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tenth edition

Strategic Management

AWARENESS AND CHANGE

John **Thompson**, Jonathan M. **Scott** & Frank **Martin**

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Preface

About this book

No single approach, model or theory can explain the realities of strategic change in practice for all organizations; different organizations and managers will find certain approaches much more relevant to their circumstances and style. All approaches will have both supporters and critics. It is, therefore, important to study the various approaches within a sound intellectual framework so that they can be evaluated by students and other readers.

Students of business and management and practising managers must work out for themselves the intricacies and difficulties of managing organizations at the corporate level, and of managing strategic change at all levels of the organization. It is no good being told how to be prescriptive – or thinking that 'right answers' are always there to be found – when it is patently obvious that there is no universal model. Yet observations of practice in isolation are equally limited in their usefulness; theories, concepts and frameworks should thus be blended with practical examples. Attempts to find explanations that can be utilized do make sense; testing and evaluating reality against a theoretical framework helps this process.

Changes for the tenth edition

Since the first edition of *Strategic Management: Awareness and Change* was published in 1990, the subject of strategic management has been developed and our understanding of certain aspects has changed. However, the key building blocks of our study have proved to be resilient over many years; and our reference to the relevant texts (among more recent citations!) remains important. Together these provide an introductory foundation to the subject for all levels of student. That said, research continues all the time, and we continue to make use of end-of-chapter Research Snapshots which reflect cutting-edge, up-to-date academic research and scholarship on strategic management – to provide an introduction to some of the most recent journal articles – which some students, particularly those writing dissertations and undertaking research, will follow up.

In addition, the world of business has been transformed, not only by the rapid growth of the internet and the emergence of the new and entrepreneurial dot-com organizations but also, since the late 2000s, by new disruptive business models such as the gig economy and online subscription services such as Netflix. At the same time, entrepreneurship as a subject has also increased in popularity and significance; it is not realistic to treat it as completely divorced from strategy as the two are very clearly related. Moreover, since the ninth edition was published in 2019, the world has had to deal with the challenges of COVID-19, which has highlighted the need for both strategic agility and strategic resilience in every organization, regardless of sector. While some of these changes were reflected in earlier editions of this book, this tenth edition sees further revisions to both the structure and content to bring the text and the case material fully up to date. For this edition, we have introduced some new content in every chapter and added several new figures.

The most obvious of these changes are:

Chapter 1 examines the distinction between 'teaching strategy' (very loosely, 'theory and concepts') and 'teaching about strategy' (which has a much more applied, practice perspective), a theme that is developed further in Chapter 8 (decision-making) and Chapter 14 (organizational 'realities').

Chapter 2 offers a revised and stronger treatment of the business model.

Chapter 5 revisits how the resource-based view is presented.

Chapter 7 sees the introduction of the 'Culture Circle' in order to highlight that different parts of complex organizations might well have different cultures – without necessarily destroying the presence and value of a more holistic 'organizational culture'.

Chapter 8 includes the topic of 'noise' for the first time and shows how it can impact on decisions.

Chapter 9 revises the treatment of the role of planning in strategy.

Chapter 10 re-examines the significance of an entrepreneurial mindset.

Chapter 13 introduces and discusses the notion of 'strategic break points' to explain how organizational fortunes are inconsistent over time and reinforce the significance of strategic agility.

Chapter 17 has been substantially rewritten to provide a fresh treatment of 'strategic resilience'.

References are made to the impact of COVID-19 in various chapters, culminating with a final case on the UK's COVID-19 vaccination programme in Chapter 17. In all, there are some 15 new cases in this edition, with a similar number removed and placed online. These also include:

Chapter 1: 'Music Royalty'
Chapter 2: Asos and Boohoo
Chapter 5: Stitch Fix
Chapter 7: The Burning Man
Chapter 10: Berry Gordy & Motown Music
Chapter 12: Soupah Farm-en-Market
Chapter 15: Starbucks and the Rise of Specialty Coffee
Chapter 17: Ubuntu Beds.

All the retained cases have been checked for relevance and, where appropriate, revised. As is customary with this text, several topics have been slimmed down a little, but nothing has been removed completely. For this revision, Professor John Thompson has continued his collaboration with Dr Jonathan M Scott formerly at Northumbria University (now at University of Waikato, Tauranga, New Zealand). Frank Martin's major contribution to previous editions continues to be recognized.

How to use this book

Structure and content

The content generally follows the established analysis, choice and implementation model that is used in most strategy texts. It is structured in five parts, which systematically deal with a series of key questions and issues.

