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STRATEGY

The term 'strategy' refers to the plans an organization makes in order to determine how it will reach its goals, followed by the implementation of those plans and the achievement of those goals. This definition is deliberately broad, and anyone reading more deeply into this subject will quickly see that there are widely differing views as to what strategy is, and is not. We will touch on some of these arguments below, but for now, let us assume that strategy is the process of doing the following:

- determining what goals the business should have;
- determining what options exist for reaching those goals;
- choosing the best available option;
- putting the plan into practice so as to reach the desired goal.

Every organisation needs a strategy, no matter whether it is a giant multinational or a small business, a university or health care organization or charity. There is a view that 'strategy' is something that only big organizations should do, because only they have the time or resources to do it. This is wrong. Even entrepreneurs starting their businesses for the first time need some sort of strategy, even if it is only a few notes on a scrap of paper. One of the reasons why so many start-up businesses fail in the early stages is that the entrepreneurs didn't have a clearly thought-out strategy.

Context means that strategies will differ; every business will differ, and circumstances change over time, but the principles remain the same. Because strategy in effect tells us what the organization is going to do and how it is going to do it, the subject is

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of very great importance. Most business schools now teach strategy as a core course, requiring all students to take it. Other courses in areas such as marketing, human resources management, technology management and so on will usually have a strong element of strategy built into them, because all are important in making any strategy work.

DEFINITIONS

Before going further, there are a few concepts that need to be defined.

Core competencies The strategies a business can adopt and, realistically, put into effect will be limited by the resources the business has available; not just money, but also talent, ability and knowledge on the part of employees. The Red Cross is a humanitarian organization with many medical staff and others trained in relief work. Realistically, its best and most effective strategies will be focused on humanitarian aid. The Red Cross would be less likely to develop and carry out an effective strategy for, let us say, launching manned space missions, because it lacks the core competencies this requires.

Implementation Very simply, implementation refers to the process of making strategy work, of carrying out the plan to its conclusion. This is the most difficult and risky part of all strategy, and the area where most strategic failures occur. We will talk about this in more detail later in the chapter.

Goals Goals, or targets, are firm statements of the position where the organization would like to be. They are often expressed numerically. Common goals include:

- increasing income, sales and/or profits by a specified percentage or amount over a specified time. For example, 'We want to increase our turnover by 15 per cent over the next two years'.
- increasing market share to a specified level, such as 'We want to have 30 per cent of the market in two years' time'. Simply, this means that the company wants to ensure that 30 per cent of all customers in a particular market are buying its products rather than those of its rivals.

- growing the market to a specified level, such as 'We want to grow the market by 10 per cent over the next two years'. This means that the company wants to increase the numbers of its own customers by 10 per cent, regardless of what its rivals might be doing.

Increasingly, businesses are under pressure to meet non-monetary goals relating to social responsibility. Social and environmental responsibility was formerly kept separate from the main business strategy, but as society faces widening and deepening social and environmental challenges, businesses are beginning to understand that their own reputation requires them to put social responsibility at the heart of their strategy. For example, Unilever's Sustainable Living Plan builds elements of the circular economy into the broader business strategy. In India, the Tata Group has made social impact a key part of its strategy for more than 150 years. Other companies are following these examples and building measures to reduce environmental impact into their strategies.

For non-commercial organizations, goals might also be expressed as a statement of impact. For example, a hospital might set itself a goal of reducing waiting times for operations, or a social care organization might intend to increase the number of families and vulnerable people it reaches and serves. A charity might have a goal of increasing donations to fund a particular project, for example.

Mission The mission of the organization is a statement of what that business believes to be its guiding purpose and ethos. Often missions are set out in a formal mission statement, which is given to all employees. Missions are statements of intent or belief, and are not necessarily concrete goals as such.

Strategic constraints In a perfect world, we would always pick the ideal option for ourselves and our organizations. But in reality, what looks like the ideal option sometimes turns out not to be possible. When choosing a strategy, large or small, managers have to look at the following issues:

- Time. Can the strategy be developed and put into place in time to meet its goals?
- Cost. Can the organization actually afford the costs of implementing this particular strategy?

- Resources. Does the organization have the skills and resources to carry out this strategy successfully?
- Internal factors. Is this strategy going to be acceptable to employees?
- Ethical and legal considerations. Is this strategy going to be acceptable to government and to society?

If the answer to any of the above is 'no', then managers will probably have to start looking at new options.

Strategic objectives Strategic objectives can be thought of as staging posts towards goals. Achieving a complex goal such as increasing turnover or growing a market requires many different activities by many parts of the business. To achieve turnover growth may require investment in new resources and hiring new employees. New products and new technology systems will be required. Marketing teams will need to find new customers, or increase demand by existing ones. Thus each part of the organization ends up with its own set of objectives, which taken all together add up to the overall business goal. This means, of course, that as well as the overall strategy of the business, there will be many different 'mini-strategies' going on in various parts of the business so that these individual objectives can be achieved.

