1.1 thinking like a strategist

There is a debate about whether business strategy is a science or an art or, in other words, is it all research and planning or predominantly based on learning, experience and 'gut feel'? The historical development of the subject can add a valuable insight to both this debate and the way the subject is taught. Below is the briefest history of key developments in strategic management; it is certainly not a comprehensive list but it does illustrate some valuable points.

- **1900–1950:** The development of modern management theory starts with the scientific and administrative management models of Frederick Taylor and Henri Fayol. Their industrial experience emphasised the need for hierarchy in management, time and motion studies, close supervision and rewards based on performance. At this time, Max Weber characterised these models with a focus on documentation, rules and procedures or, in other words, bureaucracy. In America, Ford developed these concepts further with the emphasis on automated production, cost-cutting and quality standards.
- **1950–1970:** It was not until after the Second World War that the study of strategic management became a subject in its own right. The rapid development of world economies, particularly those of the USA and Japan, gave rise to large multinational organisations which required new ways of thinking. Formulated from his studies of successful Japanese companies, Edwards Deming introduced the concepts of *Total Quality Management* (TQM) which, for the next decade, was to revolutionise many western organisations. During this time, Igor Ansoff produced the growth development matrix, strategic gap analysis and many of the strategic terms we use today. Alfred Chandler introduced his seminal work linking strategy to structure; and Peter Selznick introduced the concept of matching internal resources with the external environment, culminating in a SWOT analysis. Peter Drucker introduced the world to management by objectives and team-based working. It was during these decades that the widely used concepts of environmental turbulence, environmental analysis, long-term planning, growth strategies and the range of theories which form the basis of prescriptive corporate strategy were developed.
- **1970–1980:** This decade sees the birth of market-focused organisations. Theodore Levitt and others argued that organisations should be customer-focused and should develop products that the customer wanted rather than

developing products and trying to persuade customers to buy them! The Boston Consulting Groups (BCG) portfolio matrix allowed for product analysis of the newly formed diversified organisations and strategic business units (SBUs). However, authors such as Kenichi Ohmae were also claiming that corporate strategy in the USA was too analytical and should be more flexible and intuitive, or more like creative art.

- **1980–1990:** In this decade, Michael Porter was perhaps the most influential writer on business strategy, contributing in particular to the area of sustainable competitive advantage, strategic groups and the important concept of the value chain. However, this decade was experiencing turbulent world economies, driven in part by increasing free market competition, major acquisitions, new digital technologies and ultimately the pressures of globalisation. Large corporations were now facing a challenging and dynamic business environment that required flexibility and accurate forecasting for strategic planning to be effective. Under these circumstances, authors such as Henry Mintzberg questioned the usefulness of long-term strategic planning and the theories of adaptive and emergent corporate strategy became more prominent.
- **1990–2000:** In order to keep place with dynamic environments and provide a sustainable competitive advantage, Peter Senge introduced the world to the concept of the learning organisation, in which he encouraged the gathering, analysis and sharing of knowledge. In this new world order, Jay Barney identified the importance of coordinating key resources and configuring them in an optimal manner. Also, the concepts of strategic intent and strategic capability were popularised by C.K. (Coimbatore Krishnarao) Prahalad and Gary Hamel and John Kay. They emphasised the importance not only of internal resources but also the management of distinctive capabilities and core competencies in order to generate a sustainable competitive advantage.

When reviewing the early development of strategic management, it is clear that an initial emphasis on scientific methods of management has led to a prescriptive or rational approach to the analysis of the environment, which was then used to plan for the long term. However, during the 1980s, such was the rapidly changing nature of the world's economies these concepts were proving to be outdated. More flexible approaches, which put more emphasis on internal capabilities and market demands rather than external influences, were required. This does not mean that current strategic management does not take note of the environmental situation. Clearly, this is still important. But the dynamic nature of the markets requires that any long-term planning must be adaptable in order to account for unforeseen events.

Note

While large organisations still attempt to plan for the long term, smaller companies are often limited to strategic planning over a shorter time period, perhaps only one year ahead with a three-year vision. These strategies will also be highly attuned to those of the financial backers.

1.2 strategic themes

There are themes in business strategy that are common to all textbooks. These are:

- **The strategic analysis of the environment and the industry**. A good working knowledge of these tools will provide a detailed analysis of the external environment and industry, including any possible threats to or opportunities for the organisation.
- **The strategic analysis of the organisation**. An in-depth study of the resources, value chain and culture of the organisation can provide interesting insights into its inherent strengths or weaknesses.
- **An evaluation of markets and the competitive situation**. These theories are used to analyse the interface between the organisation and its markets and include market segmentation, strategic groups, and portfolio and competitive analysis. This information should be combined with the environmental analysis to provide a broad perspective.
- **Mechanisms of growing and developing the organisation**. These theories can be used to evaluate the organisation's growth options and include market development, product development or diversification. Growth can be by internal development or external development, for example by franchising, alliances or acquisitions.
- **Internationalisation and market entry strategies**. When entering a new international market, entry strategies such as exporting, licensing, mergers and acquisitions and foreign direct investment (FDI) will be considered. The impact of the forces of globalisation on the industry should also be evaluated, alongside the