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## The Essence of Strategy and Strategic Management

### Learning Outcomes

This chapter is designed to enable you to:

- ① Discuss fundamental ideas about the *nature* and *content* of strategies.
- ② Identify and critique alternative definitions of *strategic management processes* and their underlying assumptions.
- ③ Explain how the *environmental context* of an enterprise influences its strategy and how it is implemented.
- ④ Apply *critical strategic thinking* to particular case illustrations.
- ⑤ Understand and assess the *design-plus* approach to strategy management.

### CASE STUDY: Sunseeker International Ltd

Robert Braithwaite, CBE, founded Poole-based Sunseeker Boats in 1968. Its first model was a 5-metre yacht. Today, its biggest yacht is over 37 metres long; some have top speeds of 60 knots. In a typical year, it sells several hundred new yachts. Depending on specification, prices are upwards of £250,000.

Sunseeker is presently the largest volume boat builder in the United Kingdom (UK) and one of an exclusive group of 'super yacht' manufacturers around the world. Like other yacht builders it is highly dependent on a wealthy, demanding, potentially fickle clientele. Its UK-based competitors include Fairline, Sealine and the French-owned Princess. Particularly at the luxury end of the market, it has major competitors based in France, Germany, the United States and Scandinavia. International competitiveness depends greatly on the comparative rates of sterling against the US dollar, the Japanese yen and the Euro.

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Sunseeker promotes an idealised lifestyle to its clientele. Rising personal wealth during the 2000s enlarged the market for high quality, luxury, ocean-going motor yachts. Styling, power, spaciousness and facilities are key selling features. Sunseeker customises each yacht to the purchaser's needs, whether a floating office, a recording studio or a gin palace. It advertises in specialist boating and lifestyle magazines and has an attractive website. Its boats have featured regularly in James Bond movies and at prestigious London boat shows.

Mr. Braithwaite has said: 'Being a private company we do what we do because we love it. We have grown by putting back into the company what we earn. We can sometimes take commercial risks that public companies cannot.'

In 2008/9 the company's sales were £303 million, despite extremely difficult trading conditions. Sales had doubled since 2004 and employee numbers had grown from nearly 1500 to 2400 in its expanding south-coast boatyards. Craft skills in fibreglass moulding, wood joinery, upholstery and electronics were much needed and Sunseeker invested heavily in staff training. However, owing to the exceptional economic circumstances of 2008/9 it made a pre-tax loss of £9.1 million. Even so, it invested £9 million to improve facilities and continued to design new large yachts.

### Questions

1. Why do you think Sunseeker has survived so long and grown so consistently?
2. What arguments would there be for and against Sunseeker changing its long-standing strategy to, for example: (a) Compete more aggressively at the 'budget' end of the market? (b) Concentrate on Europe or aim for global leadership in the motor yacht industry, perhaps by merging with a major rival? (c) Become a public company (plc)?

## Introduction: the Nature and Significance of Strategy

The word 'strategy' has become commonplace. Readers may already have used it in recent conversation – for example, by asking 'what's our strategy for increasing membership of the sports club?' **What do people commonly understand by 'strategy' and what words and phrases do they most associate with the term? Their views usually involve the following ideas:**

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- Plans and planning.
- Anticipating and forecasting the future.

- Competing and being competitive.
- Organizing to compete.

Thus people, typically view strategy as something that involves future intentions, decisions and consequent actions.

Though these ideas are relevant, they do not provide a sufficient basis for appreciating the reality of enterprises' strategies and how they are conceived and implemented. Note that the term 'enterprises' here – and throughout the book – is used inclusively, to refer equally to businesses and not-for-profit organisations. Enterprises' strategies require well-focused and useful meanings. Yet countless books and articles have shown that strategy is, in fact, very difficult to explain in a simple phrase. Adding substance to these ideas is the aim of this book.

## Strategic Management in Theory and Practice

Later in this chapter we will consider various formal definitions of the term 'strategy'. First, however, it will prove helpful to review the evolution of thinking about the concept. We begin with the perspective of executives who establish strategies and are responsible for implementing them effectively. We then consider a scholarly perspective, which – as we shall see – is sceptical about a single, unified view of what strategy is, how it should be managed, and the degree to which practitioners truly intend or actually control outcomes. The chapter then outlines a more prescriptive perspective via a practical, framework that the following chapters will use to explore strategic management in more detail. Illustrations link concepts to particular cases. It closes with a short summary and some discussion topics.

### The Experiential Perspective in Historical Context

Commercial 'joint stock' enterprises emerged in the 19th century as the preferred vehicle for entrepreneurship, taking and sharing business risks and rewards. By the early 20th century, business enterprises like Standard Oil, Ford Motor Company and General Motors in the United States applied innovative production processes to pursue their clear growth intentions. Leaders like John D. Rockefeller, Henry Ford and Alfred Sloan applied their own strategy concepts, drawing largely on their instincts and experience.

Rockefeller, for example, saw the benefits to Standard Oil of *monopoly power*. By controlling production the company could greatly increase profits and maintain a high market share. His strategy was so effective that in the 1920s the US Government split the company into seven units to increase competition. (Following a landmark 'anti-trust' legal action, the separated companies became known as the 'seven sisters'.) Henry Ford showed how commercial success resulted from producing motor cars in huge volumes at the lowest achievable cost per unit. Ford's success led Alfred Sloan to decide that General Motors must compete more effectively with Ford by offering consumers multiple brands and much greater choice. History records that these three enterprises gained large shares of fast-growing markets and achieved high profits. Their differing business strategies *in the circumstances of the times* can therefore be considered insightful and successful.

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Discussions about strategy often focus on business enterprises, yet not-for-profit enterprises have strategies too, although sometimes less obviously so. In Victorian Britain and elsewhere, not-for-profit, charitable enterprises emerged and thrived. They had clear purposes, notably to better the conditions of the poor and disadvantaged during the 19th-century 'industrial revolution'. A core strategy was to encourage mutual self-help. During the 20th century many other not-for-profit charities began to provide aid for disadvantaged communities at home and overseas. Charities like Oxfam have survived and grown in size and influence, generally becoming more 'business-like', bureaucratic and even sometimes global enterprises. Tolerance of the profit motive allows them to create cash-generating business subsidiaries to support their charitable work. Meanwhile, many traditional enterprises such as 'mutual' savings societies set up for the benefit of their members have now become private-sector companies.

### The Scholarly Perspective

Following the 1938 publication of Chester Barnard's landmark book *The Functions of the Executive*, business schools have paid attention to teaching and researching management practices, initially in North America but increasingly around the world. (Though generally called 'business' schools, most are interested too in not-for-profit enterprises.) Until about 1960, most executives and scholars considered strategic management as largely a matter of judgement, applying reasoning and experience to particular situations. A more rigorous approach emerged from so-called operational research methods, having military origins. It emphasised systematic planning and quantitative data analysis whose aim was to achieve greater efficiency and thereby, an enhanced market position.<sup>1</sup> Other approaches focused on strategy as competitive positioning<sup>2</sup> and on diversification<sup>3</sup> of activities to spread risk and enable faster growth. More recently, attention has shifted from a dominant, position-oriented concept of strategy to one that emphasises the resources, skills and collective competences found in individual enterprises, which enables them to perform distinctively.<sup>4</sup>

However, with a few notable exceptions, it was only from around 1970 that academics and consultants started to research how practitioners – generally senior executives – actually 'do' strategy, by observing them in action and by carrying out systematic, empirical research.<sup>5</sup> Guiding principles have slowly emerged, although strategy concepts expressed in popular books, newspapers and magazines are often very simplistic. Indeed, despite a considerable body of published research, there is still much that we do not know about strategic management. This is not to disparage the work already done; the workings of healthy (and not-so-healthy) enterprises are extraordinarily complex. While the world waits for a truly unified set of strategic management principles, executive managers have to apply their experience and judgement to individual situations and how to proceed.

