

1.1 INTRODUCTION

In November 2006 Yahoo! manager Brad Garlinghouse issued a memo that directly challenged the senior management of the Internet giant. Leaked to the media as 'The Peanut Butter Manifesto', his memo accused Yahoo!'s leadership of lacking strategic direction. Growth had slowed, Google had overtaken Yahoo! in terms of online advertising revenues, and the share price had fallen by nearly a third since the start of the year. According to Brad Garlinghouse, Yahoo! was spread too thin, like peanut butter. It was time for strategic change.

All organisations are faced with the challenges of strategic direction: some from a desire to grasp new opportunities, others to overcome significant problems, as at Yahoo!. This book deals with why changes in strategic direction take place in organisations, why they are important, how such decisions are taken, and the concepts that can be useful in understanding these issues. This introductory chapter addresses particularly the meaning of 'strategy' and 'strategic management', why they are so important and what distinguishes them from other organisational challenges, tasks and decisions. It also introduces the kind of work that different types of managers involved in strategy may do, whether as general managers, in-house specialists or as strategy consultants. The chapter will draw on the Yahoo! example in Illustration 1.1 to illustrate its points.

This book uses the term 'corporate' strategy for two main reasons. First, because the book is concerned with strategy and strategic decisions in all types of organisation – small and large, commercial enterprises as well as public services – and the word 'corporate' embraces them all. Second, because, as the term is used in this book (discussed more fully in section 1.2.2), 'corporate strategy' denotes the most general level of strategy in an organisation and in this sense embraces other levels of strategy. Readers will probably come across other terms, such as 'strategic management', 'business policy' and 'organisational strategy', but these are all used to describe the same general topic.

1.2 WHAT IS STRATEGY?



Why were the issues facing Yahoo! described as 'strategic'?¹ What types of issues are strategic and what distinguishes them from operational issues in organisations?

1.2.1 The characteristics of strategic decisions

The words 'strategy' and 'strategic decisions' are typically associated with issues like these:

- *The long-term direction* of an organisation. Brad Garlinghouse explicitly recognised that strategic change in Yahoo! would require a 'marathon and not a sprint'. Strategy at Yahoo! involved long-term decisions about what sort of company it should be, and realising these decisions would take plenty of time.

- *The scope of an organisation's activities.* For example, should the organisation concentrate on one area of activity, or should it have many? Brad Garlinghouse believed that Yahoo! was spread too thinly over too many different activities.
- *Advantage* for the organisation over competition. The problem at Yahoo! was that it was losing its advantage to faster-growing companies such as Google. Advantage may be achieved in different ways and may also mean different things. For example, in the public sector, strategic advantage could be thought of as providing better value services than other providers, thus attracting support and funding from government.
- *Strategic fit with the business environment.* Organisations need appropriate *positioning* in their environment, for example in terms of the extent to which products or services meet clearly identified market needs. This might take the form of a small business trying to find a particular niche in a market, or a multinational corporation seeking to buy up businesses that have already found successful market positions. According to Brad Garlinghouse, Yahoo! was trying to succeed in too many environments.
- *The organisation's resources and competences.*² Following 'the resource-based view' of strategy, strategy is about exploiting the strategic capability of an organisation, in terms of its resources and competences, to provide competitive advantage and/or yield new opportunities. For example, an organisation might try to leverage resources such as technology skills or strong brands. Yahoo! claims a brand 'synonymous with the Internet', theoretically giving it clear advantage in that environment.
- *The values and expectations* of powerful actors in and around the organisation. These actors – individuals, groups or even other organisations – can drive fundamental issues such as whether an organisation is expansionist or more concerned with consolidation, or where the boundaries are drawn for the organisation's activities. At Yahoo!, the senior managers may have pursued growth in too many directions and been too reluctant to hold themselves accountable. But lower-level managers, ordinary employees, suppliers, customers and Internet users all have a stake in the future of Yahoo! too. The beliefs and values of these *stakeholders* will have a greater or lesser influence on the strategy development of an organisation, depending on the power of each. Certainly, Brad Garlinghouse was making a bold bid for influence over what seemed to be a failing strategy.

Overall, the most basic definition of strategy might be 'the long-term direction of an organisation'. However, the characteristics described above can provide the basis for a fuller definition:

Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder expectations*

Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder expectations*.

Exhibit 1.1 summarises these characteristics of strategic decisions and also highlights some of the implications:

- *Complexity* is a defining feature of strategy and strategic decisions and is especially so in organisations with wide geographical scope, such as multinational

Illustration 1.1

Yahoo!'s peanut butter manifesto

Strategy can involve hard decisions about the scope of the business, its management and its organisation structure.

In November 2006, Brad Garlinghouse, MBA graduate and a Yahoo! senior vice president, wrote a memo to his top managers arguing that Yahoo!, the diversified Internet company, was spreading its resources too thinly, like peanut butter on a slice of bread. Edited extracts from the memo follow:

Three and half years ago, I enthusiastically joined Yahoo!. The magnitude of the opportunity was only matched by the magnitude of the assets. And an amazing team has been responsible for rebuilding Yahoo!. . . .

But all is not well. . . .

I imagine there's much discussion amongst the Company's senior-most leadership around the challenges we face. At the risk of being redundant, I wanted to share my take on our current situation and offer a recommended path forward, an attempt to be part of the solution rather than part of the problem.

RECOGNIZING OUR PROBLEMS

We lack a focused, cohesive vision for our company.

We want to do everything and be everything – to everyone. We've known this for years, talk about it incessantly, but do nothing to fundamentally address it. We are scared to be left out. We are reactive instead of charting an unwavering course. We are separated into silos that far too frequently don't talk to each other. And when we do talk, it isn't to collaborate on a clearly focused strategy, but rather to argue and fight about ownership, strategies and tactics. . . .

I've heard our strategy described as spreading peanut butter across the myriad opportunities that continue to evolve in the online world. The result: a thin layer of

investment spread across everything we do and thus we focus on nothing in particular.

I hate peanut butter. We all should.

We lack clarity of ownership and accountability.