It is very important the strategic objectives and goals are not confused with the larger strategy. As Richard Rumelt pointed out in his book *Good Strategy/Bad Strategy*, this often happens. The goals and objectives are the end of the process; the strategy is the route by which those goals and objectives will be achieved. Goals and objectives without a realistic strategy will often not be realised because the organization has a clear picture of where it wants to be, but no idea of how to get there.

Strategic options Strategy is never black and white. When choosing a strategy, there are always at least three options – do this, do something else, or do nothing – and usually there are very many more than that. At first glance, it is not always clear which choice will be the best. Nor are some options always immediately obvious. Working out what the options are and choosing the best one is the second most difficult and risky part of strategy (the most difficult is implementing the strategy, which we will come onto in a moment). Picking the right option could lead to long-term success, but picking the wrong one can result in expensive failure.

ONE STRATEGY OR MANY?

Much of the foregoing assumes that we are discussing overall strategy affecting the entire organization, and that strategy is made at the topmost level, in the boardroom or the offices of the senior executives. But strategy is, or can be, made and implemented at many different levels of the organization. Each department or business unit is likely to have its own strategy, which relates to or forms part of the overall strategy but is formed and implemented entirely outside the boardroom at head office.

Strategy should not be thought of as a monolith. A better analogy is that of Russian *matroushka* dolls. You may well have seen these in souvenir shops: a painted wooden figure of a doll is lifted up to reveal another, slightly smaller doll inside, which in return reveals yet another even smaller doll, and so on. A fully developed strategy in fact consists of a whole series of strategies that interlock and nest into each other, all fitting together like parts of a puzzle.

Most critically, the various functional departments of an organization will each have their own strategies for carrying out their particular work. Here are some examples:

Marketing strategy. This type of strategy considers how best to market goods and services to customers and clients. It includes considerations such as what products to make, what price to charge, how to deliver the service to customers, how best to advertise and also which customers to target (see Chapter 5).

- **Human resources strategy.** This type of strategy focuses on how many employees the organization requires and what their capabilities and skills should be. Recruitment of new employees, retention of existing employees, and how to provide training and to enable these employees to develop and expand their abilities are all part of the strategy (see Chapter 3).
- **Technology strategy.** Technology requires investment, and every organization needs a strategy for technology development. What new technologies are coming along, and which ones should be adopted?
- **Financial strategy.** Given the ever-increasing complexity of financial markets, it is more important than ever for an

organization to have a strategy for managing its financial assets, its debts and its relationship with shareholders or others who provide funds (see Chapter 7).

- **Social/environmental responsibility strategy.** As noted above, for businesses social responsibility is increasingly being seen as a key strategic principle as businesses switch their focus from a purely profit motive to an understanding of the impact their operations have on society and the environment. Even so, it may be that the business needs a specific social or environmental strategy around key issues, such as reducing carbon emissions or improving the quality of life in communities where it operates.
- **Reputation strategy.** All organizations, businesses as well as charities and public sector organisations, stand or fall based on their reputation. Do people trust them, enough to use their services or come to work for them? As has been observed many times before, it takes decades to build a reputation but only a few minutes to lose it, and in the age of social media any mistake the organization makes will quickly become public knowledge.

These are just some of the specific strategies that exist within the general framework: there are many others.

THE ORIGINS OF STRATEGY

Strategy is a term adopted into management from military science. The word comes from the Greek *strategia*, where it referred loosely to the art and science of war (in the Byzantine Empire, the word for 'general' was *strategos*). In ancient China, the general Sunzi, or Sun Tzu, produced his *The Art of War* around the fifth century BC. The book (which was heavily rewritten in the third century AD) became standard reading for both soldiers and businesspeople in East Asia, and also more recently in the West.

In Europe, the sixteenth-century Florentine politician and writer Niccolò Machiavelli outlined his view of strategy in several books, including *The Prince*. Machiavelli believed that there were two key components in any strategy: *virtù*, or the resolve and strength that a leader showed in carrying a plan through, and *fortuna*, meaning serendipity or luck. *Fortuna* could not be controlled, but it could be anticipated and taken advantage of. His ideas were picked up by two German writers of the nineteenth century, the Prussian staff officer Karl von Clausewitz, who fought against Napoleon, and Field Marshal Helmuth von Moltke, the Prussian general who defeated France in the war of 1870–71. Both men thought that there were some basic principles of strategy which could lead to success, but emphasized that no strategy could be *guaranteed* to succeed. They referred to the concept of 'friction', a combination of small but unforeseen events which slowly build up and create pressure and distractions for the leader. These can lead him to deviate from the strategy or even abandon it altogether; Moltke once famously commented that 'no plan survives contact with the enemy'. Overcoming friction requires strength and resolve to carry a plan through. In other words, implementation is as important as the strategy itself.