### The Search for General Prescriptions

Challenging, puzzling situations encourage enterprise managers to look for practical prescriptions for action. The particular *content* of whatever prescription they adopt is their *strategy*. Such prescriptions may be desirable, but can be controversial. For example, industrial economists have long argued that the industry sector in which a business operates is the major factor determining its profitability. They characterise some industries such as steel making as chronically unattractive,

yielding modest profits at best, with heavy losses in times of recession. The steel industry requires massive investments in steel-making plant and facilities that require high utilisation to make profits.<sup>6</sup> Accordingly, the standard prescription for a steel-making enterprise would be either to dominate the industry (or a substantial part of it), or diversify the business and quit steel-making as soon as practical. Yet more recent research shows that in *any* industry (including steel-making) some enterprises rise to the challenges, producing above-average, even outstanding results. Competent strategic management evidently ‘matters’ while questions of how much the choice of industry ‘matters’ for profitability are still hotly debated.<sup>7</sup>

Traditional economics considered the enterprise a ‘black box’ located in its industrial context. That is, an enterprise’s inputs and outputs were studied, rather than what happened within the enterprise. The impact of managers was largely ignored because the context or external environment, it was argued, determines what enterprises do and whether they survive and prosper. Managerial decisions appeared externally as investment and pricing actions. Once implemented, they would change the balance of supply and demand over time; market shares would also shift, all of which affected the profitability of competing enterprises. Extreme, so-called ‘perfect’, competition would drive prices down to the level of unit costs, eliminating profits.

From this economic viewpoint, what happens inside each enterprise does not materially affect the collective industry outcome. Yet, for those interested in the social psychology of organizational behaviour, the inner workings of enterprises are vital for understanding why enterprises behave and perform differently. Modern strategic management research applies the methods of many specialist disciplines, trying to integrate findings that reflect and explain real world complexity in behaviours and outcomes.

Unsurprisingly, it has been widely claimed that rational, logical thinking is important when forming strategies. The three leading American corporations already mentioned evidently had clear, rational views about how best to compete. Their different, self-interested approaches aimed to minimise the damaging effects of competition by:

- Dominating production and controlling output prices (Rockefeller).
- Offering products at a lower price than competitors, enabled by driving down unit costs (Ford).
- Promoting multiple brands to create variety, excitement and distinctiveness (Sloan).

Such strategies are still observed. Indeed, a significant reality is that a common aim of competitive strategies is to avoid or mitigate competition as far as possible. This principle is well established: indeed, it is to be found in the ancient text ‘The Art of War’ attributed to a Chinese king/general, Sun Tzu.<sup>8</sup> This simple, yet fundamental goal can be achieved by (a) eliminating competitors, (b) minimise their adverse impact by maintaining considerable distance from them, or (c) mutual acceptance of a state of competitive, co-existence.

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## Important Strategy Concepts

An enterprise choice of strategy affects whether it ‘wins’ or ‘loses’ in competitive terms, hence its successful survival or ultimate failure. Thus the meaning of ‘strategic’ as the word is commonly

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used is ‘important’ or ‘crucial.’ Because of its importance, strategic management frequently involves contests over significant ideas and controversial opinions, creating disagreements and conflicts among decision makers. A strategic decision is one of real significance for the enterprise. Typically, senior people are involved in making these decisions, which often require major commitments of money and other resources to implement. Consequent actions are substantial and often risky. The effects of these actions are not fully predictable, yet they cannot easily be reversed.

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A much-quoted, comprehensive, and integrative definition says that:

Strategy is the pattern of decisions in a company that determines or reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities ....<sup>9</sup>

This definition links strategy to such activities as setting objectives, determining policies, and the formation of action plans. It requires those concerned with strategy to ‘exercise strategic choice’ constructively and with *clear intent*.<sup>10</sup> They need to be clear what the enterprise is about – the basic purpose or mission that explains how it creates value for society and for a more specific clientele and how it will do so in the future. The definition implies a *progression* from broad aims to specific objectives and policies, followed by specific plans to achieve them, resulting in the desired and desirable future outcomes. Though the definition does not say who the strategists are, we may reasonably infer that senior executives are actively engaged in forming and implementing strategies.

Evidently, the strategic management task requires enterprises to identify their main clienteles, how they benefit from their relationships and will benefit in the future. The benefits can be both economic (financial) and non-economic (social well-being and perhaps humanitarian). *So a strategy affects multiple stakeholders*. This aspect of strategy has been called ‘defining the scope’ of the enterprise.<sup>11</sup> *Stakeholders of an enterprise are the various actors and agencies in society that (in fact or perception) benefit from or are harmed by its actions. They include its clienteles, owners, employees and many other parties who have an interest in what it is and what it does. As will be seen, the many kinds of stakeholder differ in their expectations of each enterprise.*

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An alternative definition makes it explicit that strategy is about integration (synthesis and coherence). It emphasises that strategy is concerned with developing and using resources and skills (competencies) to create value, and thereby achieve its objectives in distinctive, even unique ways:

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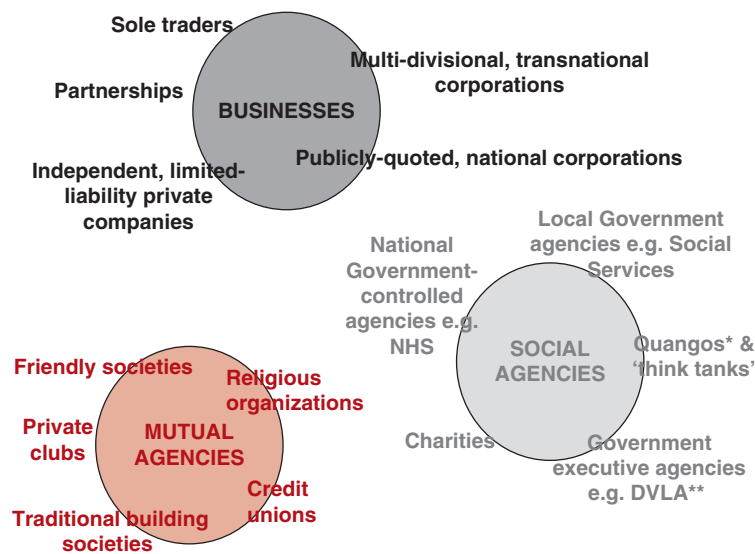
A strategy is the pattern or plan that integrates an organization’s major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocate an organization’s resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.<sup>12</sup>

This definition implies that a strategy’s core priority is to secure *competitive advantage*. Indeed, the private-enterprise business corporation has become a major focus for the application of

strategic concepts, because most executives believe that effective strategies are vital to create and sustain competitive advantage over the long term, distinguishing winners from losers. However (as noted), legitimate (legal) *co-operation* among enterprises can also be mutually beneficial, allowing them to achieve results together that would be impossible alone.

Many for-profit businesses operate in *highly regulated* industry contexts where competition is constrained. Utilities such as gas, electricity and water supply, air and rail transport, broadcast television, financial services and pharmaceuticals are all examples. Strategic decisions about capital investment, marketing and pricing practices can be firmly guided or dictated by external industry regulators, health and safety and other government agencies. In other industries – for example, franchised motor car sales and servicing – enterprises must operate within the strict terms of their contracts with the major car makers. So their challenge is to create distinctive resources and advantageous positions not only in relation to their clientele, but also with their suppliers.

Most economies around the world have vastly more *small businesses* than giant corporations. Small enterprises also need viable strategies for future survival and success, though their strategies differ from large enterprises. While similar *principles* apply to both large and small, large enterprises have much greater potential in terms of geographic scope, to accumulate resources and competences and to occupy distinctive, even dominant positions. Typically, the aim of a small enterprise is limited to finding and occupying a protective ‘niche’ position, defined by locality or specialism.



\* An abbreviation for a 'QUasi-autonomous, Non-Governmental Organisation that performs governmental functions in a nominally independent way e.g. Electoral Commission (UK)  
 \*\* Driver and Vehicle Licensing Agency (UK)

Figure 1.1: Three basic forms of enterprise

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Figure 1.1 distinguishes three significant types of enterprise, referred to respectively as businesses, social agencies, and mutual agencies. Social agencies include government-funded, public-sector bodies such as the UK National Health Service (NHS) and the Arts Council, charities, philanthropic foundations, voluntary and mutual organisations whose main purposes are to enhance the social good, generally based on criteria of need. Mutual agencies include political parties, religious organisations, private clubs and any other enterprise that specifies membership criteria and rules that members must respect and follow. All of these agencies have core clienteles and other stakeholders who are interested in what they do. To a greater or lesser degree, they too operate in competitive or regulatory environments. Thus there are always constraints on their freedoms to act and pressures to improve how they perform. Accordingly, they too need to conceive and implement appropriate strategies for the future.