The most painful manifestation of this is the massive redundancy that exists throughout the organization. We now operate in an organizational structure – admittedly created with the best of intentions – that has become overly bureaucratic. For far too many employees, there is another person with dramatically similar and overlapping responsibilities. This slows us down and burdens the company with unnecessary costs.

There's a reason why a centerfielder and a left fielder have clear areas of ownership. Pursuing the same ball repeatedly results in either collisions or dropped balls. Knowing that someone else is pursuing the ball and hoping to avoid that collision – we have become timid in our pursuit. Again, the ball drops.

We lack decisiveness. Combine a lack of focus with unclear ownership, and the result is that decisions are either not made or are made when it is already too late. Without a clear and focused vision, and without complete clarity of ownership, we lack a macro perspective to guide our decisions and visibility into who should make those decisions. We are repeatedly stymied by challenging and hairy decisions. We are held hostage by our analysis paralysis.

We end up with competing (or redundant) initiatives and synergistic opportunities living in the different silos of our company. . . .

SOLVING OUR PROBLEMS

We have awesome assets. Nearly every media and communications company is painfully jealous of our

firms, or wide ranges of products or services. For example, Yahoo! faces the complexity both of a fast-moving market environment and poorly organised internal businesses.

- *Uncertainty* is inherent in strategy, because nobody can be sure about the future. For Yahoo!, the Internet environment is one of constant and unforeseeable innovation.

position. We have the largest audience, they are highly engaged and our brand is synonymous with the Internet.

If we get back up, embrace dramatic change, we will win.

I don't pretend there is only one path forward available to us. However, at a minimum, I want to be part of the solution and thus have outlined a plan here that I believe can work. It is my strong belief that we need to act very quickly or risk going further down a slippery slope. The plan here is not perfect; it is, however, FAR better than no action at all.

There are three pillars to my plan:

- 1 Focus the vision.
- 2 Restore accountability and clarity of ownership.
- 3 Execute a radical reorganization.

1 Focus the vision

- a) We need to boldly and definitively declare what we are and what we are not.
- b) We need to exit (sell?) non core businesses and eliminate duplicative projects and businesses.

My belief is that the smoothly spread peanut butter needs to turn into a deliberately sculpted strategy – that is narrowly focused. . . .

2 Restore accountability and clarity of ownership

- a) Existing business owners must be held accountable for where we find ourselves today – heads must roll,
- b) We must thoughtfully create senior roles that have holistic accountability for a particular line of business. . . .
- c) We must redesign our performance and incentive systems.

I believe there are too many BU [Business Unit] leaders who have gotten away with unacceptable results and worse – unacceptable leadership. Too often they (we!) are the worst offenders of the problems outlined here. We must signal to both the employees and to our shareholders that we will hold these leaders (ourselves) accountable and implement change. . . .

3 Execute a radical reorganization

- a) The current business unit structure must go away.
- b) We must dramatically decentralize and eliminate as much of the matrix as possible.
- c) We must reduce our headcount by 15–20%.

I emphatically believe we simply must eliminate the redundancies we have created and the first step in doing this is by restructuring our organization. We can be more efficient with fewer people and we can get more done, more quickly. We need to return more decision making to a new set of business units and their leadership. But we can't achieve this with baby step changes. We need to fundamentally rethink how we organize to win. . . .

I love Yahoo!. I'm proud to admit that I bleed purple and yellow. I'm proud to admit that I shaved a Y in the back of my head.

My motivation for this memo is the adamant belief that, as before, we have a tremendous opportunity ahead. I don't pretend that I have the only available answers, but we need to get the discussion going; change is needed and it is needed soon. We can be a stronger and faster company – a company with a clearer vision and clearer ownership and clearer accountability.

We may have fallen down, but the race is a marathon and not a sprint. I don't pretend that this will be easy. It will take courage, conviction, insight and tremendous commitment. I very much look forward to the challenge.

So let's get back up.

Catch the balls.

And stop eating peanut butter.

Source: Extracts from Brad Garlinghouse's memo to Yahoo! managers, November 2006. Reprinted in *Wall Street Journal*, 16 November 2006.

Questions

- 1 Why were the issues facing Yahoo! described as strategic? Refer to Exhibit 1.1.
- 2 Identify examples of issues that fit each of the circles of the model in Exhibit 1.3.

- *Operational decisions* are linked to strategy. For example, any attempt to coordinate Yahoo!'s business units more closely will have knock-on effects on web-page designs and links, career development and advertiser relationships. This link between overall strategy and operational aspects of the organisation is important for two other reasons. First, if the operational aspects of the organisation are not in line with the strategy, then, no matter how well

Exhibit 1.1 Strategic decisions**Strategic decisions are about:**

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Building on resources and competences (**capability**)
- **Values and expectations** of stakeholders

Therefore they are likely to:

- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

considered the strategy is, it will not succeed. Second, it is at the operational level that real strategic advantage can be achieved. Indeed, competence in particular operational activities might determine which strategic developments might make most sense.

- *Integration* is required for effective strategy. Managers have to cross functional and operational boundaries to deal with strategic problems and come to agreements with other managers who, inevitably, have different interests and perhaps different priorities. Yahoo! for example needs an integrated approach to powerful advertisers such as Sony and Vodafone from across all its businesses.
- *Relationships and networks* outside the organisation are important in strategy, for example with suppliers, distributors and customers. For Yahoo!, advertisers and users are crucial sets of relationships.
- *Change* is typically a crucial component of strategy. Change is often difficult because of the heritage of resources and because of organisational culture. According to Brad Garlinghouse at least, Yahoo!'s barriers to change seem to include a top management that is afraid of taking hard decisions and a lack of clear accountability amongst lower-level management.

