provide a facelift for the stores (US$300–400 million)
- Change the CEO with the return of former successful CEO, James Cantalupo replacing Jack Greenberg

Focus on Theory cont'd

- Push through the closure of a large number of loss-making stores (175 with 700 employees)
- Retreat from three countries
- Try an experiment with new foods and an extended range of products.

There is as yet no real change in strategy, structure or culture.

what would fit it best to meet the new environmental forces at work. The organization experiences an increasing gap between where it actually is and where it should be, which creates a steadily increasing tension within the organization and eventually a crisis when key performance indicators deteriorate, sometimes with an apparent suddenness. This is the moment when the strategic situation may change to a revolutionary one, in which there is a conscious and deliberate attempt by individuals within the organization, or by a key stakeholder group, to reshape the organization and its environment, although the latter is difficult to achieve at this stage. This is the moment for a turnaround, that is, a dramatic change of strategic direction.

Very often the success of a business is associated with the name of a particular person, frequently the founder, and its renewal with the person responsible for a turnaround. One role of a new leader might be to snap the enterprise out of its strategic drift. Such persons become the focus for the making of the strategies which are responsible for the success of the business. The founder or the new leader can be an inspiration to the enterprise and also a powerful source of leadership. There is a tendency for one person to provide the direction or coherence, or simply to become the focus for the strategic thinking which both initiates success and continues that success in a different context. This is particularly true during the infancy of an enterprise or a period of crisis. At the stage of maturity, or during long periods of stability, leadership can become routine, but this itself can lead to a loss of competitive edge, if the enterprise is not suitably organized. Leadership often provides that appropriate edge.

Leadership and strategy

Once organizations go beyond a certain size, strategy inevitably becomes a matter of teamwork. No one person can control everything. All teams need to be motivated and guided; this is one of the functions of leadership. The key issue is to select able lieutenants. It is paradoxical that a leader can even consider imposing a democratic style, in a strange mixture of autocracy and democracy. This would be a style which encourages others to speak up and makes transparent the process of strategy making. Styles of leadership differ greatly. The degree of consultation and transparency differs from organization to organization. Moreover, under any regime, whatever its nature, the succession and legitimacy of a new leadership is always a problem. Does the predecessor anoint the new leader or does the process involve a wider group?

There are three different kinds of *leadership*:

- *Traditional* leadership in which roles are ascribed because of divine validation or as a consequence of birth or age, or a combination of all three. Divine appointment or even age are no longer as important as they used to be, particularly in the business world. However, there are economies where family enterprises are still the norm. In such enterprises, birth is still important in determining who leads. Even in these economies nobody can take leadership for granted because of birth. A poor performer is likely to be ousted, whoever is his or her father.

- *Charismatic* leadership is a reflection of the special characteristics of the individual, particularly the ability to inspire others to do what is wanted. A charismatic leader often has a unique strategy, one appropriate to the place and the time. There is a marked tendency to try to turn all leaders into charismatic leaders, even if they initially lack any charisma. Here the main problem is finding a mechanism to identify potentially charismatic leaders and put them in the right position. The succession becomes a particular problem.
- *Institutional* or *bureaucratic* leadership, where authority resides in particular positions because of the nature of the position. Such positions are filled as a result of the carrying out of proper procedures. The incumbents of the positions must have particular qualifications, skills or experience. They might know the organization well, or be well qualified to deal with a new situation. Such leadership is the norm in most organizations.

There is no doubt that successful business leaders are often of the charismatic type, but they often need the backing of bureaucratic leaders imbued with appropriate skills and knowledge. The frequent emphasis in the literature on the 'heroic' leader who determines everything assumes the omnipotence of that leader. There is no such a thing as the omnipotent leader, able or even willing to override the opposition of key strategic players within the enterprise. A *leadership team* might combine the different kinds of leadership in an appropriate mix which suits the times and circumstances.

Strategy is not determined solely on the basis of an ideal fit with a hypothetical set of organizational objectives determined by a grand strategist, the leader. There is often an overemphasis on the development of formal structures and procedures, just as there is on the leader. There are various ways of building flexibility into the enterprise but one is to ensure that there is not an overemphasis on the exercise of formal authority.