Some commentators define strategy in terms of achieving a good environmental ‘fit.’<sup>13</sup> *Environment* here refers to the external context in which the enterprise operates and creates value. It does *not* refer specifically to ecology, important as pollution avoidance and energy saving have become for many enterprises. *Fit* is a word linked with finding a protective niche or market gap. An enterprise is indeed fortunate if it proves ideally equipped to occupy such a niche. Although numerous, viable niches may exist, occupants and would-be occupants contest these environmental spaces vigorously, trying to satisfy the associated clienteles better than others.

These various statements about enterprise strategy suggest the following practical definition:

**A strategy combines explicit statements and implicit beliefs and understandings in and around an enterprise about:**

- Its core purpose (mission) and how, if at all, its mission will (or must) change in future.
- A vision of its future direction and what it intends to achieve.
- Its scope, meaning its main clienteles now and in the future (and consequently the potential clienteles that are and will remain *outside* its scope).
- The resources and competences that create value for its clientele and how these will (must) change to maintain and enhance the future value created.
- The foundations of its present competitive standing and future sustainability.

Although it may seem necessary for a strategy to be written down and widely shared, in practice a strategy is not always so explicit. Particularly in smaller, entrepreneurial enterprises the strategy may reside in the minds of the individual entrepreneur and his/her close team. Nor can one assume that all strategies are ‘good’ – in the sense of proving effective. **An effective enterprise strategy encodes a viable, coherent, distinctive approach that in a challenging environment fully and sustainably meets the needs and expectations of its core clientele and other legitimate stakeholders.**

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Evidently, not all strategies are good – some enterprises perform poorly according to the above criteria and some fail. Even good strategies do not remain viable and sustainable indefinitely. They will require enhancements and sometimes radical changes. The problem for strategists and external observers alike is that sufficient time must elapse before they can make objective assessments of how effectively a strategy has been at meeting needs and expectations. Continuing



vigilance is therefore vital. Strategic management is, without exception, the charting of a journey into the unknown.

## Five 'Ps' of Strategy

The previous definitions may suggest 'strategy-as-grand-plan'. This has been the view of many, but not all commentators. One well-known thinker – Henry Mintzberg – in particular has criticised this concept of strategy, suggesting an additional interpretation.<sup>14</sup> Thus his conception, popularly known as the 5 P model, consists of the following five components:

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1. Plan.
2. Ploy.
3. Perspective.
4. Position.
5. Pattern.

Plan and ploy draw on classic military thinking. Indeed, the word 'strategy' derives from the Greek 'strategos' meaning the 'art of the general'. 'Plan' equates with 'grand plan' or 'grand design', an overall understanding (conception) of the core aims and direction of the company and how they will be achieved. 'Ploy' is better thought of as a 'game plan', what military strategists call a tactic – or, as in chess, a competitive 'gambit'.

In a military context, 'grand strategy' is linked with political ambition. Napoleon's grand design for a Franco-European empire required the French army to wage war systematically against the various countries that opposed him. His strategy-as-plan described how this war would be won, for example, by specifying the sequence and timing of countries to be invaded, so as to avoid fighting on many fronts concurrently.

By contrast, tactics are the approaches used to win each battle, the combination of actions likely to favour one's own forces and surprise the enemy by exploiting one's strengths. Deception often features in these tactics. Military strategy and tactics have significantly influenced some business corporations, particularly Japanese multinationals since the 1960s, intent on dominating selected world markets through overwhelming strength. Professional football clubs adopt equivalent approaches, with strategies to win championships and tactics to win individual matches. Their strategies notably include resource decisions – buying and selling players, investing in bigger stadiums and better facilities. Tactics include skill development and application, team selection, preferred approaches towards defence or attack on the pitch. Plans and ploys can in principle be written down, discussed and communicated among those who need to know.

By contrast, 'perspectives' tend to be unspoken (tacit) assumptions and ways of thinking about appropriate actions that are locally rather than universally recognised or accepted. 'Custom and practice' thinking engrains an accepted perspective on how things are done and, by inference, should be done. Being taken-for-granted supports established routines and discourages challenge or change to them. In so far as fresh deliberation is missing, they scarcely merit the description 'deliberate'. Though a 'perspective' may sound an unconvincing view of what strategy *should be*, observation suggests that it fairly represents how many enterprises actually 'do' strategy.

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‘Position’ is another view of strategy, one that combines elements of both military thinking and industrial economics. A strong and defensible position is considered a desirable goal, whether an advantageous battlefield location or a market posture. Enterprises often conceive their strategies in terms of actions intended to improve their future competitive positions. The view of strategy as dynamic ‘jockeying’ for favourable (competitively advantageous) positions re-emerged in the 1980s,<sup>15</sup> though it actually has a much longer history in industrial economics.<sup>16</sup> An emphasis on position can be relevant not just for businesses, but for many not-for-profit enterprises such as charities that compete with one another for donations from the public and from corporate sponsors. Positional strategies can certainly be deliberate, though a failure to reconsider positions critically over time is common. Positions can be based on objective measures such as market coverage and share, but they also draw on subjective (perceptual) factors such as reputation and brand image as understood by the clientele, factors that play a large part in marketing strategies.

Plans, ploys, perspectives and positions are all consistent with the idea that strategy is what an actor or group of actors *intends to happen*. They know (or believe they know) what they want to achieve and how best to achieve it. To that extent they are all ‘deliberate’ strategies as featured in Figure 1.2. Intentionality accords well with a Western world-view, known as the ‘Enlightenment’ or Cartesian view, which assumes the importance of exercising individual free will, being rational, decisive, proactive and in control. Other world-views such as Confucianism, Taoism and Hinduism put greater emphasis on humility, duty, collectivism and even fatalism. In some cultures, therefore, intentional strategy is a problematic concept.

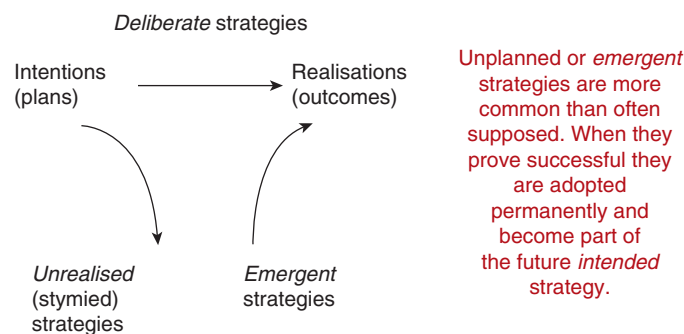


Figure 1.2: Various types of strategy\*

\*After Mintzberg (1978)

By contrast, strategy as ‘pattern’ describes an evolving stream of observed events. It is a method that historians use to interpret past events and infer motivations. For example, various nations took self-interested actions that ultimately led to the 1914–18 World War. Casual observers might conclude that an escalating pattern of events is evidence of prior war-like intentions and decisions. Yet, it is possible that none of the protagonists had such prior intent, indeed the origins of this war were complex. National strategies emerged by degrees and only later crystallised into particular, observed patterns.

Similarly, enterprises may attach *future intent* to an evolving pattern *only after* it has started to crystallise and prove viable and attractive, hence worth continuing. In retrospect it may seem hard to believe that the early strategies of companies such as Microsoft, Amazon, Google and eBay may have owed more to optimism and opportunism than design. The facts are really matters for future business historians to debate. Their significance here is to suggest that strategies can emerge in an improvised or experimental fashion<sup>17</sup> and crystallize as a pattern when success becomes real (the ‘emergent’ strategies of Figure 1.2). Conversely, fully intended strategies can fail (not be realised), while others have unintended consequences.

## Ethical Relationships, Social Responsibility and Strategic Change

### LEARNING OBJECTIVE ①

The effective enterprise creates value: functional, financial and other benefits for its clientele, owners, employees and many other stakeholders in society. **Multiple elements of its strategy combine to create and sustain durable, constructive, trusting, ethical relationships with all these stakeholders** (explored further in Chapter 4).