These two ideas, of generic strategies and of the importance of implementation, were carried over into the world of management in the early twentieth century. The management thinkers of that period borrowed heavily from other disciplines, and they greatly admired Moltke as a strategist and organizer. Until the 1960s, strategy in management was virtually a wholesale transfer of the principles of military strategy, and military influence remains strong today (witness the popularity of books like *Marketing Warfare*).

Strategy remains a developing and evolving field. Many of the major theoretical debates –on the relationship between strategy and goals, on the relationship between strategy and organization, on the relevance of generic strategies – have not yet been resolved. It is important to be aware of these debates when studying strategies, and to note the positions which individual authors take when writing about them.

GENERIC STRATEGIES

The idea that there are generic strategies also comes from military science, and has generally met with a good reception. Generals like tried and proven recipes for success that they can employ in any situation, and so do managers.

SOME COMMON GENERIC STRATEGIES

- **Grow.** The first priority of the organization is to achieve growth in terms of size, number of customers, income, profits, etc. Growth is generally seen as a positive thing as it enables the organization to achieve economies of scale; in other words, income rises faster than costs. This is not always true, however.
- **Migrate.** Rather than simply competing against existing rivals and hoping to achieve growth at their expense, organizations might wish to move into new markets where there is little or no competition, the so-called 'blue ocean' strategy advocated by the writers W. Chan Kim and Renée Mauborgne. This often happens when a company is able to successfully develop a new and innovative product which no one can match (see Chapter 8).
- **Defend.** The organization reckons the prospects for growth are poor, and will instead seek to defend its existing position against rivals.
- **Harvest.** The market is stable or declining, and the organization will seek to make as much money as possible while the situation lasts.
- **Divest.** The market has no future, and the organization sells its relevant assets and gets out.
- **Turnaround.** The organization itself has been struggling but there is still potential in the market. The task now is to reorganize and seek to reclaim lost market share, turnover, etc.

One of the most famous sets of generic strategies is that developed by Michael Porter in his book *Competitive Strategy* (1980). Porter held that all businesses have just four basic strategic options open to them:

1. cost leadership: selling goods to a mass market at a lower price than rivals;
2. differentiation: selling goods to a mass market that are superior in quality to those of rivals;

3 cost focus: selling goods to a small, narrowly defined market at a lower price than rivals;
4 focused differentiation: selling goods to a small, narrowly defined market that are superior in quality to those of rivals.

The only two decisions the company needs to make, says Professor Porter, are whether to sell to a mass market or to a small one (competitive scope) and whether to compete on the basis of price or on the basis of product features and quality (competitive advantage). All else will follow.

Proponents of generic strategies argue that the best strategies are the simplest ones. All business goals are fundamentally similar – for example to increase turnover, or to increase market share – and the strategic requirements of any given situation are at heart similar as well. Only a limited number of strategic options will be effective in a given situation. So, rather than re-inventing the wheel every time they need to develop a new strategy, managers can analyse the situation, decide which generic option best fits their needs and then customize it as the situation might require.

Opponents of generic strategies concede that they are easy to use, but argue that this creates a mental trap. Managers develop a mindset where they are unwilling to look beyond the generic strategies that have been presented to them, or to think uncritically about whether there might be other options. Other opponents reject the idea that all situations are similar, and argue instead that ongoing changes in the environment are rendering old strategic options obsolete. With the very ways that we do business, contact customers, manage employees and so on changing all the time, how can we possibly apply the same old strategies? This discussion has been particularly lively in the aftermath of the Covid-19 pandemic, when patterns of working, spending and consumption quickly changed and altered.

Two academic scholars, Yves Doz and Mikko Kosonen, argue that instead of implementing generic strategy, companies should concentrate on preparing themselves for strategic change whenever it is necessary, and be ready to adapt and develop a new strategy at short notice. This is known as the ability to ‘pivot’, or to make rapid and flexible adjustments. According to Doz and Kosonen, the key ingredients are *strategic sensitivity*, or the ability to quickly understand threats and opportunities as they arise; *resource fluidity*, or the ability to quickly move resources into position to meet threats and take advantage of opportunities; and *collective commitment*, the willingness of everyone in the organization to embrace change and uncertainty and work together.

'Generic strategies' ought more properly to be described as 'generic strategic options'. It is true to say that in any given situation the number of choices is limited, and the kind of strategic options shown in the box above make useful starting points. It is also true – and this is another lesson learned from military science – that the best strategies are very often the simplest. Strategies are like machines; those with the fewest number of moving parts are least likely to break down. At the same time, simplification does reduce options. Making strategy is ultimately a creative process, and keeping an open mind about new possibilities outside the 'box' of conventional thinking is very important.