Part 1: *Understanding strategy* examines the strategy process as a whole and includes a comprehensive explanation and framework of the process around which the book is structured. Part 1 introduces a mind map summary of the book's structure. Material on the business model is developed in a short, dedicated chapter to stress its significance for understanding the strategy of an organization.

Contents:

Chapter 1 What is strategy and who is involved?
Chapter 2 The business model and the revenue model
Chapter 3 Strategic purpose

Part 2: *Analysis and positioning* looks at three distinct but clearly related approaches to strategy: market- or opportunity-driven, resource-based and competitor influenced strategic management. It is crafted around the Environment–Values–Resources (E–V–R) model introduced in Chapter 1. Part 2 includes a number of tools and techniques which help us to understand the current competitive situation. This Part also looks at strategic positioning and competitive advantage.

Contents:

Chapter 4 The business environment and strategy
Chapter 5 Resource-led strategy
Chapter 6 The dynamics of competition

Part 3: *Strategy development* describes and evaluates the different ways in which strategies are formulated and created. Part 3 opens with Chapter 7 on culture. This is a vital element of our study, as it determines how strategies and changes are both determined and implemented. Next, we consider the various strategic

alternatives that a firm may consider and the determinants of a good choice, leading on to examinations of strategic planning, strategic leadership and intrapreneurship. Planning frameworks and techniques, together with the contribution of planning in strategy, are discussed in Chapter 9. We look at both entrepreneurship and intrapreneurship in Chapter 10 on strategic leadership.

Contents:

Chapter 7 Introducing culture and values
Chapter 8 Strategy formulation: Strategic alternatives and decision-making
Chapter 9 The role of planning in strategy
Chapter 10 Strategic leadership, entrepreneurship and intrapreneurship

Part 4: *Strategic growth issues* deals with growth as well as retrenchment issues, which includes material on international strategy. There is also a discussion of business failure. This part opens with Chapter 11 on evaluating strategic success.

Contents:

Chapter 11 Strategic control and measuring success
Chapter 12 Issues in strategic growth: Domestic and international
Chapter 13 Failure, consolidation and recovery strategies

Part 5: *Strategy implementation* evaluates the issues involved in strategy implementation. Organization structures, resource management and the complexities of managing change are included, as are issues of risk and crisis management.

Contents:

Chapter 14 Strategy implementation and structure
Chapter 15 Leading change
Chapter 16 Corporate level strategic management
Chapter 17 The strategically resilient organization

Key features

Cases and examples In addition to numerous references in the main text to organizations and events, as we mentioned above, many short case examples are included. The cases are all designed to illustrate points in the main text. They are also intended to supplement the reader's own experiences and investigation. There are specific questions at the end of every case and relevant website addresses are provided to enable easy follow-up. Inevitably, some of the cases will date during the life of the text, in the sense that the strategies and fortunes of the companies featured in the examples will change. Strategies have life cycles, and strategies that prove effective at certain times will not always remain so. Companies that fail to change their strategies at the right time are likely to experience declining fortunes. Questions are included at the end of chapters to encourage the reader to research and analyze the subsequent fortunes of companies included as cases.

As teachers and examiners ourselves, we are aware of the value of longer and more analytical cases that can be particularly useful for examination purposes. We also recognize that a number of competing books feature a selection of such cases. We recommend that lecturers visit the Case Centre website – www.thecasecentre.org – where they will be able to search through abstracts for literally thousands of cases written by case writers from around the world, many of whom have enjoyed direct access to the organizations involved. In fact, longer cases on many of the organizations we feature in this text are likely to be found there, if you are attracted to a particular business. In addition, the Case Centre includes details of the most popular long cases with lecturers around the world.

Learning objectives These appear at the start of every chapter to help you monitor your understanding and progress through the chapter. You will see we have adopted a principle of one learning objective for each major section in a chapter.

Boxes These are used in the text and featured separately within the relevant chapter for special emphasis and easy reference. There are six types of box:

1 Key Term Boxes, which define and explain key concepts in strategy and also explain significant contributions which underpin an understanding of strategic management.

2 Critical Reflection boxes, which feature debates and discussions where there are differing opinions.

3 Strategy in Action boxes provide annotated applications of particular ideas and concepts.

4 Strategy in Practice boxes put strategy decisions and actions into an everyday setting to help provide insight into how we could interpret behaviours and events.

5 Strategic Reflection boxes build on Strategy in Action and Strategy in Practice to encourage students to think about the meaning, point and value of strategy, and the meaning of key strategic themes.

