Thompson, J., and Martin, F. Strategic Management: Awareness and Change, 6th Edition

Chapter 1 Strategy Explained

Strategies are means to ends. All organizations, large and small, profit-seeking and not-for-profit, private and public sector, have a purpose, which may or may not be articulated in the form of a mission and/or vision statement. Strategies relate to the pursuit of this purpose. Strategies must be created and implemented, and it is these issues which are addressed by our study of strategic management. This opening chapter begins by outlining how successful organizations manage their strategies, and what they achieve, before exploring the meaning of strategy in greater detail. It then continues with an explanation of the strategic management process in the context of the framework upon which this book is structured before explaining the different ways in which strategies are created. It then describes how the subject of strategic management has developed in the last 30 years, before concluding with a brief consideration of the similarities and differences in strategic management in various types of organization.

Chapter 2 – Strategic Thinking, Environmental Analysis, Synergy and Strategic Positioning

Good ideas for the future can either start inside the organization or be obtained from external contacts, and the ability to synthesize and exploit the information that is available to develop new products, new services and new strategic positions is a reflection of the organization's *strategic thinking* capabilities. Think about how the idea for PartyGaming (Case 2.1) might have come about.

At one level, matching, exploiting and changing the linkages between resource competency and environmental opportunity is an expression of organizational competitiveness, and the presence (or absence) of competitive advantage. It was shown earlier (Chapter 1) how it is essential for organizations to seek competitive advantage for every product, service and business in their portfolios.

Strategic thinking embraces the past, present and future. Understanding patterns and lessons from the past will certainly inform the future – but given the dynamic, turbulent and uncertain business environments that affect many industries and organizations, it would be dangerous to assume that the future will reflect the past and be a continuation of either past or existing trends.

Synergy is either a path to sustained growth or a 'bridge too far' for organizations. It is concerned with the returns that are obtained from resources. Ansoff (1968) argues that resources should be combined and managed in such a way that the benefits which accrue exceed those which would result if the parts were kept separate, describing synergy as the 2 + 2 = 5 effect. Simply, the combination of the parts produces results of greater magnitude than would be the case if the parts operated independently.

Chapter 3 – Resource-Led Strategy

The resource-based view of strategy gradually emerged during the 1980s and 1990s with a series of important contributions, in particular work on core competency from Prahalad and Hamel (1990) and on added value by Kay (1993). This view helps to explain why some organizations succeed in creating competitive advantage and earning superior profits, while others do not. Consequently, it looks at strategies which can be identified with an individual company as distinct from those that are available to all competitors through an understanding of industries and markets. In other words, market opportunities have to be identified and then satisfied in an individual and distinctive way. Supporters of the resource-based view put forward a number of arguments. As long as there are opportunities which can be identified, it will normally be easier and less risky for organizations to exploit their existing resources in new ways than to seek to acquire and learn new skills and competencies. Innovation matters and new ways of exploiting resources must be found to sustain any competitive advantage. Relative differences which separate a company from its rivals are critical: just having a resource is not enough. For this reason, it can be useful if particular strengths are not easily learned and imitated by rivals. This is linked to the key themes of core competency and strategic capability. The opening case on Dyson shows how innovation and new ways of creating and adding value through design can markedly change an industry. In this particular case, innovation allowed a newcomer to establish a position of market dominance and force a reaction from established manufacturers.

This chapter looks first and briefly at the idea of a resource audit before considering resource linkages and synergy through architecture and the notion of the value chain. The chapter concludes with a section on reputation and branding, key intangible assets. Before reading this chapter you might usefully re-read the sections on core competencies and leveraging resources in the Part One supplement.

Chapter 4 – The Dynamics of Competition

Few companies enjoy the luxury of having no serious competitors or little likelihood of any need to change their competitive strategy. It is essential for companies to look for opportunities to create – and sustain – a competitive edge over their rivals and build customer loyalty that provides something of a comfort zone. Logically this should lead to superior profits.

However, competitive advantage, as a term, is easily misunderstood. Some organizations clearly believe, and thus delude themselves, that a clear competitive strategy constitutes advantage. It does not. Advantage comes from being better or different in some meaningful way.

Even the strongest companies cannot afford to stand still, as shown in Case 4.1 – where we can see how Nintendo has been successful because (a) it understands its industry, (b) it found a winning opportunity and (c) it surprised both Sony and Microsoft. A cynic, of course, would argue that a company must change more rapidly than its rivals can steal its ideas!

This chapter then begins by looking at the nature of competition in general, before discussing models and frameworks which help us to understand competitive strategy, competitive advantage and competitive dynamics.

Chapter 5 – Culture – An Introduction

Because culture and values influence strategic positioning, the strategic choices that are made and the feasibility of change - which in turn help determine success - this chapter looks into these implications and into the determinants of culture and cultural differences. The culture varies between organizations, although some elements will be common and transferable. It also varies between countries, influencing the relative competitiveness of industries and organizations in different countries.