The problem comes when we start to think about generic strategies as *rules* rather than principles. If we see these kinds of strategies as rulebooks that we have to follow, and see any deviation from them as being unsound or wrong, then we do risk inhibiting creative approaches and missing out on new opportunities. A useful precept to follow here might be the advice of the British novelist Evelyn Waugh, who once wrote, 'I regard rules as useful guides as to how to misbehave most effectively.' Generic strategies/strategic options are a valuable starting point, but often their real value lies in showing you how best to deviate from them.

STEPS IN STRATEGY

It may be difficult to find formulas for strategy itself, but there is a fairly simple, tried and tested process for developing strategy. The following procedures, with some variation, will be found in most textbooks.

EVALUATION

The process begins by looking at the business itself. What is its current state? How well is it performing? What are its strengths, and its weaknesses? Sometimes this process has to go further and ask some really visceral questions like, what does this business do? Who are its customers? What is its basic purpose? This can lead to re-evaluation of the business goals and even of the mission itself, though some management writers are convinced that setting goals and mission should be kept separate from strategy. At all events, the first step in strategy is to make sure that the manager has a clear picture of the business, what it can do and what its limitations are.

One of the most important parts of the evaluation process is ensuring that managers have a clear view of what the organization's resources and capabilities are. Many otherwise well-designed strategies fail because the organization does not have the resources to carry them out. Resources include money and technology, but also people. Textbooks sometimes speak of *management capacity* in this context. Having the right people with the right skills and, even more importantly, enough time to implement any strategy is vital.

SCANNING THE ENVIRONMENT

The next step is to look at the environment. When we talk of environment we do not specifically mean the natural environment or the geosphere, although the condition of these will often be important. Environment also means the entire world external to the business: its customers, its suppliers, the current attitude of government and regulatory bodies, the activities of any competitors, general social trends, international and domestic political trends, overall market trends and more. All of these have to be analyzed and understood. Some organizations, especially large ones, conduct this kind of environmental scanning on an ongoing basis, continually updating their own knowledge about their environment. Others, with fewer resources, are forced to conduct formal scanning exercises periodically. But individual managers can – and should – do some scanning for themselves on a daily basis, even by such simple means as reading newspapers and the trade press.

DEFINING STRATEGIC PRIORITIES

Evaluating the position tells the manager what strengths and weaknesses the organization has, while scanning the environment shows what opportunities may be found in the world around them

– and also what threats to the business may exist or be developing (new competitors could be coming in, prices of raw materials could be going up and eating into profits, etc.). There are tools for doing these things, including SWOT (strengths, weaknesses, opportunities, threats) and PESTEL (political, economic, social, technological, environmental and legal factors) which can be combined to assess the situation from different angles. Once a composite picture has been assembled, it is possible to determine what the strategic priorities should be. What needs to be done most urgently to reach the organization's goals? What problems need to be dealt with as a matter of priority? What opportunities need to be taken advantage of before they slip away?

DEFINING AND ASSESSING STRATEGIC OPTIONS

Defining options can be time-consuming, frustrating and risky. This is a critical stage; picking the wrong option can send the organization down the wrong road, and rectifying the mistake later can be very costly. Nor will the nature of each option always be clear. Some will be obviously wrong; others may appear to be right; still others will be unclear. Sometimes two or more options will appear to be equally 'right' and management teams can then spend hours or even days arguing over which 'right' option to pick: like the donkey in the Greek fable that starved to death because it could not make up its mind which of two equally tempting bunches of hay to eat. Always remember during this stage that a decision must be made, and a second-best decision is usually better than no decision at all.

For those who are really stuck at this stage, the generic options described by Michael Porter can come in useful here. They can, at least, provide a starting point for more detailed thinking. By comparing generic options to the real situation – as determined in the previous two stages – one can adapt the former to arrive at some realistic alternatives. Valuable time can often be saved in this way.

For those who want to reject generic options in favour of the more creative approach, it is still necessary to be systematic. The first step is to make sure that all involved understand and agree on the fundamental problem or issue. If, for example, the goal that has been agreed on is to increase turnover by 10 per cent over two years, then start with that premise. Next, look at every area of the organization, even the most peripheral to the current issue. In what ways can that area contribute to increasing turnover? This generates a starting list of options. Some of these will rule themselves out almost immediately as being costly or impractical. But by considering and analyzing the remainder and whittling them down, one can fairly quickly arrive at a range of practical options. The American consultant William J. Altier recommends scoring options on a scale of 1–10 based on how 'satisfactory' the management team considers each to be. This stage also involves considering what resources will be needed to put the strategy into effect; resources and costs will be a very important factor in determining the viability of each option.

The final choice may be as much subjective as objective, particularly where two more equally satisfactory options present themselves. A subjective element is always present in strategy making, and that is not necessarily a bad thing. Remember too that every organization is different, and every situation they find themselves in is different. Decisions must be made that are right for that organization at that time and place, rather than conforming blindly to general principles just for the sake of doing so.