Although, realistically, there can be no such thing as 'strategic reality' – because of varying personal perceptions – these boxes help readers to make sense of strategic ideas applied and gain insight into their own 'strategic realities'.

6 Research Snapshots appear at the end of most chapters and signpost opportunities for a much more in-depth study of the subject. They make reference to valuable ideas and contributions which enrich a study of strategy, but which take the debate beyond the scope of the main content of the book. These recommended readings will help students studying one particular topic in depth as, say, a dissertation or research project. Not all readers will feel it necessary to access up-to-date and relevant journal articles and follow up on the current and recent strategy research agenda.

Figures A comprehensive set of figures, which are either new or redrawn, illustrate and explain the issues covered in the text.

Quotations Short and pithy quotations from a variety of senior managers in the private and the public sectors are sprinkled throughout the text to illustrate a spectrum of opinions. These are useful for provoking class discussion and examination questions.

Chapter summaries An outline summary of the content and main points is given at the end of every chapter. This summary can help readers to check that they appreciate the main points and issues before reading on.

Questions and research assignments These are included at the end of each chapter. Some questions relate to the ideas contained in the text and the illustrative cases, and some are examples of the type that feature in study examinations of this subject that are not related to cases.

Several research projects, both library- and internet-based, are included to encourage the reader to develop their knowledge and understanding further.

In addition, we have included one extra short case at the end of chapters, called Strategic Activities, to allow further exploration of strategy in action.

Further reading There are also two different types of listings of books, chapters, journal articles and other sources of literature at the end of each chapter:

● **References** are those pieces of literature which are directly cited in the text.

● **Further reading** provides the full list of references for each Research Snapshot. However, these are not considered references but, instead, 'further reading', to distinguish them from the reference list at the end of each chapter.

It should be appreciated that, although fresh articles are being published constantly, only a very small number add anything really new and seminal to our understanding of strategy and strategic management.

Glossary The book also offers a glossary, including definitions of well over 100 key terms. For ease of reference, words that are included in the glossary are highlighted in green in the text.

There are additional online features which, effectively, expand the text. **Finance in Action** supplements link directly to certain chapters and expand on points introduced in the text. They provide more detail than some readers will require; for others, they enhance key aspects of strategic analysis. There are also two additional supplements on **Military Strategy** which offer a different but valuable perspective. Finally, there are **Online Cases** which follow the same format as those included in the book. Indeed, many of them have been included in previous editions. While typically more dated than those in the main text, they offer valuable additional insights – and sometimes the text refers to them directly.

Online resources

An extensive accompanying website provides a comprehensive set of additional resources for both students and lecturers. It includes web supplements and examples about strategic management (online cases), guidance for lecturers (PowerPoint slides, Instructor's Manual) and interactive resources for students. For full details, refer to 'About the digital resources', and look out for the marginal icon throughout the text which denotes associated resources available on the platform.

Advice for lecturers: teaching aims

The main purpose of the book is to help students who aim to become managers and also managers in practice, to:

- develop their strategic awareness
- increase their understanding of how the functional areas of management (in which they are most likely to work) contribute to strategic management and to strategic changes within organizations
- appreciate how strategic change is managed in organizations.

The content is broad, and the treatment is both academic and practical, in order to provide value for practising managers as well as full- and part-time students. The subject matter included is taught in a wide variety of courses, including undergraduate courses in business studies and related areas, MBA and other postgraduate Master's degrees, post-experience executive management courses and courses for a number of professional qualifications. The subject can be entitled 'strategic management', 'business policy', 'corporate strategy' or 'business planning', although strategic management now seems the most popular.

The material is relevant for all types of organization: large and small businesses, manufacturing and service organizations, public sector organizations, charities and social enterprises; the examples included relate to all of these. Although the topics discussed are broadly applicable, certain issues are sector specific; these are discussed individually.

This edition has been written and structured into 17 chapters to support courses that last up to a full academic year. Clearly, some lecturers will opt to spend longer than a single week or session on some topics, or possibly switch the order of the chapters marginally. Neither of these should present any problems and suggested course outlines are provided on the website for different types of course. Some courses in strategy run for only a single semester, focusing more on the analytical aspects of the subject. A careful selection of chapters, in a logical sequence, can underpin such courses quite readily, and a suggested outline is provided on the companion website.