1.2.2 Levels of strategy

Corporate-level strategy is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation

Business-level strategy is about how to compete successfully in particular markets

A **strategic business unit** is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU

Operational strategies are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people

Strategies exist at a number of levels in an organisation. Taking Yahoo! again as an example, it is possible to distinguish at least three different levels of strategy. The top level is **corporate-level strategy**, concerned with the overall scope of an organisation and how value will be added to the different parts (business units) of the organisation. This could include issues of geographical coverage, diversity of products/services or business units, and how resources are to be allocated between the different parts of the organisation. For Yahoo!, whether to sell some of its existing businesses is clearly a crucial corporate-level decision. In general, corporate-level strategy is also likely to be concerned with the expectations of owners – the shareholders and the stock market. It may well take form in an explicit or implicit statement of ‘mission’ that reflects such expectations. Being clear about corporate-level strategy is important: determining the range of business to include is the *basis* of other strategic decisions.

The second level is **business-level strategy**, which is about how the various businesses included in the corporate strategy should compete in their particular markets (for this reason, business-level strategy is sometimes called ‘competitive strategy’). In the public sector, the equivalent of business-level strategy is decisions about how units should provide best value services. This typically concerns issues such as pricing strategy, innovation or differentiation, for instance by better quality or a distinctive distribution channel. So, whereas corporate-level strategy involves decisions about the organisation as a whole, strategic decisions relate to particular strategic business units (SBUs) within the overall organisation. A **strategic business unit** is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU. Yahoo!’s strategic business units include businesses such as Yahoo! Photos and Yahoo! Music.

Of course, in very simple organisations with only one business, the corporate strategy and the business-level strategy are nearly identical. None the less, even here, it is useful to distinguish a corporate-level strategy, because this provides the framework for whether and under what conditions other business opportunities might be added or rejected. Where the corporate strategy does include several businesses, there should be a clear link between strategies at an SBU level and the corporate level. In the case of Yahoo!, relationships with online advertisers stretch across different business units, and using, protecting and enhancing the Yahoo! brand is vital for all. The corporate strategy with regard to the brand should support the SBUs, but at the same time the SBUs have to make sure their business-level strategies do not damage the corporate whole or other SBUs in the group.

The third level of strategy is at the operating end of an organisation. Here there are **operational strategies**, which are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. For example, Yahoo! has web-page designers in each of its businesses, for whom there are appropriate operational strategies in terms of design, layout and renewal. Indeed, in most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. The integration of operational decisions and strategy is therefore of great importance, as mentioned earlier.

Illustration 1.2

The vocabulary of strategy in different contexts

All sorts of organisations use the vocabulary of strategy. Compare these extracts from the statements of communications giant Nokia and Kingston University, a public institution based in London with 20,000 students.

Nokia

Vision and Mission: Connecting is about helping people to feel close to what matters. Wherever, whenever, Nokia believes in communicating, sharing, and in the awesome potential in connecting the 2 billion who do with the 4 billion who don't.

If we focus on people, and use technology to help people feel close to what matters, then growth will follow. In a world where everyone can be connected, Nokia takes a very human approach to technology.

Strategy: At Nokia, customers remain our top priority. Customer focus and consumer understanding must always drive our day-to-day business behavior. Nokia's priority is to be the most preferred partner to operators, retailers and enterprises.

Nokia will continue to be a growth company, and we will expand to new markets and businesses. World leading productivity is critical for our future success. Our brand goal is for Nokia to become the brand most loved by our customers.

In line with these priorities, Nokia's business portfolio strategy focuses on five areas, with each having long-term objectives: create winning devices; embrace consumer Internet services; deliver enterprise solutions; build scale in networks; expand professional services.

There are three strategic assets that Nokia will invest in and prioritize: brand and design; customer engagement and fulfilment; technology and architecture.

Kingston University, London

Mission: The mission of Kingston University is to promote participation in higher education, which it regards as a democratic entitlement; to strive for excellence in learning, teaching and research; to realise the creative potential and fire the imagination of all its members; and to equip its students to make effective contributions to society and the economy.

Vision: Kingston University aims to be a comprehensive and community University. Our ambition is to create a University that is not constrained by present possibilities, but has a grander and more aspirational vision of its future.

Goals:

- To provide all our current and future students with equal opportunities to realise their learning ambition.
- To provide a comprehensive range of high-quality courses and a supportive environment that encourages critical learning and develops personal, social and employable skills.
- To create authority in research and professional practice for the benefit of individuals, society and the economy.
- To develop collaborative links with providers and stakeholders within the region, nationally and internationally.
- To make the University's organisation, structure, culture and systems appropriate for the delivery of its Mission and Goals.
- To manage and develop its human, physical and financial resources to achieve the best possible academic value and value-for-money.

Sources: www.nokia.com; Kingston University Plan, 2006–2010 (www.kingston.ac.uk).

Questions

- 1 How do the vocabularies of Nokia and Kingston University fit with each other and with the definitions given in Exhibit 1.2?
- 2 To what extent is strategy different for a commercial organisation such as Nokia and a public organisation like Kingston University?
- 3 Compare your university's (or employer's) strategic statements with Kingston's or Nokia's (use a web search with your organisation's name and terms such as 'strategy', 'vision' and 'mission'). What implications might there be for you from any similarities and differences?

1.2.3 The vocabulary of strategy

Although a definition of strategy was given at the end of section 1.2.1, in practice you will encounter many different definitions from different authors. You will also find a variety of terms used in relation to strategy, so it is worth devoting a little space to clarifying some of these. Exhibit 1.2 and Illustration 1.2 employ some of the terms that you will come across in this and other books on strategy and in everyday business usage. Exhibit 1.2 explains these in relation to a personal strategy readers may have followed themselves – improving physical fitness.