Chapter 6 – Strategic Purpose

Strategies are means to ends – this chapter is about these ends. Organizations undertake purposeful activity; what they do is not without purpose. Ideally, that purpose will be understood, shared and supported by everyone in the organization such that there is a clear, if broad, direction for the activities and strategies. Establishing the purpose and direction is a key role of the strategic leader; and it will provide a basis for the more detailed objectives and performance targets for individual managers and employees. This does not imply that everyone always shares the more detailed objectives; indeed, there can often be internal conflicts over these. Moreover, what individual people actually do and achieve affects organizational performance. Hence, this chapter looks at the idea of purposeful activity by considering the organizational mission and objectives. To achieve the purpose, of course, we need a clear business model!

Chapter 7 – Strategic Success

The performance of a company, the outcomes of strategies it is pursuing, is typically evaluated by financial ratios and other quantitative measures. In this chapter it is argued that while these are an essential element of the evaluation process, alone they are inadequate. We need to take a more holistic perspective which embraces both subjective performance indicators and also recognizes the underlying causes of relative success and failure. In this chapter we show how different measures and assessments can provide conflicting conclusions and provide a comprehensive model based on E-V-R (environment-values-resources) congruence. Financial ratio analysis, however, remains an important aspect of management case study analysis; consequently a section explaining ye main rations is appended to this chapter.

Chapter 8 – An Introduction to Strategy Creation and Planning
The following chapters show why it is the case that every manager can be a strategy maker, although it should be said that not every manager can be either a leader or an entrepreneur. a dominant feature. Chapter 8 provides a short introduction to the whole topic of strategic creation and strategic planning. It recaps on themes introduced in Chapter 1. Figure 1.10 summarized the situation, by showing the linkages between the ideas of intended strategy (through strategic planning and entrepreneurial leadership) and emergent strategies when intended strategies are changed incrementally as they are implemented and new strategies are created as managers adapt in a changing environment.

Chapter 9 – Strategic Leadership, Entrepreneurship and Intrapreneurship
Strategic leaders ‘come in all shapes and sizes’. They have to be able to think, make things happen, engage the support of other people and, on occasions, be the public face of the organization. It is optimistic to believe that all strategic leaders will be good at all four of these tasks. There is no ‘right’ style or personality but there are certain roles that must be fulfilled effectively, regardless of the type or size of organization. The strategic leader has an overall responsibility for clarifying direction, for deciding upon strategies by dictating or influencing others around them and for ensuring that strategies are implemented through the decisions that he or she makes on structure, style and systems. There is a case to be made that the basic nature of the strategic leader will have an impact on the style and culture of an organization, certainly over a period of time. Companies will become dull if they have dull leaders, belligerent leaders could well encourage (perhaps indirectly) a bullying culture, adventurous leaders may well preside over adventurous companies and equally risk averse leaders will rarely be found running risk oriented businesses. Some leaders are entrepreneurial and visionary, but this is not a requirement. In turn these visionary leaders may be very effective entrepreneurs but they may not be the people to manage the business at a particular point in time. This requirement to try and balance the leadership needs of a business with the need for effective management is at the heart of the success or failure of any business.

As well as leading from the front it is also important for a leader to create a climate that facilitates emergent change – appropriate employees should be empowered, encouraged and energized. Intrapreneurs then lead the emergent change initiatives. Leadership is both a job and a process – a process concerned with influence and change. It requires both personal characteristics and leadership skills. The skills can be learned, but effective leaders need to possess certain characteristics in the first place. Successful leaders also tend to build effective teams to support them. Before reading on, readers might wish to revisit Chapter 5 and re-read the sections on empowerment and learning organizations.

In exploring these issues, this chapter also looks at how some leaders are perceived to fail and fall from grace, and at the vital issue of leadership succession. Leadership is both a job and a process – a process concerned with influence and change. It requires both personal characteristics and leadership skills. The skills can be learned, but effective leaders need to possess certain characteristics in the first place. Successful leaders also tend to build effective teams to support them. Before reading on, readers might wish to revisit Chapter 5 and re-read the sections on empowerment and learning organizations.