In any organization there is likely to be competition for position and the adoption of positions on strategy which reflect the nature of political groupings and the self-interest of players in the promotion of their own careers. Decision making is often the result of negotiation and bargaining, political competition and ultimate compromise. It is the result of the exercise of power by different stakeholder groups, internal or external. Any leader has to take into account the existence and potential power of these groups and win support by persuasion as well as by the naked exercise of authority.

Sources of strategic power

What are the sources of power for stakeholder groups both within and outside an organization? It is possible to map both the sources and indicators of that power. Within any organization, location in the hierarchy is a key element defining power; the higher in the organization an individual is located, the greater is that person's power. However, some staff have an influence which transcends their actual position. A control over strategic resources, such as finance, or an influence over key people helps. Relevant and scarce knowledge or skills, particularly those relevant to the situation of the organization, also increase power. Control over aspects of the external environment through access to markets, customers or sources of capital is another relevant factor. Finally, it must be asked, how much discretion does a person actually have? What is the size of his or her domain of independent decision making? The greater the discretion and the wider the domain, the greater the power.

The power of external groups often reflects the degree of organizational dependence on that group for key resources. The providers of necessary finance are powerful people. Some decisive involvement in the implementation of the strategic plan is another source of power. Again possession of the relevant skills or knowledge needed by the organization is important. Finally, connections with key persons within the organization are a further source of power. Networks of influence exist all over the world. Personal alliances can give access to considerable influence over decision making, and therefore constitute another source of power.

Both internally and externally, the formal status of a person is often an indicator of power. Investment with the symbols of power is usually closely correlated with that status. Regardless of formal position, any claim on resources on which the enterprise depends is also a source of power. Power is also indicated by representation on key committees or the nature of the negotiating arrangements involved in bargaining with outsiders.

Key strategic lessons

- A preliminary working definition of strategy is 'a coordinated series of activities which involve the deployment of accessible resources for the achievement of a given purpose or purposes'. Emerging challenges in the changing environment affect the development of strategic ideas and approaches.
- There are four broad approaches to strategy making – classical, evolutionary, processual and systematic – distinguished by two criteria: the adoption of a single motivation of profit maximization or a pluralistic one, and the nature of strategy making as a top-down process or a bottom-up one.
- It is possible to identify 14 different schools of strategy. Some of these schools are concerned with the limits on strategy making – notably the cognitive, ethical, political and social schools. There are links between these different schools and metatheories borrowed from different disciplines, such as economics, sociology, anthropology, biology and political theory.
- Stakeholder groups include owners, managers, workers, bankers, suppliers, customers, the local community, government and complementors, that is, groups of enterprises whose activities are closely associated in a positive way with the organization. Each of these groups has a different set of interests which must be taken into account and all have a role in the development of strategy and can be considered potential strategists.
- Motivation is pluralistic, but to a varying degree. To act against the interests of many of these groups is socially irresponsible. Inevitably the current ethics of any society constrain exactly what can be done.
- The set of values, attitudes and behavioural patterns specific to an organization have a significant influence on the making of strategy. Change tends to be slow because of the strength of the paradigm and strategic inertia is the norm.
- It is important to see strategy making as a political process, in which there is bargaining and negotiation reflecting the power held by different stakeholders.

Applying the lessons

1 Define the following terms: vertical thinking, lateral thinking, a convergent problem, a divergent problem, bounded rationality, satisficing, a meta-theory, an eclectic theory, a stakeholder, complementing, the cultural web, the paradigm, strategic drift and a paradigm shift.

2 Under what specific circumstances do you think that each of the four main strategic approaches has validity in describing the nature of the strategy-making process? List the approaches and describe in detail the relevant circumstances which make each of these approaches an accurate description of strategy making.

Consider the circumstances of your own enterprise. What approach best describes the strategy making which is appropriate in those circumstances?

3 Using the IKEA case study in Chapter 2, indicate which aspect in that case, if any, fits the interpretation of each of the various schools defined in the text above.

	Relevant aspect
Design	
Planning	
Positioning	
Entrepreneurship	
Organizational culture	
Political process	
Learning	
Transformation (revolution) or configuration	
Cognitive process	
Rhetoric	
Adaptation	
Ethical stance	
Rationality	
Simple rules	

4 Use the relevant websites to find the following mission or vision statements. How far do they suggest that the strategic intent of the organization is to satisfy the customer stakeholder group?