Exhibit 1.2 The vocabulary of strategy

Term	Definition	A personal example
Mission	Overriding purpose in line with the values or expectations of stakeholders	Be healthy and fit
Vision or strategic intent	Desired future state: the aspiration of the organisation	To run the London Marathon
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	Quantification (if possible) or more precise statement of the goal	Lose 5 kilos by 1 September and run the marathon next year
Strategic capability	Resources, activities and processes. Some will be unique and provide 'competitive advantage'	Proximity to a fitness centre, a successful diet
Strategies	Long-term direction	Exercise regularly, compete in marathons locally, stick to appropriate diet
Business model	How product, service and information 'flow' between participating parties	Associate with a collaborative network (e.g. join running club)
Control	The monitoring of action steps to: <ul style="list-style-type: none"> ● assess effectiveness of strategies and actions ● modify as necessary strategies and/or actions 	Monitor weight, kilometres run and measure times: if progress satisfactory, do nothing; if not, consider other strategies and actions

Not all these terms are always used in organisations or in strategy books: indeed, in this book the word 'goal' is rarely used. It will also be seen, through the many examples in this book, that terminology is not used consistently across organisations (see also Illustration 1.2). Managers and students of strategy need to be aware of this. Moreover, it may or may not be that mission, goals, objectives, strategies and so on are written down precisely. In some organisations this is done very formally; in others a mission or strategy might be implicit and, therefore, must be deduced from what an organisation is doing. However, as a general guideline the following terms are often used:

- A *mission* is a general expression of the overall purpose of the organisation, which, ideally, is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organisation. It is sometimes referred to in terms of the apparently simple but challenging question: 'What business are we in?'
- A *vision* or *strategic intent* is the desired future state of the organisation. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organisation.
- If the word *goal* is used, it usually means a general aim in line with the mission. It may well be qualitative in nature.
- On the other hand, an *objective* is more likely to be quantified, or at least to be a more precise aim in line with the goal. In this book the word 'objective' is used whether or not there is quantification.
- *Strategic capability* is concerned with the *resources and competences* that an organisation can use to provide value to customers or clients. *Unique resources* and *core competences* are the bases upon which an organisation achieves strategic advantage and is distinguished from competitors.
- The concept of *strategy* has already been defined. It is the long-term direction of the organisation. It is likely to be expressed in broad statements both about the direction that the organisation should be taking and the types of action required to achieve objectives. For example, it may be stated in terms of market entry, new products or services, or ways of operating.
- A *business model* describes the structure of product, service and information flows and the roles of the participating parties. For example, a traditional model for manufactured products is a linear flow of product from component manufacturers to product manufacturers to distributor to retailers to consumers. But information may flow directly between the product manufacturer and the final consumer (advertising and market research).
- *Strategic control* involves monitoring the extent to which the strategy is achieving the objectives and suggesting corrective action (or a reconsideration of the objectives).

As the book develops, many other terms will be introduced and explained. These are the basics with which to begin.

Illustration 1.2 compares strategy vocabulary from two organisations operating in very different *contexts*. Nokia is a private sector communications giant, competing against global corporations such as Motorola and Samsung. Profit is vital to Nokia, but still it sees its vision and mission in terms of connecting more people around the world. Kingston University, on the other hand, is a public university, with a commitment to increasing participation in higher education. But it too must earn revenues, and needs to make a surplus in order to be able to invest in the future. Kingston University is also competing for students and research funds, going head to head with similar universities in the United Kingdom and around the world. Corporate-level and business-level strategies are no less important for a public body such as Kingston University as a commercial one like Nokia.

Strategy vocabulary, therefore, is relevant to a wide range of contexts. A small entrepreneurial start-up will need a strategy statement to persuade investors

and lenders of its viability. Public sector organisations need strategy statements not only to know what to do, but also to reassure their funders and regulators that what they do is what they should be doing. Voluntary organisations need to communicate exciting strategies in order to inspire volunteers and donors. If they are to prosper within the larger organisation, SBU managers need to propose clear strategies that are consistent with the objectives of their corporate owners and with the needs of other SBUs within the corporate whole. Even privately held organisations need persuasive strategy statements to motivate their employees and to build long-term relationships with their key customers or suppliers. Strategy vocabulary, therefore, is used in many different contexts, for many different purposes. Strategy is part of the everyday language of work.

1.3 STRATEGIC MANAGEMENT

The term *strategic management* underlines the importance of managers with regard to strategy. Strategies do not happen just by themselves. Strategy involves people, especially the managers who decide and implement strategy. Thus this book uses strategic management to emphasise the human element of strategy.

The strategic management role is different in nature from other aspects of management. An operational manager is most often required to deal with problems of operational control, such as the efficient production of goods, the management of a salesforce, the monitoring of financial performance or the design of some new system that will improve the level of customer service. These are all very important tasks, but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organisation within the context of an existing strategy. Operational control is what managers are involved in for most of their time. It is vital to the success of strategy, but it is not the same as strategic management.

For managers, strategic management involves a greater scope than that of any one area of operational management. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organisation-wide rather than operation-specific implications. This is a major challenge for managers who are used to managing on a day-to-day basis the resources they control. It can be a particular problem because of the background of managers who may typically have been trained, perhaps over many years, to undertake operational tasks and to take operational responsibility. Accountants find that they still tend to see problems in financial terms, IT managers in IT terms, marketing managers in marketing terms, and so on. Of course, each of these aspects is important, but none is adequate alone. The manager who aspires to manage or influence strategy needs to develop a capability to take an overview, to conceive of the whole rather than just the parts of the situation facing an organisation. This is often referred to as the 'helicopter view'.

Because strategic management is characterised by its complexity, it is also necessary to make decisions and judgements based on the *conceptualisation* of difficult issues. Yet the early training and experience of managers is often about taking action, or about detailed *planning* or *analysis*. This book explains many analytical approaches to strategy, and it is concerned too with action related to

the management of strategy. However, the major emphasis is on the importance of understanding the *strategic concepts* which inform this analysis and action.

Strategic management includes understanding the *strategic position* of an organisation, *strategic choices* for the future and managing *strategy in action*

Strategic management can be thought of as having three main elements within it, and it is these that provide the framework for the book. **Strategic management** includes understanding the *strategic position* of an organisation, making *strategic choices* for the future and managing *strategy in action*. Exhibit 1.3 shows these elements and defines the broad coverage of this book. The next sections of this chapter discuss each of these three elements of strategic management and identify the main issues that make up each element. But first it is important to understand why the exhibit has been drawn in this particular way.

Exhibit 1.3 could have shown the three elements in a linear sequence – first understanding the strategic position, then strategic choices and finally turning

Exhibit 1.3 The Exploring Corporate Strategy model



strategy into action. Indeed, many texts on the subject do just this. However, in practice, the elements of strategic management do not follow this linear sequence – they are interlinked and feed back on each other. For example, in some circumstances an understanding of the strategic position may best be built up from the experience of trying a strategy out in practice. Test marketing a prototype would be a good example. Here strategy in action informs understanding of the strategic position.