Yet, however effective a strategy has proved, it will and indeed *must* change over time. Enterprises change their strategies, sometimes dramatically as a result of perceiving new opportunities, or in response to new threats. They take on new, value-adding activities and dispense with others that are deemed ineffective or marginal for future success. Changes also result from changes in societal expectations: enterprises now experience far greater pressures to behave ethically and be socially responsible, by respecting the natural environment, eliminating pollution, reducing energy consumption and contributing to the costs of recycling products at the end of their useful life.

Yet strategic changes have consequences for established relationships, not least for employees associated with value-creating activities which are deemed redundant. Whilst it is painful to learn that their department or business unit is no longer integral to the enterprise’s future strategy, major restructuring is an essential aspect of strategic management. Responsible strategic management does not – indeed must not – seek to maintain an organization unchanged for its own sake.

Accordingly, to be effective, enterprise strategies are necessarily *amoral*, meaning that their priority is not to engage directly with issues of human morality. However, an *amoral* strategy is definitely *not* to be equated with *immoral*, unethical behaviour on behalf of an enterprise by individuals who lack personal integrity.

## Corporate-level and Enterprise-level Strategies

### LEARNING OBJECTIVE ①

An important issue arises in respect of the different *organizational levels* at which strategy must be established. For an essentially single activity enterprise, like Sunseeker, the key strategy questions are: ‘How does this enterprise compete effectively *and* what kind of stakeholder relationships must it sustain to do so?’ Enterprises such as the British Broadcasting Corporation (BBC) (see illustration) are multi-activity, multi-unit corporations. They face relevant, additional questions such as: ‘Which business domains (activities) should this enterprise engage in and why?’

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and 'How closely integrated should diverse activities and units be?' The first set of questions concern so-called *business-unit* strategy, the second concern *corporate* strategy.

Sunseeker's major business activity is the manufacture and sale of yachts; presumably this will continue. The BBC has various operating groups and many subsidiary service units within each group. While senior BBC executives are concerned principally with the strategy of the whole enterprise, corporate-level strategy and activity unit strategies are *all* important because each one contributes directly or indirectly to the success of the others. The answers to unit strategy questions without doubt differ from one BBC operating group to another and probably differ among the support service units in each group. History shows that the BBC has changed its detailed strategies over time and will doubtless continue to change. For example, will it be able to justify for-profit activities in future, given its core public service mission.

### The British Broadcasting Corporation (BBC)<sup>18</sup>

Established by Royal Charter in 1922, the BBC was the first state-owned broadcasting corporation. It aims to create and transmit high quality radio and television programmes to entertain, inform and educate listeners and viewers of all backgrounds, interests, ages and intellects. In the digital era the BBC has exploited new opportunities that go beyond its strict public service obligations. Its income is guaranteed via the annual licence fee required from every UK household with a television set.

It is a large, very complex, not-for-profit enterprise. In 2009 it had £1 billion of fixed assets (based on UK accounting standards), income of £4.6 billion, operating expenditures of £4.5 billion, and 23,000 employees (17,000 in the UK and 6,000 in 39 other countries). It is structured into three functional groups, each of which comprises multiple distinct organizational units:

- *UK Public Service Broadcasting*. A 76.7% share of revenues, comprising three services: UK Television (11 free-to-air channels); UK Radio (16 national and 40 local stations); and BBC Online.
- *World Service Radio and Monitoring*. A 6.4% share of revenues.
- *Commercial Businesses*. A 16.8% share of revenues (selling TV and radio programmes and formats overseas; book and magazine publishing; joint ventures with selected broadcasters; and studios and production facilities).

The BBC's chief executive (Director General) heads a complex management structure. Appropriate strategies have to be determined not only for the enterprise overall, but also at group and unit levels. Each separate unit strategy must be co-ordinated with those of other units and groups. For example, the Journalism group, responsible for news gathering, must co-ordinate its strategy with radio and TV broadcasters, BBC Online and the Operations group.

## LEARNING OBJECTIVE ②

All strategies have *content*: namely, the array of particular decisions and proposed actions, whether written down or held in the mind. So a strategy is an *object* (a plan, position, etc.). Conversely, *strategic management is a process*. It encompasses the ongoing activities of forming and implementing strategy, in effect: ‘strategy-being-put-into-action.’ A process is best described with a *verb* or *verb-derivative*, (planning, positioning, implementing, etc.). Because these activities are ongoing, strategy content *evolves* over time, sometimes intentionally, sometimes not.

## The Subtlety and Complexity of Strategic Management Skills

Strategies are the products of decisions and actions by executive managers, not academic researchers or consultants. Every enterprise has its own, particularised strategic management processes because its people are differently talented and sometimes idiosyncratic in their behaviours and motivations. While short-term financial competence always matters, capable strategic managers also address more broadly based performance outcomes such as risk, long-run growth and increased diversity of enterprise mission.

In addition to analytical rationality, managers variously apply important ‘artistic’ skills of creativity, imagination and intuition allied to ‘craft’ skills of problem-solving, handling people and learning from the experience of practice, especially of past errors.

These ‘artistic’ and ‘craft’ skills enable them to:

- Demonstrate leadership by mobilizing the strengths of the enterprise and overcoming its weaknesses.
- Innovate and encourage colleagues to innovate by being receptive to imaginative ideas (leading to the introduction of new products and services and novelty in organization processes).
- Value adaptiveness, improvisation and timely, practical actions that draw on experience and intuition, rather than just the analysis of large volumes of data.
- Exercise personal ‘political’ skills to negotiate with, influence and persuade other stakeholders within and beyond the enterprise.
- Establish clear priorities and achieve desired results, identifying and resolving significant issues continuously and proactively.

## LEARNING OBJECTIVE ②

Whereas rationality emphasises the analysis of facts (evidence), artistic and craft skills help to synthesise and integrate understandings. They are *complementary*, not alternative skills. Effective strategies benefit from *combining analysis (attending to the detail) and synthesis (seeing the big picture)*. The mix of these skills in use varies from one person to another, from one enterprise to another, in the same enterprise over time, and sometimes quite markedly from one country or culture to another. The mix in a dynamic, multinational corporation differs from that in a national enterprise in a regulated industry and in a small or medium-sized enterprise (and very probably needs to differ!). Not-for-profit enterprises and government agencies are different again.

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### Frames of Reference

In addition to its mix of skills in use, every enterprise has a particular set of shared ideas, beliefs and assumptions about how to ‘do’ strategic management. Many names have attached to these shared belief sets.<sup>19</sup> *Frame of reference* is used here because it evokes the metaphor of a window through which decision-makers see, but which also constrains the view available to them. **The enterprise’s shared belief set or *frame of reference* informs and constrains how its managers think about their strategic management *processes* (conduct) and influences the decisions and actions (*strategy content*) that emerge from these processes.**

LEARNING OBJECTIVE ②

Although each enterprise has highly particularized beliefs and assumptions, it has been claimed that a large part of each belief set can be characterized by one of four ‘generic’ frames. This claim applies two key dimensions to distinguish major differences in core strategic management assumptions and beliefs, as illustrated in Figure 1.3. These dimensions derive from the following pairs of assumptions:

1. On the one hand, managers take for granted a dominant, essentially singular aim (e.g. a business enterprise that aims to maximise its profits for shareholders): on the other hand, they believe multiple, potentially conflicting aims must be reconciled.
2. On the one hand, managers would like to believe they can anticipate significant future events well enough to plan and control outcomes near-optimally: on the other hand, they act upon the assumption that they will have to improvise and continuously adapt the strategy, owing to emerging unanticipated events beyond their control.