SETTING OBJECTIVES AND TARGETS

With the strategic option chosen, there comes the stage of setting intermediate objectives and targets for different areas and departments of the business. This setting of targets helps make clear to everyone in the organization what their own responsibility will be. How these targets will be set and what they will be depends on the organization and the circumstance, but most writers on strategy warn against too much reliance on hard, numerical targets. Soft measures can be useful too, especially when non-financial goals are present.

PLANNING WAYS AND MEANS

The overall strategic framework is now in place, and the next step is to plan how each goal will be reached. More detailed resource requirements can be drawn up, and budgets can be established for each stage of implementation. This is really a continuation of the previous stage, but involves planning at a more detailed level. Once the resource requirements are known, they can be compared to existing resources and gaps analyzed. Will we need more money to make this work? If so, where should be get it? Do we have people with the right skills? If not, should we hire them and bring them onto the staff, or bring in consultants on a temporary basis?

PLANNING FOR CONTINGENCY AND RISK

What happens if the strategy goes wrong? If 'friction' builds up, then the whole strategy risks being thrown off course. All sorts of things can of course go wrong, ranging from costs being higher than expected, to major disasters such as fire, terrorism or war. The list of things that can go wrong is literally endless, and could cause sleepless nights for the rest of a manager's career if they were to try to consider them all.

Different risks can be dealt with in different ways. Some, such as fire and weather, can be insured against. Others, such as the threat of war or terrorism, can be avoided or at least minimised during the early stages of the strategy process. Risk assessment professionals can be called upon to advise on how best to deal with these. One piece of advice that the professionals give is to only insure against or plan for those risks which can be reasonably expected to happen. It is theoretically possible that an asteroid could wipe out your head office, but the chance is so remote as to not be worth insuring against (even assuming you could get cover). Meanwhile, there are plenty of more likely risks that need to be dealt with. Here again, tools like SWOT and PESTEL can be used to assess likely risks and understand them.

At the same time, it is important to be realistic about risk and be sure that you have really understood the issues. Climate change is proving to be a game-changer in terms of global environmental risk, and few organizations are not affected by it in some way, but how many have really understood the risks they face? A study by the consulting firm Deloitte has found that only about half of all businesses have fully assessed the risk posed by rising global water shortages. The Covid-19 pandemic is an even more dramatic illustration. Despite repeated warnings by epidemiologists that a pandemic was a very real possibility, very few organizations or governments were prepared for the event. Pandemic insurance was available, but only a tiny percentage of businesses had taken out pandemic insurance.

The biggest risk of all, of course, is simply that things will not go according to plan, and that at some point in time your strategy will start to come unstuck. In reality, this is not a risk at all; it is a near certainty. No matter how carefully you plan, something will go wrong. You may as well assume this from the beginning; and then if nothing does go wrong, you will be pleasantly surprised.

Igor Ansoff, a noted early writer on strategy, developed a model of what he called 'environmental turbulence' ('turbulence' being Clausewitz's idea of 'friction' under another name). Ansoff developed a scale for measuring the business environment according to its potential to affect the business's own strategy. The level of turbulence could be measured on three dimensions: (1) *instability* (how frequently events would occur which could affect the organisation), (2) *discontinuity* (how radical these events would be and whether they would greatly change the environment) and (3) *unpredictability* (how quickly these events would happen and whether they could be predicted). Using this or some other method to look at potential risks and plan for how they will be dealt with should they arise is an essential part of strategy development. We will have more to say about the principles of managing risk in Chapter 7.

COMMUNICATING THE PLANS

Once the strategy has been drawn up and the plans completed, they need to be communicated to all members of the company. This has two purposes: (1) it ensures that everyone knows what their own role is and what is expected of them, and (2) it helps to ensure that employees are committed to making the strategy work and will not try to hinder or impede it. Other groups may also need to be informed. Major shareholders will want to know what the strategy is, in outline form if not in detail, as it is their money which will be lost if things go badly wrong.

This step too is very important and is often overlooked in practice. Most writers on strategy agree that it necessary to get employees motivated and ready to support the strategy. This is called 'buy-in', and when it has been achieved, employees will work willingly to make the strategy happen. If not, they might simply be passive, or even work actively against the strategy.

IMPLEMENTING THE PLANS

The plan is then put into effect, and employees, teams and departments proceed towards their individual goals. As noted, this is the hardest part of strategy.

EVALUATING PROGRESS

It is vitally important that actual progress should be checked against the plan at regular stages, or continually if possible. Significant gaps appearing between plan and reality is often the first sign that something is going wrong; either the plan was flawed or some unforeseen event has thrown it off course.

WHOSE JOB IS STRATEGY?

Because strategy was originally a straight transfer from the principles of military strategy, it followed that strategy used to be set according to the command-and-control principles used by the military. In the army, it is the general that determines strategy; therefore in business it should be the managing director, or at least the board, who determines strategy. Goals were set at the top of the organization, and responsibility for meeting them was passed down the line. After a time, business leaders noted that generals devolved much responsibility for planning to members of their staff (most armies have a planning section as part of their general staff, which does nothing else except generate plans and strategies), and so big corporations in particular, ones that could afford to do so, set up their own strategy and planning departments.