The interconnected circles of Exhibit 1.3 are designed to emphasise this non-linear nature of strategy. Position, choices and action should be seen as closely related, and in practice none has priority over another. It is only for structural convenience that the subject has been divided into sections in this book; the book's sequence is not meant to suggest that the process of strategic management must follow a neat and tidy path. Indeed, the evidence provided in Chapter 15 on how strategic management happens in practice suggests that it usually does not occur in tidy ways.

1.3.1 The strategic position

The **strategic position** is concerned with the impact on strategy of the external environment, an organisation's strategic capability (resources and competences) and the expectations and influence of stakeholders



Understanding the **strategic position** is concerned with identifying the impact on strategy of the external environment, an organisation's strategic capability (resources and competences) and the expectations and influence of stakeholders. The sorts of questions this raises are central to future strategies and these issues are covered in the four chapters of Part I of this book:

- The *environment*. The organisation exists in the context of a complex political, economic, social, technological, environmental (i.e. green) and legal world. This environment changes and is more complex for some organisations than for others. How this affects the organisation could include an understanding of historical and environmental effects, as well as expected or potential changes in environmental variables. Many of those variables will give rise to *opportunities* and others will exert *threats* on the organisation – or both. A problem that has to be faced is that the range of variables is likely to be so great that it may not be possible or realistic to identify and understand each one. Therefore it is necessary to distil out of this complexity a view of the key environmental impacts on the organisation. Chapter 2 examines how this might be possible.
- The *strategic capability* of the organisation – made up of *resources and competences*. One way of thinking about the strategic capability of an organisation is to consider its *strengths* and *weaknesses* (for example, where it is at a competitive advantage or disadvantage). The aim is to form a view of the internal influences – and constraints – on strategic choices for the future. It is usually a combination of resources and high levels of competence in particular activities (in this book referred to as *core competences*) that provide advantages which competitors find difficult to imitate. Chapter 3 examines strategic capability in detail.
- Chapter 4 explores the major influences of *stakeholder expectations* on an organisation's *purposes*. Purpose is encapsulated in an organisation's *vision*, *mission* and *values*. Here the issue of *corporate governance* is important: who *should* the organisation primarily serve and how should managers be held

responsible for this? This raises issues of *corporate social responsibility* and *ethics*. The chapter explores how both variations in international corporate governance systems and the *power* configurations within particular organisations can influence purpose.

- Chapter 5 examines how *cultural and historical influences* can also influence strategy. Cultural influences can be *organisational, sectoral* or *national*. Historical influences can create *lock-in* on particular strategic trajectories. The impact of these influences can be *strategic drift*, a failure to create necessary change. The chapter demonstrates how managers can analyse and challenge these historical and cultural influences on strategy.

These positioning issues were all important for Yahoo! as it faced its crisis in 2006. The external environment offered the threat of growing competition from Google. Its strong Internet brand and existing audience were key resources for defending its position. The company was struggling with its purposes, with top management apparently indecisive. The company none the less had inherited a strong culture, powerful enough to make Brad Garlinghouse shave a Y on his head and believe that his blood bled in the corporate colours of his employer.

1.3.2 Strategic choices

Strategic choices

involve understanding the underlying bases for future strategy at both the business unit and corporate levels and the options for developing strategy in terms of both the directions and methods of development

Strategic choices involve the options for strategy in terms of both the directions in which strategy might move and the methods by which strategy might be pursued. For instance, an organisation might have to choose between alternative diversification moves, for example entering into new products and markets. As it diversifies, it has different methods available to it, for example developing a new product itself or acquiring an organisation already active in the area. Typical options and methods are covered in the five chapters that make up Part II of this book, as follows:

- There are strategic choices in terms of how the organisation seeks to compete at the *business level*. Typically these involve pricing and differentiation strategies, and decisions about how to compete or collaborate with competitors. These issues of business-level strategies will be discussed in Chapter 6.
- At the highest level in an organisation there are issues of *corporate-level strategy*, which are concerned with the scope, or breadth, of an organisation. These include *diversification* decisions about the portfolio of products and the spread of markets. For Yahoo!, being spread over too many businesses seems to be the major strategic problem. Corporate-level strategy is also concerned with the relationship between the separate parts of the business and how the corporate 'parent' adds value to these various parts. At Yahoo!, it is not clear how much the corporate parent is adding value to its constituent parts. These issues about the role of the centre and how it adds value are *parenting* issues and will be discussed in Chapter 7.
- *International strategy* is a form of diversification, into new geographical markets. It is often at least as challenging as diversification. Chapter 8 examines choices organisations have to make about which geographical markets to prioritise and how to enter them, by export, licensing, direct investment or acquisition.

- At the start of every organisation is an act of *entrepreneurship*. Most organisations have to *innovate* constantly simply to survive. Chapter 9 considers choices about innovation and entrepreneurship. Innovation choices involve issues such as being first-mover into a market, or simply a follower, and how much to listen to customers in developing new products or services. Entrepreneurship choices are many, but include choices of funding, building key external relationships, and timing of exit.
- Organisations have to make choices about the *methods* by which they pursue their strategies. Many organisations prefer to grow 'organically', in other words by building new businesses with their own resources. Other organisations might develop by mergers/acquisitions and/or strategic alliances with other organisations. These alternative methods are discussed in Chapter 10. Chapter 10 concludes with a discussion of the *success criteria* according to which different strategic choices can be evaluated.