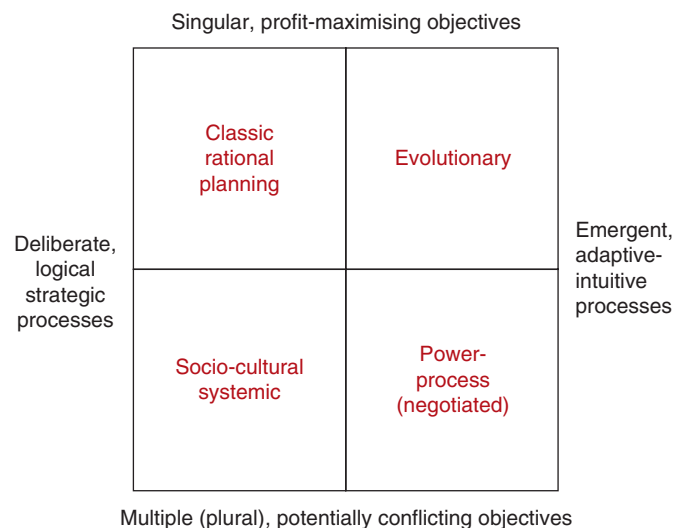


Figure 1.3: Four strategy frames of reference

Adapted from Whittington (2001, p. 3)

In practice, few businesses pursue the aim of maximising profits to the total exclusion of other aims. First, the enterprise would be widely criticised as greedy, uncaring and unethical. Second, trade-offs are often necessary between maximising profits versus growth; or between maximising profits in the short run versus the long run. (Growth often requires significantly lower selling prices than would be applied to maximise profits. Long-run profits require investments that typically reduce short-run profits).

In not-for-profit organizations the position is invariably more complex, as multiple aims compete. Medical charities, for example, must accommodate stakeholders whose funding expectations conflict. All patients want necessary treatments now, although some have more urgent needs; researchers value long-term funding but may have to accept short-term support; donors, clinicians and government agencies are keen to prioritise the treatment of the particular diseases that they are associated with.

The second dimension of the model encodes assumptions about deliberate and fully intended strategy. In particular, the assumption of control is often seen as a major indicator of strategic managerial competence, even when it is largely an illusion.

### The Rational-Planning Frame

The predominant mindset of the approach located in the upper-left quadrant of Figure 1.3 is strategy-as-grand-plan. Strategists working within this frame of reference are trying to optimise outcomes in relation to a dominant goal such as profit maximisation for the business enterprise. They believe that clear intent and detailed design enhances the prospects of their achieving their future-focused goals that they judge appropriate for future survival, even at the cost of short-term difficulties. Rational-analytical strategy processes underpin formal, comprehensive business and corporate planning processes that define clear, specific strategies and policies to be implemented deliberately, even ruthlessly, in the chosen competitive arena. The rational frame should in theory produce progressive, continuing change although more radical, discontinuities of direction may be envisaged as a result of systematic planning.

#### **The rational-planning frame: Beaver & Tapley<sup>20</sup>**

Beaver & Tapley is a British furniture company. Thirty years ago its senior managers (trained engineers and designers) felt that a comparatively small, unknown company could not compete effectively with either prestige brands or mass-market retailers. Very deliberately they set out to create and patent a unique, modular system of wall-mounted storage and display furniture. They succeeded, calling it Tapley 33. Over the years the company has refined and extended the Tapley system. To date no competitor has been able to displace it from its self-created market niche.

## The Systemic Frame

The systemic frame corresponding to the lower-left quadrant of Figure 1.3 informs managers of the need to be sensitive to divergent, social and economic systems and the multiplicity of enterprise stakeholders. For example, Swedish, American and Japanese managers have grown up in differing social and political systems and their interpretations of capitalism are distinct. Systemic managers see their enterprises as ‘open systems’ containing many actors, systems, subsystems and embedded routines, not unitary bodies capable of behaving like a single-brain organism. Consequently, they recognise that multiple priorities and viewpoints have to be accommodated; progress must be managed rationally but pragmatically. Priorities are adjusted regularly and continuously as they experience and respond to pressures from different directions. So change is mostly incremental, yet outcomes are rarely optimal for the enterprise, since strategic management is a process of adjusting or ‘satisficing’. In for-profit contexts this frame of reference has been called ‘logical incrementalism’,<sup>21</sup> in governmental agencies ‘bureaucratic process’<sup>22</sup> and ‘muddling through with a purpose’.<sup>23</sup>

### The systemic frame: the BBC

In times past, the BBC was probably best characterised by the power-process frame of reference (see below). Programme producers were likened to medieval barons exercising autocratic power in their personal fiefdoms. Today, its sheer scale and diversity of people and operations suggest that most BBC managers subscribe to the systemic frame. They pursue (and especially at senior levels must reconcile) actual or potential conflicts in corporate aims and objectives. Moreover, the deployment of its large budgets (enabled by viewers’ licence fees) is subject to critical independent scrutiny; hence it must function with scrupulous transparency and the aura of rationality despite what should be a creative environment.

## The Power-Process Frame

The frame corresponding to the lower-right quadrant of Figure 1.3 is the political power-process frame. As in the systemic frame, it is a pluralist rather than unitary mindset, but here there is collective scepticism over whether strategic management can proceed in a wholly rational way, despite *individual* rationality. This follows because actors accept that (i) their knowledge of the future is to be imperfect and contentious, and (ii) the enterprise is a collection of self-interested individuals and factions (interest groups). The content of strategies is therefore always a compromise that reflects whatever the more influential actors can agree on. They exercise their ‘political’ skills to reconcile divergent interests, creating sub-optimal compromises.<sup>24</sup> Hence strategic management is the art of the possible. Managers informed by this frame devote much energy to examine the sources of power available to each faction inside the enterprise and beyond, whether and how they will use that power. This frame is widely associated with governmental politics. However, many senior business executives also mobilise and exercise power to pursue factional interests.



### The power-process frame: the British Labour Party<sup>25</sup>

The British Labour Party, as political parties everywhere, is a coalition of semi-divergent interests, ideologies and influences. After left-wing 'Old Labour' had suffered four successful general election defeats, centrist 'New Labour' emerged in the 1990s and became dominant in the Party on the back of three consecutive election victories, finally being defeated in 2010. The battle for the intellectual and emotional soul of the party will doubtless result in a fierce contest of ideas and personalities in the years ahead, following the resignation of the defeated leader, Gordon Brown.

### The Evolutionary Frame

Fourthly, 'evolutionary' frame that underpins the assumption of a need for strategy to be adaptive: this corresponds to the upper-right quadrant of Figure 1.3. Many observations record that when initial intentions fail to produce expected results, unplanned and improvised, experimental responses can sometimes result in favourable outcomes that subsequently become part of an enterprise's strategy. A much-quoted example is that when Honda first marketed high-power motorbikes in America, consumers showed little interest. However, their interest was sparked accidentally by seeing Honda staff riding mopeds. Honda noticed and began to import and sell mopeds very successfully.<sup>26</sup> This emergent strategy *forms* (evolves) rather than being deliberately *formulated*. It characterises entrepreneurial, innovative, even seemingly chaotic business enterprises in which a notional, singular goal is obstructed in practice by external uncertainties and competitive hostility.

The evolutionary frame draws on the Darwinian concept of natural selection applied to enterprises.<sup>27</sup> According to this view, strategic management processes generate exploratory responses to each problematic situation (threat) that develops. These responses produce distinct, visible changes (variations). When a market demonstrates a preference for a particular change (e.g. a clientele 'selects' a new product) the enterprise establishes a 'niche' or competitive space that protects it from the threat, indeed redirects it towards the originator. In Darwinian terms, a preferred (selected) variation allows the enterprise to survive, at least for a time. So the enterprise persists with it for as long as there is no pressing reason for further change.

### The evolutionary frame: easyGroup<sup>28</sup>

Most people know of Sir Stelios Haji-Ioannou, the entrepreneur who founded the budget airline, easyJet, based on three core principles:

- High profile branding.
- Lean operations and low-cost, using the Internet for flight bookings.
- Time/demand-flexible pricing to maximise revenues ('yield management').

Three years after starting easyJet, Haji-loannou set up easyGroup, a franchising company. EasyJet itself, now a publicly owned UK plc, was its first franchisee. EasyGroup licenses independent entrepreneurs to develop a variety of business concepts that adopt the easy brand and its core principles. Within these constraints Sir Stelios has allowed any reasonable franchise concept to be exploited. Some twenty have been tried since 1998. Most, like easyHotel, easyCar and easy-Bus, have succeeded on a relatively modest scale; although easyGroup has had to allow modifications to some original concepts (e.g., easyCar has changed from renting cars to a web-based booking agency for other car rental firms). Some concepts have not survived at all (e.g., easyCinema). Thus easyGroup has demonstrated an ability to experiment and adapt its franchise 'portfolio', accepting the inevitability of failures as well as successes.