Qantas
Swissair
Lloyd's
Royal Dutch Shell
BRL Hardy
Southcorp
Beringer Blass
Nissan
Renault

5 What stakeholder groups does the board of directors represent? Consider the composition of the board of any company and indicate from the information available to you the likely role of each director and the criteria upon which board membership is based.

6 Using the case studies in Chapters 2 and 3, indicate the important stakeholder groups and how stakeholder interests and power appear to influence the strategy adopted.

Strategic project

1 Choose any case study included in this book.

2 Consider the different schools of strategy with their defining characteristics.

3 Select elements which could be seen as comprised within the area of strategy relevant to that school.

4 How far are all the schools compatible in that they simply describe different aspects of strategy making?

Exploring further

Mintzberg has written more about the different views of strategy than any other writer. A short version of his views is to be found in Mintzberg, 1996: 5–11. A whole series of Mintzberg's papers addressing the main issues relevant to strategy making is to be found in Mintzberg and Quinn, 1996. The best and fullest exploration of the different schools is Mintzberg et al., 1998. A synopsis of this book is to be found in an article by Mintzberg and Lampel, 1999: 21–30. A discussion of the criteria for evaluating whether a strategy is a good one or not is to be found in Rumelt, 1996.

A brief history of the development of the concept of strategy is to be found in Chapter 1 of Drejer, 2002.

Perhaps the most interesting of all attempts to classify the different approaches to strategy is that of Whittington, 2001, whose book makes the very important distinction between the classical, evolutionary, processual and systemic approaches. This distinction is further developed by Egan, 1995.

The classical approach is best exemplified by the design and planning texts recommended below. The evolutionary approach is that adopted by most neoclassical economists. The work of Herbert Simon is still the best introduction to the processual approach. See below for the relevant references, including other commentators on the social web and the political process.

The best articulations of cultural differences have been made by Hampden and Trompenaars, 1993 and, later, Trompenaars, 1998 and Hofstede, 1991, a shorter version of which can be found in Trompenaars, 1983 particularly pp. 54–5. A particular comparison is Hitt et al., 1996: 159–67.

Source texts which indicate clearly the nature of the different schools are:

Design: Learned et al., 1965. Planning: Ansoff, 1965. Positioning: Porter, 1980, 1985. Entrepreneurial: Baumol, 1968: 64–71; Mintzberg, 1973: 44, 53; Schumpeter, 1947: 149–59. Learning: Quinn, 1993. Cultural: Johnson and Scholes, 1993. Power: Macmillan and Jones, 1986. Cognitive: There is no one good reference. It is best approached by reading Chapter 6 of Mintzberg et al., 1998. Environmental: There is no good reference. It is best approached by reading Chapter 10 of Mintzberg et al., 1998. Configuration: Hamel, 1996: 69–82. Rationality: Singer, 1996. Ethics: Humble et al., 1994: 28–42. Simple rules: Eisenhardt and Sull, 2001: 107–16.

It is interesting to trace the development of a number of new concepts by consulting firms. The experience curve is dealt with at length in Chapter 9. Variants of the growth/share matrix are discussed in Chapter 16. The role of the Boston Consulting Group and in particular its founder, Bruce Henderson, in developing both concepts is discussed in Henderson, 1979 and 1984. The writings of Sidney Schoeffler, the founder of the Profit Impact of Marketing Strategies (PIMS), are also of interest. See Schoeffler, 1980; Schoeffler et al., 1974: 137–45; and Buzzell et al., 1975: 97–111. The roles of McKinsey and General Electric are discussed in the case study in Chapter 16. There is a lengthy discussion of the strategic innovations made as a result of this partnership in Vaghefi and Huellmantel, 1999.

The resource-based view (RBV) is discussed at length in Chapter 7 and a full bibliography given. However, a good introduction summarizing the then state of play is Drejer, 2002.

Much of the literature on the nature of the business enterprise is relevant to the sections on both stakeholders and the political and social restraints on strategy making. For example, the classic work by March and Simon, 1958 provides an excellent introduction. This is reinforced by Hill and Jones, 1992: 131–54. Brandenburger and Nalebuff, 1996 have introduced the notion of complementors which focuses attention on the importance of cooperation and helps to place the relevance of various stakeholder groups to the enterprise.

A more extended treatment of the political dimension can be found in Macmillan and Jones, 1986. The social web is best discussed by Gerry Johnson, particularly in his text, Johnson and Scholes, 1993. The best source on the economic or political value nets is Ghemawat, 1999.

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