1.3.3 Strategy in action

Strategy in action is concerned with ensuring that strategies are working in practice

Organising **strategy in action** is concerned with ensuring that chosen strategies are actually put into action. These issues are covered in the five chapters of Part III, and include the following:

- First of all, it is important to consider the *strategy development processes* of an organisation. The strategies that an organisation actually pursues are typically a mixture of the *intended* and the *emergent*. Intended strategies are the product of formal strategic planning and decision making, but the strategy that is actually pursued is typically somewhat emergent, including bottom-up initiatives, rapid responses to unanticipated opportunities and threats, and sheer chance. Chapter 11 considers the respective roles of intention and emergence in the overall strategy development of organisations.
- *Structuring* an organisation to support successful performance. This includes organisational *structures*, *processes* and *relationships* (and the interaction between these elements). According to Brad Garlinghouse, structural silos, matrix organisation and bureaucracy were all big problems for Yahoo!. These kinds of issue will be discussed in Chapter 12.
- *Resourcing* strategies in the separate resource areas (people, information, finance and technology) of an organisation in order to support overall strategies. The reverse is also important to success, that is the extent to which new strategies are built on the particular resource and competence strengths of an organisation. Chapter 13 considers this two-way relationship.
- Managing strategy very often involves *strategic change*, and Chapter 14 looks at the various issues involved in managing change. This will include the need to understand how the context of an organisation should influence the approach to change and the different types of *roles* for people in managing change. It also looks at the *styles* that can be adopted for managing change and the levers by which change can be effected.
- The final chapter of the book considers the actual *practice of strategy*. Thus Chapter 15 gets inside the overall processes of strategy development and

change to look at the detailed activities involved – the *people* included in strategy, the *activities* they have to do and the kinds of *methodologies* they use to do it. These kinds of practicalities are a fitting end to the book and essential equipment for those who will have to go out and do strategy themselves.

1.4 STRATEGY AS A SUBJECT OF STUDY

Strategy as a subject of study has come a long way in the fifty or so years it has existed. In the beginning, strategy was to do with the *task of the general manager* and, perhaps most obviously, took form in the *business policy* courses run at universities such as Harvard going back to the 1960s. The continual question posed here was ‘what would you do if you took over as chief executive of such and such an organisation?’ The approach was based on the common-sense experience of executives and not so much on theory or research. Teaching was dominated by attempts to replicate real business situations in the classroom by the exposure of students to many case studies of strategic problems.²

In parallel there developed in the 1960s and 1970s the influence of books on *corporate planning*.³ Here the emphasis was on trying to analyse the various influences on an organisation’s well-being in such a way as to identify opportunities or threats to future development. It took the form of highly systematised approaches to planning – incorporating the mathematical techniques of operational research and economics. This analytic approach is a dominant legacy in the study of the subject. It assumes that managers can make optimal decisions for their organisations based on finding out all they possibly can about their organisational world and then making a rational analysis of alternatives. This was a highly influential approach and, for example, gave rise to specialist corporate planning departments in organisations in the private and public sectors, especially in the 1970s.

Both of these approaches came in for considerable criticism in the last decades of the twentieth century.⁴ First, although the case study method is still a very important means of bringing ‘real life’ into the classroom, on its own the old business policy approach lacked a substantial research basis. There was little evidence to back up the common sense, and few theoretical frameworks to generalise beyond individual cases. Second, the analytical approach of specialised corporate planning departments proved poorly able to cope with the apparently more dynamic and competitive business world that emerged from the late 1970s. Three- or five-year strategic plans soon got overtaken by events. The response has been twofold.

On the one hand, academics have developed a growing body of research addressing the implications of different strategies for the financial performance of organisations. This body of research is known as the *content approach*, focused on the content (or nature) of different strategic options – such as innovation, diversification or internationalisation. For content researchers, the typical question is what sort of strategy performs best under what conditions. They argue that managers can benefit from lessons drawn from such research in order to make wiser strategic decisions. Strategic analysis and planning are more effective if underpinned by rigorous research evidence. The main academic discipline

which inspires this research is economics, with the work of Michael Porter on industry structure in the 1980s and the resource-based theories of the 1990s particularly exemplary in this respect.⁵

On the other hand, a very different stream of research, led by such figures as Henry Mintzberg and Andrew Pettigrew, drew on sociology and psychology to argue that people were too imperfect and the world too complex for heavy reliance on analysis and planning, however rigorous the economics research.⁶ From the 1970s, they and their followers developed a *process approach* to strategy, studying the realities of strategic decision making and strategic change processes.⁷ These process researchers have shown again and again the real-world messiness of strategy formulation and implementation. The implication is that it is impossible to analyse everything up front and predict the future, and that the search for economically optimal decisions is futile. It is better to work with, rather than against, the messiness of organisations. This means accepting that managers make decisions which are as much to do with organisational politics and the history and culture of the organisation as they are to do with the economics of strategy, and that strategies will often get derailed in implementation. In this view, recognising imperfections and complexities is actually more effective than ignoring them, as in some purely economics approaches.

The twenty-first century has seen the emergence and growing acceptance of new streams of research that offer still more promising means of coping with organisational reality. This book highlights three:

- *Complexity theory*, drawn from the physical sciences, can be used to help manage the messy world of organisations. According to researchers such as Ralph Stacey and Kathy Eisenhardt, complexity theory principles can be used to achieve order and progress in the social world just as stable patterns of behaviour and well-adapted species seem to emerge in the natural world.⁸ The hands-off methods of complexity theory, rather than the heavy-handed approaches of traditional management, are the best way to cope with real-world organisations. Complexity theory is one of the inspirations in the strategy as ideas lens (see section 1.6).
- *Discourse* researchers such as David Knights have drawn on sociological theories of language to point to how discourse – the way in which we talk about organisations – shapes what actually goes on.⁹ The discourse perspective in particular highlights how mastery of strategy language and jargon can be a ‘resource’ for managers through which they gain influence and power and establish their legitimacy and identity as strategists. In this view, knowing how to ‘talk strategy’ is a key skill in organisational life. The insights of this view are encapsulated in the strategy as discourse lens (see below).
- *Strategy-as-practice* researchers have built on sociological and psychological traditions to examine more closely the actual practice of managers in strategy, developing a detailed understanding of the activities and techniques involved.¹⁰ In some ways, these researchers are returning to the real case approach of the Harvard general manager perspective, but this time seeking to underpin it with systematic research. The promise of strategy-as-practice research is an enhanced capacity to design more practical strategy processes and train more skilled and reflective practitioners, allowing for the real complexities and

unintended consequences of organisational life. Chapter 15 particularly draws on this new strategy-as-practice perspective.