Advice for students: studying strategy

Strategic management is concerned with understanding, as well as choosing and implementing, the strategy or strategies and tactics that an organization follows. It is a complex process that can be considered from a number of different perspectives. For example, you can set out to design prescriptive models based on a series of logical stages that look at how to choose and implement strategies aimed at achieving some form of

long-term success for the organization. The decisions from the analysis can be broadly directional or drill down into tactical detail. This systematic approach is designed to bring about optimum results but, realistically, it depends on forecasts of future events and behaviours; consequently, it is fraught with uncertainty and relying on it can be highly risky. That said, the analysis that is its foundation still has value in helping understand and make sense of the strategic challenge. An alternative paradigm, or more conceptual framework, is a systemic approach that concerns understanding what is happening in reality and thinking about how things could be improved. The emphasis is on learning about how strategic management is practised by looking at what organizations actually do and by examining the decisions they make and carry out.

In this book both perspectives are considered and linked together. While it is always useful to develop models that attempt to provide optimizing solutions, this approach is inadequate if it fails to explain reality. Strategic management and strategic change are dynamic, often the result of responses to environmental pressures, and frequently not the product of extensive deliberations involving all affected managers.

Managers should be aware of the issues and questions that must be addressed if changes in strategy are to be formulated and implemented effectively. At the same time, they should be aware of the managerial and behavioural processes taking place within organizations in order that they can understand how changes actually come about.

Prescriptive models are found quite frequently in business and management literature and teaching. For example, there are models for rational decision-making built around the clear recognition and definition of a problem, and the careful and objective analysis and evaluation of the alternative solutions. There are economic models of various market structures showing how an organization can maximize profit. However, decision-making invariably involves subjectivity and shortcuts, and organizations do not always seek profit maximization as their top priority. Although organizations and individuals rarely follow these models slavishly – quite often they cannot, and sometimes they choose not to – this does not render them worthless. Far from it; they provide an excellent framework or yardstick for evaluating how people reach their decisions, what objectives are being pursued and how situations could be improved. The argument is that if managers observe what is happening and seek to explain it and evaluate it against some more ideal state, then they will see ways of managing things more effectively. In this way, managerial performance can be improved. Note the use of the expression 'more effectively'. For a whole variety of reasons, situations cannot be managed *perfectly*.

The reader with personal experience of organizations, management and change – whether it is limited or extensive, broad or specialized – should use this experience to complement the examples and cases described in the book. Ideally, the experience and the cases will be used jointly to evaluate the theories and concepts discussed. There is no universal approach to the management of strategy and strategic change. An individual must establish what approaches and decisions are likely to prove most effective in particular circumstances, and why. This learning experience can be enhanced by:

- evaluating the theoretical and conceptual contributions of various authors
- considering practical examples of what has proved successful and unsuccessful for organizations
- examining these two aspects in combination to see which theories and concepts best help an understanding of reality.

The manager's job is change. It is what we live with. It is what we are here to create. If we cannot do that, then we are not good at the job. It is our basic job to have the nerve to keep changing and changing and changing again.

Sir Peter Parker

Pressures to change are always present in the form of opportunities and threats. At any point in time, the significance of these pressures will vary markedly from industry to industry and from organization to organization. Managers may be aware of them and seek to respond positively; they may recognize opportunities and threats and choose to do little about them, other than perhaps to avert crises; or they may be totally unaware of them. A lack of awareness can mean that potentially good opportunities are lost; it may mean that businesses fail if they are not able to react and respond to the threats and problems when they arise. All businesses must react to pressures from the environment such as supply shortages, new products from

competitors, or new retailing opportunities, but some will be very proactive and thereby seek to manage their environment. Similarly, every organization will have been affected by COVID-19 in some way or another and have had to react; the implications for some will continue into the future. At the same time, of course, COVID-19 has provided new opportunities.

It is important to point out that students of strategic management may not be, or may not become, key strategic decision-makers in their organizations but, instead, may specialize in one particular function, such as marketing, production, human resources or finance. Similarly, their experience may be with only one product or one division if their employer is a multi-product or multidivisional organization. Nevertheless, the decisions they make or to which they contribute can affect the strategy for a particular product or service and, in turn, affect the organization. It is vital that they appreciate exactly how their function operates within an organizational context, and how decisions made in their area of interest can affect both other functions and the organization as a whole.

Finally, and to reinforce this last point, students occasionally ask whether 'strategic management' is about the management of strategy in organizations, or about how people can manage strategically – an interesting point! The focus here is on the management of strategy in organizations, but by studying and applying the theory, and reflecting on its relevance in the context of personal observations and experience, readers should be able to improve their strategic effectiveness as managers. In essence, they will benefit – as will any organization in which they work – by being better placed to take a strategic perspective and to use it to inform decisions and actions. Remember, there are no finite answers to the decisions and actions that should be taken. Organizations, and many of the problem issues they have to deal with, are complex and ill-defined. After all, if strategy were straightforward, the relative success rate of organizations of every type and size would be much greater than it is.