By the end of the twentieth century this had begun to change. First, the command-and-control approach to management has fallen out of favour (we will discuss this in more detail later in the book), and the emphasis today – nominally, at least – is on decentralization and democratization. The argument goes that it is better to give people responsibility for setting their own strategies, on the grounds that (1) they know best what their own capabilities are, and (2) they are more likely to commit to making the strategy work if it is their own idea, rather than something foisted on them without consultation from above. The role of head office then retreats to being one of establishing overall goals and a very general strategic framework within which each business unit or department operates, and then allowing the latter to get on with it. This can be very successful; the German company Bertelsmann grew to be the third largest such media and publishing company in the world using a very decentralized framework within which individual businesses were given very general financial targets and allowed to make up their own mind how they reached them.

Japanese companies also do things slightly differently. Ohmae Kenichi, in his book *The Mind of the Strategist* (1982), described how strategy in successful Japanese companies emerges out of discussions and debates within the company generally. The real strategy makers are often not senior managers at all, but talented junior managers who are able to bring fresh perspectives to the business and its needs. Senior management's role is to guide the process and allow a consensus to emerge across the company as to what the strategic priorities and objectives should be.

Most organizations prefer a compromise between command-and-control and full decentralization. Primary responsibility for overall strategy rests still with top management, and the board of directors remains the body with ultimate authority over strategic matters. But many more detailed aspects of strategy are handed down to the teams or departments responsible for them.

Well-managed organizations try, at least, to solicit opinions from employees about what strategies the company might adopt and what impacts these strategies might have on themselves, the employees. Why do they do this? Because they recognize that for the most part, senior managers at head office are isolated from customers, whereas front-line employees are in regular contact with customers and know what they need. They also have a different perspective on risk, which can get overlooked at head office; frontline staff at oil company BP, for example, had been warning of health and safety risks for some time before the blowout and explosion on the *Deepwater Horizon* oil rig in 2011, which killed eleven people and caused a massive oil spill in the Gulf of Mexico. Finally, younger employees are also more likely to have strong commitments to social and environmental issues, and their views can help to inform the company's strategic thinking.

So, the answer to the question 'whose job is strategy?', is 'everyone's'. According to legend, a visiting dignitary at NASA's Cape Canaveral space centre stopped a janitor in a corridor and asked, 'What do you do here?' 'I help put men on the moon', came the response. The story is probably apocryphal, but it sums up the principle very well; in a well-run organization, everyone is involved in strategy and everyone knows what role they play.

HOW MANAGERS DO STRATEGY

Much of the literature on strategy makes a fundamental assumption that strategy making is a rational process. Managers take strategic decisions based on full knowledge of their own organization and its environment. Those decisions are made rationally by considering the evidence and working out the best possible solution.

Studies of managers in action, however, have cast doubt on whether strategy is actually done this way. In a series of articles in *Harvard Business Review* in the 1970s and in a later series of books, the Canadian academic Henry Mintzberg suggested that most managers actually spend very little of their time engaged in formal planning and strategy making. The day-to-day pressures of work mean that managers are constantly having to respond to events and people around them. Decisions are often required quickly, before there is time to collect all the facts and analyze them in detail. Opportunities have to be grasped before they disappear. In these situations, strategy tends to be made 'on the wing', with decisions taken more or less intuitively based on the information that is immediately available. Mintzberg believes that very few managers actually make strategy in a formal and rational way. Instead, strategy 'emerges' in an informal and *ad hoc* way as a result of a series of decisions that are taken in various parts of the organization.

Time is an important constraint on how managers create and develop strategies, and this is true at many levels of the organization. As Mintzberg suggests, many managers have to settle for second best; instead of arriving at carefully considered decisions, they 'muddle through' and hope that a combination of background knowledge and intuition will help them make the right decision.

The idea that managers exist in a less than rationally perfect world had been noted earlier by the American psychologist and cyberneticist Herbert Simon, who coined the term 'satisficing' to indicate a result that, while less than perfect, is good enough to meet ordinary needs. Most managers, it is argued, look for decisions and outcomes that will 'satisfice' rather than yield the best possible result. The idea of 'muddling through' comes from another American scholar, Charles Lindblom, who suggested that most managers and administrators make decisions based on irrational as well as rational factors. The work of Mintzberg and other recent writers suggests that little has changed since Lindblom's day.