Chapter 10 – Strategic Alternatives, Strategy Evaluation and Strategy Selection

This chapter outlines the various strategic alternatives that might be available to an organization in thinking and deciding where it wants to go, and for helping to close the planning gap. The attractiveness of particular alternatives will be affected by the objectives of the organization. While a whole range of options is discussed, it does not follow that they will all be available to an organization at the same time. Because of the costs or risks involved, particular alternatives might be quickly rejected. The appropriate strategy always matches the environment, values and resources congruently. As shown in Case 10.1, Diageo, organizations change their strategies over time, and from this the corporate profile takes a new shape. In their consideration of strategic alternatives, some organizations will be entrepreneurial and actively search for opportunities for change. Others will only consider change if circumstances dictate a need. Some organizations will already have sound and effective strategies that are producing results with which they are satisfied. Others may ignore the need to change. Some texts have quoted the example of the typewriter companies who thought they knew instinctively that electric typewriters, let alone word processors, would never catch on. The essential criteria for strategy evaluation and selection are appropriateness, feasibility and desirability. These involve a mixture of objective and subjective factors. Not every strategic decision will be objective and consequently we need to understand how managers (and in turn organisations) make decisions and the impact of uncertainty and judgement on these decisions.

Chapter 11 – Strategic Growth

External growth strategies continue to be popular alternatives for many companies, particularly larger ones, but research suggests that they often fail to meet expectations. Growth strategies need careful, thorough and objective analysis before they are pursued, and care and attention in implementation. This chapter explores diversification and acquisition strategies adopted by UK companies and considers how to manage these strategies effectively.

Acquisitions happen for a number of reasons, some strategic, others more personal to a strategic leader. There is a strongly held view that the strategic argument of synergy should only be used to justify an acquisition which implies real diversification if the companies concerned are somehow blocked from working together in some form of partnership, alliance or joint venture. Simply, there is an argument that alliances and joint ventures are often a better alternative than a full acquisition, merger or takeover for generating synergy and fuelling growth. Alliances and joint ventures are not, however, without risks and they can sometimes be problematical in the implementation stages. However, they will generally offer more flexibility. Their downside for many strategic leaders is that they do not create a larger and more powerful organization.

This relatively short chapter explores these issues by looking at different forms of partnering and the various reasons for doing so. Franchising and licensing are also considered briefly. Strategies can only be judged to be relatively successful or unsuccessful when implementation issues are also considered. Therefore, corporate strategy is explored here in the context of both the strategy and its implementation.

This chapter groups alternative directions into three main clusters: limited growth, substantive growth and retrenchment. The importance of innovation to remain competitive when pursuing these directions is also discussed. Many factors will affect and influence the choice of strategies and these might depend upon the various stages of a firm’s development. It is likely that there may be more than one strategy suitable for the firm to pursue. However, reasonable options will need to be evaluated against some set criteria. This chapter discusses the key issues involved in deciding upon the best strategy through a framework of appropriateness, feasibility and desirability.

Chapter 12 – International Strategy

We have discussed in Chapters 10 and 11 the various strategic alternatives that might be available to an organization in thinking and deciding where it wants to go, and for helping to close the planning gap. In this chapter we look at the issues in the international context. Options range from ‘simply’ exporting to a fully-fledged global strategy and structure. The attractiveness of particular alternatives will be affected by the objectives of the organization. Some companies will be proactive; others reactive. Not all organizations need to, or should, take advantage of every international opportunity which comes their way. The appropriate strategy always matches the environment, values and resources congruently. In this chapter we will explore what is meant by a global strategy and in particular the different market entry strategies that are available for businesses seeking to develop the sales of their brand overseas.

Chapter 13 – Failure, Consolidation and Recovery Strategies

Ultimate business failure implies closure or liquidation – the organization has failed to satisfy certain key stakeholders and it has ceased to be financially viable. It is beyond turning around by new management. This happens with many small businesses and it also happens with much larger and established organizations. However, the larger the organization, the greater the general likelihood that at least some part can be rescued. However, where the fortunes of a business have sunk to a crisis level, and radical changes of strategy are required, this clearly also represents failure. It is a failure of strategic management because mistakes have been made, in the form of either poor judgement or relative inactivity in the face of a need to change. If a business, or a part of a business, is sold because it is unprofitable, this may well represent failure by the current management team. The assumption is that the business has a stronger future in different hands. However, one should not assume that all divestments of this nature imply failure – they may simply represent poor strategic fit and perhaps a past misjudgement. Hence the study of failure here concerns why the performance of a business can sink to a crisis level which demands either drastic remedial action, or sale or closure. There is also an argument to be made that under-performance and under-achievement (against potential) is a form of failure.

Poor strategic leadership, insufficient control of the essential aspects of financial management and the failure to be competitive are the key issues behind corporate decline and failure.

Chapter 14 – Strategy Implementation

It was emphasized in Chapter 10 that to be considered effective a chosen, intended strategy must be implemented successfully. The prospects for effective implementation are clearly dependent upon the appropriateness, feasibility and desirability of the strategy. At the same time, competency in implementation – the ability to translate ideas into actions and generate positive outcomes, sometimes swiftly, can itself be a major source of competitive advantage. Internal processes can add value by creating high levels of customer service and/or saving on costs by, say, removing any unnecessary delays or duplication of activities. In this last section of the book, therefore, we consider issues of strategy implementation and control. Reed and Buckley (1988) suggest that new strategies are selected because they offer opportunities and potential benefits, but that their implementation, because it involves change, implies risk. Implementation strategies should seek to maximize benefits and minimize risks. How might this be accomplished? The final section examines the linkages between strategy and structure by examining a number of alternative structural forms and by considering the key issues of centralization and decentralization. The forces that influence and determine the structure are discussed. The structural challenges of global and small, entrepreneurial businesses, manufacturing and service companies and organizations in the public sector are also covered.