Thus half a century of strategy research has produced many ways of approaching strategy. All can provide valuable insights and this book draws on them extensively. For example, while Chapters 2 and 3 rely heavily on economic approaches to analysing environments and resources, Chapters 4 and 5 adopt a strongly sociological and psychological sensitivity to organisational complexity and cultures. Subsequent chapters draw equally on economic, sociological and psychological perspectives. A strong theme in this book is that managers work best if open to different perspectives on the same problem, thereby enlarging their set of possible solutions. The importance of different perspectives is pursued through the strategy lenses (see section 1.6).

1.5 STRATEGY AS A JOB

Most readers of this book will have to engage with strategy to some extent or another. Strategy is not just the preserve of top management. Middle and lower-level managers have to work within their organisation's strategy, meeting the objectives set by the strategy and observing the constraints. Managers have to communicate strategy to their teams, and will achieve greater performance from them the more convincing they are in interpreting it. Indeed, middle and lower-level managers can increasingly play a part in shaping strategy. Brad Garlinghouse's attempt to influence strategy at Yahoo! is an extreme case, but involvement in strategy 'away-days' and various strategy consultation procedures is now a common experience for middle managers in many organisations (see Chapter 15). Being able to participate in an organisation's 'strategic conversation' – engaging with senior managers on the big issues facing them – is often part of what it takes to win promotion.¹¹

Strategy, then, is part of many managers' ordinary jobs. However, there are specialist strategists as well, in both private and public sectors. Despite the disappointed hopes in analytical corporate planning of the 1960s and 1970s, there are many in-house strategic planning jobs available. Typically requiring a formal business education of some sort, strategic planning is a potential career route for many readers, especially after some operational experience. Strategy consulting has been a growth industry in the last decades, with the original leading firms such as McKinsey & Co., the Boston Consulting Group and Bain joined now by more generalist consultants such as Accenture, IBM Consulting and PwC, each with its own strategy consulting arm.¹² Again, business graduates are in demand for strategy consulting roles.¹³

The interviews in Illustration 1.3 give some insights into the different kinds of strategy work that managers and strategy specialists can do. Galina, the manager of an international subsidiary, Masoud, working in a governmental strategy unit, and Chantal, a strategy consultant, all have different experiences of strategy, but there are some common themes also. All find strategy work stimulating and rewarding. The two specialists, Masoud and Chantal, talk more than Galina of the analytical tools. Galina discovered directly the possible limits of a strategic

plan, with the changes that were imposed in the first few years in the United Kingdom. She emphasises the importance of flexibility in strategy and the value of getting her managers to see the 'whole picture' through involving them in strategy making. But Masoud and Chantal too are concerned for much more than analysis. Chantal emphasises the importance of gaining 'traction' with clients, building consensus in order to ensure implementation. Masoud likewise does not take implementation for granted, continuing to work with departments after the delivery of recommendations. He sees strategy and delivery as intimately connected, with people involved in delivery needing an understanding of strategy to be effective, and strategists needing to understand delivery. For him, strategy is a valuable stepping stone in a career, something that will underpin his possible next move into a more operational role.

Strategy, then, is not just about abstract organisations: it is a job that people do. The task of this book is partly to equip readers to do this job better, and to work with others who have to do strategy too. Chapters 11 and 15 specifically discuss the various roles of middle and senior managers, strategic planners and strategy consultants in strategy work.

1.6 THE STRATEGY LENSES

The **strategy lenses** are four different ways of looking at the issues of strategy development for an organisation

This chapter has already highlighted the different perspectives on strategy that have emerged from strategy research. The practical value of different perspectives is explored in this book through the four **strategy lenses**. These lenses are introduced more fully immediately after this chapter and will provide the framework for separate *commentaries* on each of the three parts of this book. The important point of these lenses is to avoid approaching strategic problems from a single perspective. Looking at problems in different ways will raise new issues and new solutions. Thus, although the lenses are drawn from academic research on strategy, they should also be highly practical in the job of doing strategy.

In brief the four lenses see strategy as follows:

- *Strategy as design*. This takes the view that strategy development can be a logical process in which the forces and constraints on the organisation are weighed carefully through analytic and evaluative techniques to establish clear strategic direction. This creates conditions in which carefully planned strategy implementation should occur. The design lens usually grants top management the leadership role in strategy, with middle and lower management given supporting roles in implementation. This view is perhaps the most commonly held one about how strategy should be developed and what managing strategy is about. It is the traditional 'textbook' view.
- *Strategy as experience*. Here the view is that future strategies of organisations are heavily influenced by the experience of managers and others in the organisation based on their previous strategies. Strategies are driven not so much by clear-cut analysis as by the taken-for-granted assumptions and ways of doing things embedded in the culture of organisations. Insofar as different views and expectations within the organisation exist, they will be resolved not just through rational processes, as in the design lens, but through processes of

Illustration 1.3

Strategists

For Galina, Masoud and Chantal, strategy is a large part of their jobs.

Galina

After a start in marketing, Galina became managing director of the British subsidiary of a Russian information technology company at the age of 33. As well as developing the strategy for her local business, she has to interact regularly with the Moscow headquarters:

Moscow is interested in the big picture, not just the details. They are interested in the future of the business.

The original strategic plans for the subsidiary had had to be adapted heavily:

When we first came here, we had some ideas about strategy, but soon found the reality was very different to the plans. The strategy was not completely wrong, but in the second stage we had to change it a lot: we had to change techniques and adapt to the market. Now we are in the third stage, where we have the basics and need to focus on trends, to get ahead and be in the right place at the right time.

Galina works closely with her management team on strategy, taking them on an annual 'strategy away-day' (see Chapter 15):

Getting people together helps them see the whole picture, rather than just the bits they are responsible for. It is good to put all their separate realities together.

Galina is enthusiastic about working on strategy:

I like strategy work, definitely. The most exciting thing is to think about where we have come from and where we might

be going. We started in a pub five years ago and we have somehow implemented what we were hoping for then. Strategy gives you a measure of success. It tells you how well you have done.