### The Significance of Reference Frames

To the extent that individuals in an enterprise are informed by a particular reference frame, that frame will tend to reinforce accepted beliefs about strategic management conduct. Acting in ways that are consistent with the frame therefore legitimises and helps to secure agreement to strategic decisions and consequent.

Alternative frames imply different standards of risk tolerance and thus the evidence and justification felt necessary to decide on appropriate strategies. Difficulties can be predicted when decision makers subscribe to difference reference frames. Their non-aligned mindsets will hinder consensus-building and perhaps their ultimate commitment to an agreed strategy. Severe frame polarisation makes agreement impossible among:

- 'Old hands' and new recruits who focus on different issues or interpret the same issues differently.
- Older, senior executives and (generally more youthful) middle managers.
- Senior corporate executives in a large divisionalised enterprise and business unit managers.

In principle, *awareness* of the prevailing internal frame should help individuals to be more thoughtful about strategic management processes. However, it is intellectually and 'politically' difficult to expose and challenge frame-derived assumptions.<sup>29</sup> Individuals risk being labelled as dissidents, marginalised, even asked to quit. In extreme cases, a pathological condition known as 'groupthink' emerges. However, extreme *convergence* of thinking-polarization of mindsets is also counterproductive for effective strategic management, especially in the challenging conditions created by uncertainty and complexity. An enterprise benefits from 'requisite variety' in how its managers think, creating a balance between harmony and dissent and combating polarization tendencies. Requisite variety is a cybernetic concept that, stated simply, asserts stability in a complex system such as an organization with much variety depends on corresponding or greater variety in its (management) control procedures.

When an enterprise acts consistently with a dominant reference frame, competitors find it easier to predict how it will act in the future. If there is no obvious frame in use, its future strategies become less predictable, making it potentially a 'loose cannon' in its competitive environment. All that others can do is to scrutinise its actions using alternative frame assumptions, treating them as analytical 'lenses' to interpret the evidence of its actions.

The enterprises featured in the four illustrations of dominant frames in use indicate positive performance impacts. This implies that their strategic management practices have been coherent, relevant and attuned to their external environments. More generally, however, that is not always the case.

### Failures prompted by an inappropriate reference frame

**General Motors (GM)**, for many years the largest motor vehicle producer in the world, entered US bankruptcy proceedings in 2009. The global credit crunch triggered a drastic decline in demand for its new cars and trucks, many being so-called 'gas-guzzlers' of mediocre quality and reliability. GM's strategies in the US had remained rooted in the assumption that consumers really preferred big cars made by American companies, provided that they were affordable. As the biggest car maker GM could not be wrong. In fact, GM has for many years been losing ground to Japanese competitors that make smaller, more fuel-efficient and well-built cars *in the US*.

**Swissair**, the 'national flag-carrying' airline supported by the Swiss government, went bankrupt in 2002. It had embarked on an ill-advised expansion strategy out of all proportion to its size and industry status, prompted by a reference frame grounded in excessive optimism and national hubris. Competitive pressures on international routes, and the adverse impact on air travel of the 9/11 terrorist attacks on New York and Washington brought it down. It was reconstituted as Swiss International Airlines and sold to the German Lufthansa Group in 2005.

## The 'Design-plus' Strategic Management Framework

The variety and complexity of ideas linked with strategic management indicates why its study is exciting and good practice is challenging. Because enterprises are complex, dynamic and often transient bodies, a universal model that fully integrates descriptive and prescriptive strategy knowledge may not emerge for a long time, if ever. Whilst a few enterprises thrive and grow into giant corporations, most do not.<sup>30</sup> Statistics confirm that independent life expectancy of an enterprise is considerably less than that of the typical person. Within a few decades the typical enterprise fails, is dismembered or becomes part of a bigger one.

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Nonetheless, the need for a systematic approach to strategic management is indicated. This can be aided by an appropriate, practical framework such as ‘design-plus’, which we consider below.

### The Design-plus Framework

The concept of design draws an analogy with the processes that architects use. The starting assumption is to adopt a rational approach using established principles, but enhanced with the injection of some creativity and flair. Strategic management is no different. But if it is to progress to *implementing* strategy, the design perspective has to envision practical solutions to perceived challenges. A beautiful ‘blueprint’ will remain just a design unless supported by a credible explanation of how it can be realised in the problematic world. So what exactly does the design concept demand of strategists?

#### LEARNING OBJECTIVE 5

There are three linked phases in the **design + approach**:

1. Situation assessment.
2. Identification and evaluation of the key strategic issues and choices.
3. Action planning and implementation.

The approach is shown in outline in Figure 1.4. It suggests that the phases are linear – they follow in sequence. In practice, of course, the true position is rarely so straightforward, even in enterprises informed by the rational-planning frame. There will be feedback loops that connect the various activities that are not shown for simplicity. In practice activities and stages may proceed concurrently. Still, Figure 1.4 is a suitable representation for the purpose of explanation in the following chapters.

### The Importance of Understanding Context

Enterprise strategy design begins in phase one by producing a clear understanding of the enterprise *context* and how it may develop in the future. This phase is the diagnostic element of strategy formation highlighted in Figure 1.4 by the heavy black box. In this phase the enterprise identifies and assesses relevant issues in the *external* operating environment and the *internal, organizational* environment. As well as creating opportunities and threats, the external environment constrains what the enterprise can realistically achieve. It is also a valuable potential source of new assets and skills.

External assessment covers:

- The external macro-environmental influences surrounding the enterprise (Chapter 2).
- The competitive arena of the market (clienteles) and the industry sector (Chapter 3).

Internal assessment covers:

- The mission, future vision, identity and core values of the enterprise, and the agendas of its main stakeholders (Chapter 4).
- The value-creating resources and capabilities of the enterprise and how it actually performs (Chapter 5).