Nor is the idea that strategy should 'emerge' or evolve from out of the business rather than being defined and imposed from the top down necessarily a bad one. Indeed, that is how decisions are made in many organizations. Before becoming a management consultant with the US-based firm McKinsey & Co., Ohmae Kenichi had trained as both a nuclear physicist and a classical musician. In both nuclear power plants and symphony orchestras, a certain amount of collective learning and decision-making is essential if they are to function smoothly. People share knowledge and ideas naturally, and decisions are formed from these interactions. Ohmae believes that all organizations can do this as well, and as noted above, shows how many Japanese businesses already strategize in this way. But Ohmae believes such a way of making strategy is foreign to the mindset of most American and European managers. Without going into his argument in detail, he believes that cultural differences, especially in areas such as the production and codification of knowledge (see Chapter 8) mean that Western managers do not see strategy as integral to the organization. Rather, they see it as just another 'activity' to be carried out.

So, we can see three ideas about how strategy is done:

- formally and rationally, as a separate activity, what might be called 'planned strategy';
- ad hoc and on an ongoing basis, what Mintzberg calls 'emergent strategy';

- evolving out of discussions and interactions, what Ohmae calls 'evolved strategy'.

All three have their advantages and disadvantages, and there is some truth to Ohmae's view that cultural differences influence the ways strategy is made. Nevertheless some American companies conduct at least some of their strategic thinking and decision-making in an evolutionary way, seeking input and ideas from all parts of the company and arriving at decisions by consensus. And interestingly, a century ago the British chocolate makers Cadbury used a variety of methods including suggestion schemes, consultations and strategic review by works committees to formulate strategies through consensus (it is worth noting that Cadbury rose to be the world's largest maker of confectionery during this period).

How managers make strategies will always be subject to many variables: time and other strategic constraints, cultural background and, importantly, the ability of the managers themselves to think creatively about strategy. In a nicely circular process, one of the key core competencies that managers must consider when making a strategy is their own competency to make a strategy!

IMPLEMENTATION

The Prussian military theorist Karl von Clausewitz was one of those who believed that the best strategies are the simplest because they are most flexible and easy to adapt to changing circumstances or 'friction'. But, he famously commented, 'Everything in strategy is very simple, but that does not mean that everything in strategy is very easy.'

Implementing a strategy is one of the hardest things of all. It is rare for *any* strategy to be completely successful and to be implemented exactly as it was planned. The best and most carefully thought out and analyzed strategy can still fail, with costly results for all concerned. Every day in the financial press we read of mergers that have gone wrong, once powerful companies that are on the verge of failing, products which took years and cost millions to develop that have had to be abandoned because no one wants to buy them. It is easy to assume that the managers who made these decisions in the first place were incompetent or foolish. In fact, more importantly – and more worryingly – many of these decisions were made by people who were very competent and very knowledgeable indeed, and who may well have taken the right decision on the first instance. The strategy was right: but the implementation was all wrong.

What drives strategies off the rails and causes them to fail? We referred above to concepts like friction and turbulence, environmental factors that create pressures to deviate from the strategy. New competitors suddenly enter the market unannounced. The government introduces new health and safety regulations and compliance with these pushes costs up. Key employees quit or join a rival company. Customer tastes change and products become suddenly obsolete, sometimes even before they are launched. A natural disaster can happen, or the economy can suddenly experience a downturn, or a pandemic can erupt and wipe out your entire industry, at least temporarily (as happened in 2020 with airlines and airports, among others). The list of what can go wrong is almost endless. This brings us back to risk, and to the need to have a clear understanding of what the most immediate and important threats to the strategy are.

There are two ways of responding to the threat of turbulence or friction. The first is to try to anticipate those things that are most likely to go wrong, and to develop alternative strategies, known as contingency plans, for dealing with these should they arise. Having a set of contingency plans on hand is a bit like having insurance; you hope you will never need them, but if you do, they are there and ready to be put into action, saving valuable time.

The second is to ensure that plans are reasonably flexible and can be adapted or changed in the light of new circumstances. If, for example, a new competitor emerges on the scene halfway through the implementation of a strategy, and if this event had not been predicted or foreseen, the strategy should be flexible enough to allow the organization to respond without losing sight of its original goal and objectives. This brings us back to the idea of simplicity; in general, simple strategies are more flexible than complex ones.

Many strategies fail, though, for reasons that have nothing to do with the environment. Internal problems caused by lack of communication, misunderstanding, confusion and even outright resistance to the strategy by employees are major potential problems.

Simple misunderstandings and confusion over who is supposed to do what can usually be avoided through good communications. It is always important to communicate a strategy clearly, from the outset, to all employees – even those who may not necessarily be directly involved in its implementation. Everyone's tasks and responsibilities need to be spelled out, as do the potential impacts of the strategy on them personally. (Will they have to do more work? Will they be paid more? Are their jobs under threat? etc.) Clarity, achieved through good communication, is a very good way of reducing risk; if everyone knows what they are supposed to do, and does it the way they are supposed to do it, then the levels of risk will be reduced.