Her advice is:

Always have a strategy – have an ultimate idea in mind. But take feedback from the market and from your colleagues. Be ready to adjust the strategy: the adjustment is the most important.

Masoud

Aged 27, Masoud is a policy advisor in a central government strategy unit in the United Kingdom. He provides analysis and advice for ministers, often on a cross-departmental basis. He typically works on projects for several months at a time, continuing to work with responsible service departments after the delivery of recommendations. Projects involve talking to experts inside and outside government, statistical analysis, scenario analyses (see Chapter 2), sensitivity analyses (see Chapter 10), hypothesis testing (see Chapter 15) and writing reports and making presentations. As he has progressed, Masoud has become increasingly involved in the management of strategy projects, rather than the basic analysis itself.

Masoud explains what he likes most about strategy work in government:

bargaining and negotiation. Here, then, the view is that there is a tendency for the strategy to build on and continue what has gone on before.

- *Strategy as ideas.* Neither of the above lenses is especially helpful in explaining innovation. Design approaches risk being too rigid and top down; experience builds too much on the past. How then do new ideas come about? The ideas lens emphasises the importance of promoting diversity in and around organisations, which can potentially generate genuinely new ideas. Here strategy is seen as not so much planned from the top as emergent from within

I like most the challenge. It's working on issues that really matter, and often it's what you are reading about in the newspapers. They are really tough issues; these are problems facing the whole of society.

He thinks people should get involved in strategy:

I would encourage people to do strategy, because it gets to the heart of problems. In all organisations, having some experience of working on strategy is very valuable, even if it is not what you want to major on your whole career.

Masoud is considering moving into service delivery as the next step of his career, because he sees knowledge of strategy and knowledge of operations as so interconnected:

Part of doing strategy is you have to understand what can be delivered; and part of doing delivery is you have to understand the strategy.

Chantal

Chantal is in her early thirties and has worked in Paris for one of the top three international strategy consultancies since graduating in business. Consulting was attractive to her originally because she liked the idea of helping organisations improve. She chose her particular consultancy because

I had fun in the interview rounds and the people were inspiring. I pictured myself working with these kinds of topics and with these kinds of people.

She enjoys strategy consulting:

What I like is solving problems. It's a bit like working on a mystery case: you have a problem and then you have to find a solution to fit the company, and help it grow and to be better.

The work is intellectually challenging:

Time horizons are short. You have to solve your case in two to three months. There's lots of pressure. It pushes you and helps you to learn yourself. There are just three to four in a team, so you will make a significant contribution to the project even as a junior. You have a lot of autonomy and you're making a contribution right from the start, and at quite a high level.

The work can involve financial and market modelling (see Chapters 2 and 10), interviewing clients and customers, and working closely with the client's own teams. Chantal explains:

As a consultant, you spend a lot of time in building solid fact-based arguments that will help clients make business decisions. But as well as the facts, you have to have the ability to get traction. People have to agree, so you have to build consensus, to make sure that recommendations are supported and acted on.

Chantal summarises the appeal of strategy consulting:

I enjoy the learning, at a very high speed. There's the opportunity to increase your skills. One year in consulting is like two years in a normal business.

Source: interviews (interviewees anonymised).

Questions

- 1 Which of these strategy roles appeals to you most – manager of a business unit in a multinational, in-house strategy specialist or strategy consultant? Why?
- 2 What would you have to do to get such a role?

and around organisations as people respond to an uncertain and changing environment with a variety of initiatives. New ideas will emerge, but they are likely to have to battle for survival against other ideas and against the forces for conformity to past strategies (as the experience lens explains).

- *Strategy as discourse.* This lens sees strategy in terms of language. Managers spend most of their time communicating. Therefore command of strategy language becomes a resource for managers by which to shape 'objective' strategic analyses to their personal views and to gain influence, power and

legitimacy. Approaching strategy as a discourse makes managers very attentive to the language in which they frame strategic problems, make strategy proposals, debate issues and then finally communicate strategic decisions. The language of strategy, and the concepts that underpin that language, can shape the strategy agenda in terms of what is discussed and how. Strategy 'talk' matters.

SUMMARY



- Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder* expectations.
- Strategic decisions are made at a number of levels in organisations. *Corporate-level strategy* is concerned with an organisation's overall purpose and scope; *business-level (or competitive) strategy* with how to compete successfully in a market; and *operational strategies* with how resources, processes and people can effectively deliver corporate- and business-level strategies. Strategic management is distinguished from day-to-day operational management by the complexity of influences on decisions, the organisation-wide implications and their long-term implications.
- Strategic management has three major elements: understanding the *strategic position*, making *strategic choices* for the future and managing *strategy in action*. The strategic position of an organisation is influenced by the external environment, internal strategic capability and the expectations and influence of stakeholders. Strategic choices include the underlying bases of strategy at both the corporate and business levels and the directions and methods of development. Strategic management is also concerned with understanding which choices are likely to succeed or fail. Managing strategy in action is concerned with issues of structuring, resourcing to enable future strategies and managing change.
- The study of strategy has moved on from the original business policy and strategic planning traditions, to develop two main streams: strategy *content*, concerned with the nature of different strategic options; and strategy *process*, concerned with *processes* such as strategic decision making and strategic change. More approaches are currently developing, such as complexity theory, strategy discourse and strategy-as-practice.
- Strategy is also a kind of job. It is done full time by *strategic planners* and *strategy consultants*. Strategy is also an important part of the responsibilities of many managers: not just senior managers and managers responsible for strategic business units, but also those managers needing to influence their organisation's overall strategic direction.
- Organisations' strategic issues are best seen from a variety of perspectives, as suggested by the four *strategy lenses*. A *design* lens sees strategy in logical analytical ways. An *experience* lens sees strategy as the product of individual experience and organisational culture. The *ideas* lens sees strategy as emerging from ideas within and around an organisation. The *discourse* lens highlights the role of strategy language in shaping understandings within organisations, and points to the importance of being able to talk this language effectively.