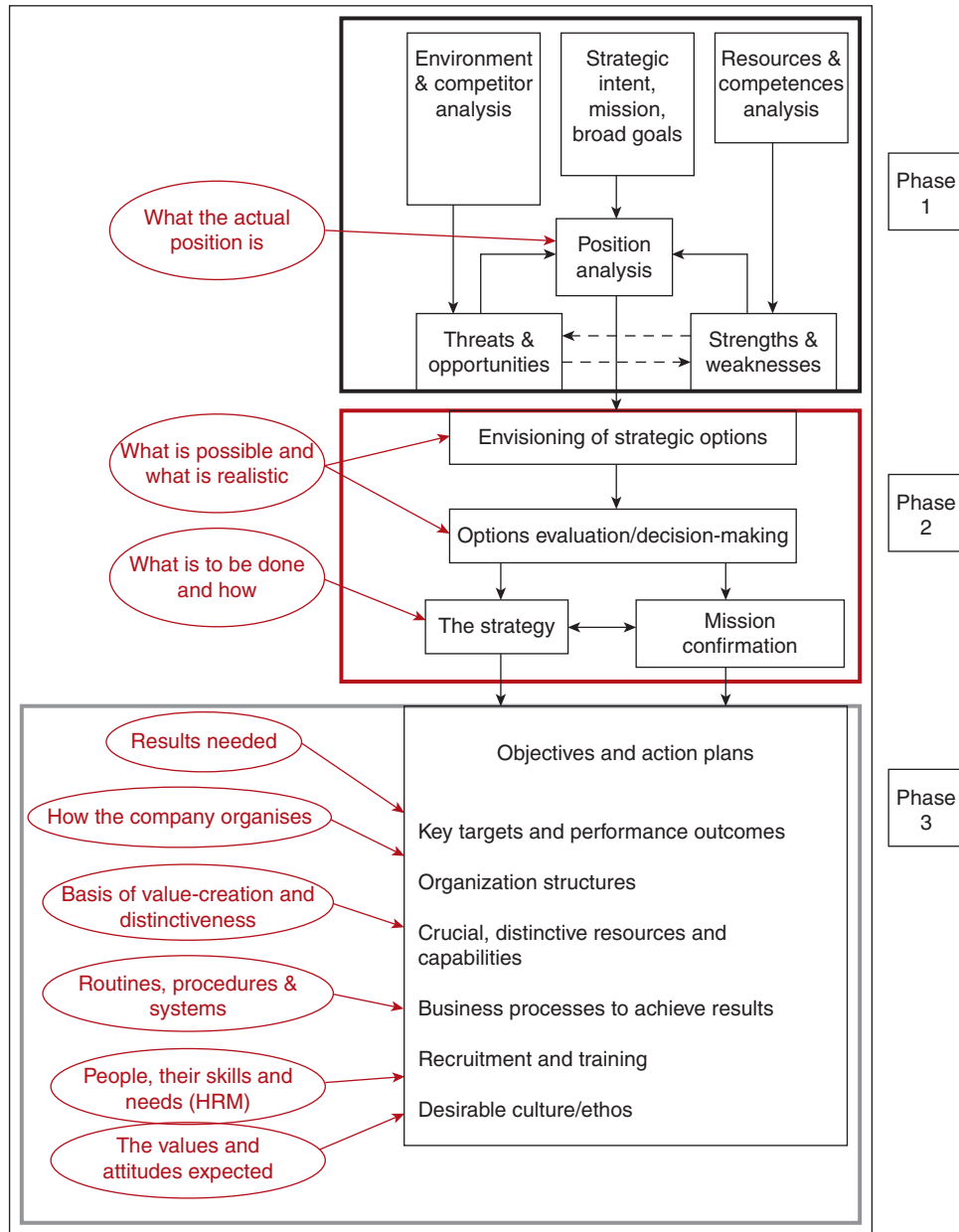


Figure 1.4: Strategic management as a 'design-plus' process

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The mission and associated concepts define what the enterprise stands for and exists to achieve, as understood collectively by its stakeholders. Resources are principally the physical and financial assets of the enterprise. Capabilities include the technological and business processes, knowledge and skills that make it possible for the enterprise to create value by deploying its resources productively. Resources and capabilities are key elements of strategy development and implementation, since they either enable or constrain the prospects for pursuing a preferred strategic direction.

Phase 1 aims to draw robust conclusions about the key issues, based on available evidence not supposition or prejudice. Once the assessment of internal and external contexts has been completed, the enterprise can synthesise its main findings and prioritise the key issues identified into a summary position statement (as discussed in Chapter 6).

### The Importance of Identifying Strategic Alternatives

Phase 2 involves the generation and assessment of future alternatives strategies in response to the issues raised in Phase 1. This decision-shaping and decision-taking phase is shown in Figure 1.4 in the red box. It involves the need to:

- Consider and state appropriate changes to the mission or the future vision of the enterprise.
- Make choices about future clienteles and the resources and capabilities required to meet their needs.
- Generate and assess options to enhance the future value-creating performance and distinctiveness of the enterprise.
- Make judgements about acceptable risks in relation to these choices.

When thoughtful, well-informed choices have been made, there is reason to believe that the *content* of the proposed future strategy is realistic and viable for the enterprise to implement. However, there remain many possibilities to consider. These include:

- Analytical frameworks to assist the creative development of strategic alternatives (Chapter 7).
- Strategies at the business-unit level (Chapter 8).
- Innovation strategies and their application as external contexts mature (Chapter 9).
- Enterprise diversification strategies (Chapter 10).
- Acquisitions mergers and alliance strategies (Chapter 11).
- Multinational and global strategies (Chapter 12).

### The Importance of Action

Phase 3 – outlined in the grey box in Figure 1.4 – addresses the detailed considerations for a credible strategy to be implemented: translated into effective actions. This is the subject of Chapter 13, which has two main priorities. One is to highlight the need for the strategy to be

coherent as a whole and for its various elements to be mutually consistent. Many important elements of strategy content will penetrate into the domains of marketing, operations and human resources management, information technology, financial management and other functional areas. Chapter 13 does not address all of this ground in detail, but it highlights some important respects in which the overall strategy directs the management of resources and capabilities in these functional areas.

### The Challenges of Doing Strategy

The *principles* of good strategy design are straightforward. The tough challenges are to understand and manage the *processes* of forming and implementing a credible strategy in 'real world' situations. Strategists face various challenges:

**Complacency and aversion to change:** The more successful a company becomes, the more risk-averse its managers tend to become. Even without being complacent, they can resist considering a new idea because it challenges the current strategy on which their reputations and authority have been founded. However, there is a need to balance *continuity* with appropriate *change*. External observers report that enterprises typically experience quite long periods of continuity in their operations punctuated by short bursts of change.<sup>31</sup> While too much change too quickly could be very problematic, little or no change may ultimately require periods of intense reflection and painful adjustment.

**The complexity of the operating environment:** Strategic management requires managers to identify and assess the potential future significance of many issues and concerns that vary in scale, scope and salience, even as they face urgent, short-term pressures and stresses. Reliable data acquisition is also costly, which limits the comprehensiveness of the analysis they can carry out in practice.

### CASE STUDY: Friends Reunited<sup>32</sup>

Julie and Steve Pankhurst started the *FriendsReunited.co.uk* website in 2000 at the height of the dot.com boom. The site encouraged people to locate former school friends and develop new relationships. Within a year the website had 3 million registered users and 3.6 million hits a day. In 2002 it launched companion websites: Workplaces, a job site and Genes Reunited, an ancestry site. Even losing a libel suit brought by an unhappy teacher in 2002 did not arrest 'Friends' explosive growth. By Spring 2003 it had 8 million members and some subscribers were paying for premium services. MediaDNA said that, uniquely for a website, it had become one of the UK's top-10 innovative brands.

By December 2005 *FriendsReunited.co.uk* had over 15 million members, 1 million of whom were subscribers generating £12.4 million of revenues and £6.6 million profits (as calculated on the 'EBITDA' basis – a term explained in Chapter 5.)

From 2003 onwards the Pankhursts negotiated with commercial television companies to launch programme formats to link directly with the website. They had also added a dating site to the group. Various suitors showed considerable interest and the founders sold it to ITV plc for £120 million, plus a commitment to pay a further £55 million conditional on future business performance. The Pankhursts gained £30 million personally.

ITV had noted the rising popularity of broadband Internet access. Committed web users were spending over 3 hours a day surfing, more than the average viewer spent watching TV. It saw 'Friends' as a jewel in the crown of multiple, synergistic web activities linked to ITV.com and to its television programme content. Thus in 2006 it tried a TV programme called 'The School Run' linked to the website. From the start, however, some shareholders expressed doubts over ITV's strategy.

Table 1.A

End year status	2005	2006	2007	2008
Group revenues £ million	12	16	22	18
Membership of 'Friends'	15	17	19	18
Membership of 'Genes'		6	8	9

Membership and revenues of the 'Friends' Group continued to grow at an annualised rate peaking at 50%. In retrospect, membership peaked in 2007, stimulated by a £7 million advertising campaign.

In fact, by the end of 2006 the website had suffered 'the sharpest fall in brand value' of any brand in the YouGov database, a market research company. Friends Reunited was now facing severe competition from the explosive growth of other social networking sites, notably MySpace, Bebo, Piczo and later, Facebook. It had also become clear that the crucial performance metric was not registered members but *paying* subscribers and *unique* users. The 'Friends' site saw a decline in unique user numbers from 3.9 to 2.5 million (m) during 2006, with 'Genes' achieving 1.2m. For comparison, YouTube achieved 7.25m, MySpace 6.1m, Bebo, 3.9m and Piczo 4.9m).

By late 2007, 60% of Friends Reunited's members had reported using the site less than in the previous year. ITV introduced sponsored advertising on the site



and dropped subscription charges altogether less than a year later. In 2008, ITV experienced a severe decline in its core advertising revenues, leading to a strategic rationalization of the entire business. ITV paid the £55 million balance of the purchase price in early 2009 and announced that the website was for sale. According to ITV Chairman Michael Grade, 'the success of ITV.com has eclipsed *FriendsReunited.co.uk*.'

The 'Friends' Group was bought by D.C. Thomson, a Scottish newspaper and magazine publisher. Thomson already owned an ancestry website called *FindMyPast.co.uk*. The price agreed was £25 million, equating to an investment loss for ITV of £150 million over its 4 years of ownership. In addition, ITV had sustained substantial trading losses. The transaction required permission from the UK Competition Commission, following concerns of the Office of Fair Trading that it would reduce effective competition from three to two sites (US-owned *Ancestry.co.uk* being the other).