Chapter 15 – Leading Change

Organizations and managers face change on a continuous basis, especially in volatile environments. Some changes are reactions to external threats; others are proactive attempts to seize opportunities and manage the environment. Organizations should seek to obtain and maintain a congruence between their environment, values and resources, making changes when there are pressures from either the environment or their resources. It is crucial that organizations seek to create and sustain competitive advantage, and wherever possible innovate to improve

their competitive position. This implies a readiness to change within the organization and the ability to implement the proposed changes.
At times there will be a perceived need to try and change values and culture. Towards the end of the twentieth century the pressures for change in a wide cross-section of businesses were clearly visible. Food manufacturers and retailers were affected by changing consumer attitudes to their diet. Mutual societies and banks were responding to changes in the competitive regulations that directly affect them, generally seeing the changes as opportunities. Technological change is at the heart of upheavals in the film and music industry. Many see the changes as threats; others as opportunities.

This chapter looks at various issues and problems in the management of change.The first and perhaps most important element in the change process is that of leadership. When a major business organization is under pressure it is the chief executive who feels the heat. Organizations must be reactive to external change pressures and proactive in seeking to take advantage of opportunities and shape their environment if they are to be effective strategically. Cultural and power considerations are important variables in the management of change. It is particularly useful at this point to refer back once again to the earlier discussions of intrapreneurship, empowerment and learning organizations. The opening case looks at a series of strategic, structural and leadership changes at Apple Computers. The case charts the story of Apple over some 30 years and shows how the company has enjoyed mixed fortunes. Sometimes highly innovative and successful, Apple has also been affected by competitor initiatives which have changed the personal computer industry in dramatic ways. Some of the changes documented were therefore reactive while others were more proactive.

Chapter 16 – Managing Strategy in the Organisation
Growth is often an important objective for organizations. Frequently this growth has involved diversification and acquisitions in either related or unrelated areas. In recent years the strategic logic of large, diversified conglomerates has been questioned as many organizations have instead chosen to focus on related businesses, technologies or core competencies, where they can more readily add value across the businesses and generate synergy. Whatever the strategic choice, though, it must be implemented successfully. The opening case looks at how GE has become the world's leading company (by asset value) whilst remaining extensively diversified. Conglomerate, diversified businesses cannot be dismissed automatically; they can be both successful and profitable if they can find new, suitable businesses to acquire, opportunities for growth with their subsidiary businesses and if their strategic control system is appropriate. Simply, the strategy can still be justified if it can be implemented successfully. This chapter explores alternative approaches to strategic control and applies these issues to diversified conglomerates. The relationship between the corporate centre and individual businesses is examined. Typically, in recent years, corporate had offices have been slimmed down as organizations have become more decentralized.

The implementation of intended strategies, and the ability of the organization to be responsive in a dynamic, competitive environment, require the organization's strategic resources to be deployed and managed both efficiently and effectively. It is also vital for the organization, on the one hand, to seek to be crisis averse rather than crisis prone and, on the other hand, to be able to deal with crises if and when they do occur. All of these issues are a reflection of the organization's ability to appreciate and manage risk and they are also discussed in this chapter.

This is a chapter of debates, opinions and interpretations, but few clear-cut answers. Simply, both the strategy and the structure need to change but stay complementary as the business environment changes. If accomplishing this was straightforward and clear-cut many organizations would be more successful than they actually are.

Chapter 17 – Final Thoughts: the Purpose of Strategy
In these last few pages the main ideas from this book are synthesized in order to reinforce the key ideas and to address two questions: first – what is the purpose of strategy? – and second –

what is strategy? Many organizations are now operating or competing in dynamic, turbulent, uncertain, and chaotic financial and business environments. In business terms this is partly the result of industries and markets becoming ever more global; it is also driven by continual improvements in technology which, among other things, causes product, service and **strategic life cycles** to shorten. In turn this means that organizations must act, react and change more quickly. Some of these changes will be continuous and emergent, as vigilant, responsive organizations seize opportunities and innovate ahead of their rivals.

Other changes will be discontinuous and imply changes in competitive paradigms. Technology can both create and destroy industries, markets and windows of opportunity; breakpoints – or switches to new competitive rules and agendas – happen increasingly frequently. Organizations cannot ignore this reality and the pressures that they bring, however disruptive the changes might be.