STRATEGY AND CULTURE

There is a very strong link between strategy and culture. The management guru Peter Drucker is supposed to have said that 'culture eats strategy for breakfast'. It does, and for lunch, dinner and afternoon tea as well; although as one of my own students has remarked, 'culture may eat strategy, but it sometimes has trouble digesting it'.

Why is culture so important? 'Culture', in this context, refers to the beliefs, attitudes and behaviours of people within the organization. Specifically, what do they think about the proposed strategy? Will they get behind it and 'buy in', supporting the strategy in words and in actions? If so, there is a much better chance that the strategy will be implemented smoothly. Or do they have more negative perceptions? Will they see the strategy as an unwelcome change, even a threat to them personally? In some cases – for example, if the strategy involves restructuring the organization and making people redundant – they undoubtedly will have strong feelings. If the people within the organization reject the strategy and won't help to implement it, then the task of management becomes far harder. As we will see in the next chapter, simply giving people orders and telling them what to do doesn't work; they have to want to do it.

Of all the risks that companies face when implementing new strategies, the risk of cultural resistance within the organization is often the most powerful. Successful managers spend a lot of their time looking after the culture of their organization because they know that a strong culture that supports change is needed to make strategies work. At the same time, though, a badly thought-out strategy can have a negative impact on culture. The Tata Group, founded in 1868, is India's largest international business conglomerate. Until the year 2000, the group operated almost entirely inside India, where it has a very strong culture with a lot of 'buy-in' from both employees and Indian society more largely. When the group began to expand internationally, many worried that its culture, rooted heavily in Indian culture would weaken and this would endanger the group. That has not happened, yet, but there is no doubt that international expansion has had a profound affect on Tata's culture, overseas and in India itself. The board of directors and senior management have had to take strong steps to protect that culture.

SUMMARY

- Every business needs a strategy, to give focus to its activities and to help it towards its goals.
- There are different ways and approaches for tackling strategy, but all ultimately involve analyzing the current state of the business and its environment, defining and assessing goals and strategic options, choosing the best option for the circumstances, and then implementing the chosen strategy.
- Ideally, strategy is developed in a rational manner, but there are always constraints on managers which can prevent them from acting in an ideal manner. In practice, there are many creative and subjective elements involved in making a strategy.
- Implementation is the hardest part of strategy, with risks and problems arising both in the business environment and inside the business itself.
- Ultimately, whether a strategy will succeed is at least partly dependent on whether the organization has the capacity and the culture to carry it out.

SUGGESTIONS FOR FURTHER READING

Ansoff, I., *Corporate Strategy*. New York: John Wiley and Sons, 1965. Dated but still influential; Ansoff was one of the first thinkers after Chandler (below) to look at theories of business strategy. He was particularly interested in the relationship between the strategies of individual businesses and the environments in which they operate. His *Strategic Management* (New York: John Wiley & Sons, 1979) is an updating of his earlier work.

Chandler, A.D., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, Cambridge, MA: MIT Press. Often regarded as the founding text of modern business strategy, this is an excellent and eminently readable book which examines the relationship between strategy and organization, using historical case studies.

Collins, J., and Porras, J., *Built to Last: Successful Habits of Visionary Companies*, New York: HarperBusiness, 1994. Excellent and readable, showing how successful businesses think about strategy and goals, and how to reach them.

Doz, Y. and Kosonen, M., *Fast Strategy: How Strategic Agility Will Help You Stay Ahead of the Game*, Philadelphia: Wharton School Publishing, 2007. Doz and Kosonen advocate the principle of strategic agility, saying the ability to 'pivot' is more important than generic strategies.

Hamel, G. and Prahalad, C.K., *Competing for the Future: Breakthrough Strategies*, Boston, MA: Harvard Business School Press, 1989. This work introduced the idea of core competencies and of focusing strategy on customers, not on the environment as previous formal strategy had suggested. The book has its critics, but contains much food for thought.

Kim, W. Chan and Mauborgne, Renée, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Boston: Harvard Business School Press, 2004. Rather than compete, the authors say, the purpose of strategy should be to create a new market based on unique competitive strengths.

Mintzberg, H., *The Rise and Fall of Strategic Planning*, New York: Free Press, 1993. This is Mintzberg's principal critique of formal strategy; he also comments on similar themes in *Mintzberg on Management* (New York: Free Press, 1989).

Ohmae, K., *The Mind of the Strategist*, New York: McGraw-Hill, 1982. This book remains very popular and has been continuously

in print for over twenty years. Although Ohmae sets out to explain how Japanese companies and managers think about strategy, he has much to say on the subject to all managers everywhere.

Porter, M., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: The Free Press, 1980. An influential if often criticized work on formal strategy; see also his *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: The Free Press, 1985). Both can be technical for the non-specialist.

Rumelt, R., *Good Strategy/Bad Strategy: The Difference and Why It Matters*, New York: Profile Books, 2017, 2nd edn. Rumelt is a strong critic of the way many organizations do strategy, and offers tips and lessons on what to avoid.