Social network sites evidently demonstrate a transient, fashion quality unless they offer exceptional functionality, such as Facebook (sheer popularity and global reach) and WAYN ('Where are You Now', a 'lifestyle and travel social network' site with 14 million UK and international members). Subsequent media comments on ITV's acquisition included: 'Buying Friends Reunited was an almost criminal waste of money'<sup>33</sup> and '.... the internet's version of the poncho, briefly fashionable, already hopelessly dated.'<sup>34</sup> While Thomson deliberated how best to develop its acquisition the 'Friends' and 'FindMyPast' sites maintained their separate identities although behind-the-scenes operations were being rationalised.

### Questions

1. Analyse the competitive position of the D.C. Thomson social network websites using currently available facts and your own knowledge of recent developments by other social networking sites.
2. What creative insights could you offer D.C. Thomson regarding a strategy for social networking? What strategic options would you recommend considering further?

**Apparent contradictions:** Contradictions appear in what managers know and understand. Individuals become aware of potentially problematic, uncertain issues, yet can read contrary future meanings into them. As human beings, managers are by no means always personally objective. Uncertainty encourages inaction. Individuals wait for clarification of what they cannot yet understand; meanwhile the pursuit of personal or factional interests creates internal conflicts.

**Sustaining creativity and imagination:** It is difficult to find novel but realistic solutions, especially to convert prospective threats into opportunities. Capable middle managers may have the insights into novel, counter-intuitive and unconventional *contrarian* strategies, but fail to persuade senior colleagues of their merits. In fact, extreme situations can require the courage to ‘bet the company’ on the success of a particular, novel initiative.

**Integrating and co-ordinating coherent actions:** Integration and co-ordination are required at various levels of strategy. There are multiple levels at which strategic decisions are taken and actions required: the corporate (multi-business, multi-activity level); the business unit level; and the functional level (marketing, operations, financial, etc.). Co-ordination *across* functions is also vital.

**Less thinking and reaction time:** There is less time to respond to unforeseen external events and to extract financial returns from risky ventures. Especially in industries such as communications, computing and electronics, technologies change so rapidly that enterprises experience acute time pressures. In innovative domains the challenge is to know whether and when to implement radical, innovative changes that can enhance future status, but probably devalue current products, resources and skills. Should one act first or to wait for others to take the pioneering risks? If they do, will it be too late to respond?

## Summary

LEARNING OBJECTIVE ①

- Effective strategies are important for the long-run survival of *any* enterprise, whether for-profit or not-for-profit, and most certainly for any enterprise operating in a hostile, competitive environment.

LEARNING OBJECTIVE ②

- Though basic strategy principles are actually not difficult to understand, it can be very challenging to apply them well in each particular case, given imperfect future knowledge and the limitations of human objectivity. Thus many enterprises ultimately fail or lose their independence.

LEARNING OBJECTIVE ③

- The chapter introduces four strategic frames of reference, which characterise how executive managers may think and behave. Frames can also be considered ‘lenses’ that enable external observers to understand and perhaps predict strategic management behaviour in other enterprises.

LEARNING OBJECTIVE ④

- Strategic management often adopts military or sporting language. Executives portray their enterprises as combatants and define future success as outperforming direct competitors. Yet competitors frequently offer similar products or services and generally co-exist relatively peacefully. The rational reality for many enterprises is that co-existence and (legal) collaborations are preferable to combat. Indeed, increasing global complexity often makes judicious collaborations vital.

- The ‘design-plus’ framework for strategic management is an essentially rational approach that comprises three phases: situation analysis leading to a statement of strategic position;

## LEARNING OBJECTIVE 5

options identification, assessment and selection; and implementation of the preferred strategy.

- ‘Real world’ strategic management is as much art and craft as science.

## Exercises for Further Study and Discussion



1. Create a word list that expresses your perceptions about strategy. Would this list have looked different before reading the chapter?
2. Henry Ford’s strategy was essentially the product of his ‘single brain’. Much more recently the incoming chief executive of a struggling global corporation told his senior management team that ‘from now on, I will decide the strategy and you will do the implementing’. Is this even a remotely realistic proposition?
3. Academic strategy research aims to describe observed phenomena, but also aims to develop theoretical principles with predictive use. To what extent does the complexity and unpredictability of human behaviour make this aim unrealistic? Discuss.
4. Explain the key differences between business level and corporate level strategies. What kinds of management skills does each require?
5. What reservations might you have about the ‘design-plus’ model of strategic management?
6. How likely are an enterprise’s size and age to influence its dominant frame of reference? What evidence can you find?
7. Obtain more facts about BBC activities and organization from its website. The Commercial Businesses group engages in for-profit activities. How compatible is this with the BBC’s status? What key issues should its executives address to help decide if they should sell it or invest further in it?
8. Why were the respective strategies of General Motors and Swissair not challenged more effectively well before they failed? (It may help here to consider the identity of their main stakeholders and their respective beliefs and interests.)

## Suggestions for Further Reading



Ansoff, H.I. (1991) ‘Critique of Henry Mintzberg’s “The design school”’, *Strategic Management Journal* (vol. 11, pp. 449–461).

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### Notes

- 1 See Ackoff (1970); Henderson (1984) writing on behalf of the Boston Consulting Group (BCG).
- 2 Porter (1980).
- 3 Chandler (1962); Ansoff (1965).
- 4 Associated with a variety of people including Barney, Wernerfelt, Peteraf and Penrose, some of whose influential work can be found in Foss (1997).
- 5 For example, Samra-Fredericks (2003).
- 6 Conclusions often associated with the statistical analyses of PIMS Associates, initially sponsored by General Electric (see Buzzell and Gale, 1987).
- 7 See Baden-Fuller and Stopford (1994) for a detailed account of their research with references to other respected sources including Bain, Porter, Rumelt, and Schmalensee, for example. Also: Weerawardena et al. (2006).
- 8 'Supreme excellence consists in breaking the enemy's resistance without fighting.' See Sun Tzu (2004).
- 9 Andrews (1980).
- 10 Hamel and Prahalad (1989).
- 11 Hofer and Schendel (1978).
- 12 Quinn (1980a, page 7).
- 13 Miles and Snow (1994).
- 14 Mintzberg (1987).
- 15 Porter (1980; 1985).
- 16 For example, Bain (1959).

- 17 Mintzberg (1985); Kanter (2002).
- 18 See <http://www.bbc.co.uk/aboutthebbc/purpose/what.shtml>
- 19 For example, *paradigm* means a base of knowledge, beliefs and way of thinking generally accepted without question, hence it informs decisions and actions. Scientific belief in Newtonian laws of motion was a paradigm that persisted for centuries until relativity and quantum mechanics emerged in the early 20th century (Kuhn, 1970). Terms used for shared organizational beliefs include 'perspectives' (Chaffee, 1985); 'schools of thought' (Mintzberg et al., 1998); 'recipes' (Spender, 1989), 'ruling myths' (Hedberg and Jonsson, 1977), and 'frames of significance' (Pitt and Clarke, 1997).
- 20 <http://www.beaverandtapley.co.uk/>
- 21 Quinn (1980b).
- 22 Allison (1971).
- 23 Lindblom (1959).
- 24 Pettigrew (1985) presents a very detailed account of the management of strategic change in a large chemical company (ICI).
- 25 <http://www.labour.org.uk>
- 26 Pascale (1984).
- 27 See Aldrich (1999) for a detailed account.
- 28 See <http://www.easy.com> and <http://en.wikipedia.org/wiki/EasyGroup>
- 29 In government too: Prime Minister Margaret Thatcher often used the phrase 'one of us' to refer to colleagues who shared her view of monetarist economic policy. Those who did not she called 'wets'.
- 30 In the European Union, 99% of firms employ less than a 100 people. Over half of employees work in such firms, the majority of which are less than 50 years old. The position is similar in the United States and in Asia.
- 31 Mintzberg (1978; 1985) and Pettigrew (1985) provide detailed accounts of continuity and change in strategic postures over time.
- 32 Main sources: ITV annual reports from [ITV.com](http://ITV.com); [Guardian.co.uk](http://Guardian.co.uk); and [FT.com](http://FT.com)
- 33 Emily Bell ([guardian.co.uk](http://guardian.co.uk) 9/3/2009).
- 34 Carole Cadwalladr ([guardian.co.uk](http://guardian.co.uk) 2/8/2009).