Experience is a wonderful thing, but not a useful one. When you are young, you don't trust others' experience – for if you do, this can paralyze you. When you get old, it is too late to use it – and you cannot transmit it for the reasons outlined.

Jacques Calvet, when Le President du Directoire, PSA Peugeot Citroën

Acknowledgements

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An open-access area for students including, for example, useful weblinks and glossary terms.

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Part 1 Understanding strategy

What does 'strategy' mean? What does the word mean to you? What does a study of strategic management cover?

As a student, you chose a specific university, and a specific course to help start your career, to build your future, to earn your living. Just possibly, you changed your course once you got into it … you realized you had made the wrong choice. You possibly acted with some view of where you want to be in five years' time, why, and what might help you reach your dream. But perhaps you simply thought university was a good way to spend a few (enjoyable) years until you decide 'what next'. Perhaps, also, you have yet to discover your strongest talents and attributes, and what you most enjoy doing? This all relates to your strategy for yourself for the immediate future; strategies are means to ends.

Life is never simple. As we finish the manuscript for this new edition, the military conflict between Russia and the Ukraine is ongoing. It is already affecting businesses everywhere – as well as countless individuals. Just how much long-term impact there will be is unknown and cannot yet be quantified. But that does not mean businesses can avoid reacting. While there are clear threats, there are, and there will be, opportunities for entrepreneurial people to seize. To complicate things further, we might wonder just how different will the world be in five years' time? We don't know, you don't know. By then, we may have written another edition of this strategy book and you may have graduated and possibly be either working for one of the organizations featured in this book or working for yourself. In recent years we have seen organizations having to deal with COVID-19, the UK leaving the European Union (EU), the emergence of the new and entrepreneurial dot.com organizations, new disruptive business models such as the gig economy, online subscription services such as Netflix, and the increasing demand – and need – for electric cars. Alongside, how might further climate change – as well as new emergent technologies – continue to affect demand and behaviour? Again, we don't know. That said, we will all be expected to do our best in a changing world to develop a plan of some sort, be it relatively vague or more detailed, and set out to change things – while reacting to new opportunities we spot and also decisions and actions taken by others that might threaten our hopes and ambitions.

This, then, is the general idea of strategy and strategic thinking: how to be agile and compete with the future's challenges – by applying our strengths and competencies, by taking risks and handling setbacks – all in a world of great uncertainty.

1

The main purpose of this book is to help you – the reader – make sense of a complex subject which is relevant for all of our lives and jobs. While complex, it is still based around simple principles, all linked to value. The ideas can be personalized; and we can help you do this in various ways, and particularly with the short cases included in every chapter.

Organizations, their strategies, their structures and how they are managed seem to become ever more complex. Among the reasons for this view are the increasing turbulence and propensity for change in the **business environment** – witness the huge shock of the COVID-19 pandemic in 2020 and 2021 – and the tendency for powerful multi-product, multinational organizations, together with their global brands, to become commonplace. This alongside a constant stream of new business start-ups, new product ideas and business failures. Organizations need to know where they are, where they are going and how to manage change. Managers in these organizations need to know where their roles fit in relation to the whole and how they can contribute to strategic developments and changes. These are the issues addressed by a study of the practice of **strategic management**.

This book is about strategic awareness, strategic analysis, strategy development, strategic decision-making and the management of strategic change. It is designed for use by students who will become future managers, for managers already working, as well as for people who might start their own business; after all, in some way or another, *all managers are strategy-makers*. It looks at how managers become strategically aware of their company's position and potential opportunities for change, how changes often happen in reality and how the process could be managed more effectively.

Strategic management is concerned with the actions that organizations take to deal with the changes, opportunities, threats, challenges and surprises in their external and internal environments. Put simply, strategies are means to ends.

How, then, do people and organizations:

- determine desired outcomes?
- make sense of 'their world' and understand the circumstances and events affecting desired outcomes and the means of attaining them?
- decide on actions they intend to take?
- implement these desired strategies through a series of tactical moves and changes?
- evaluate progress and relative success?

These are the broad themes addressed in this book.

Strategy is about how an organization sets about getting to where it wants to be. It is about clarifying, pursuing and achieving its purpose, however clearly this strategy might be articulated. In the early stages of a firm's development, this aspect is usually straightforward. It is not difficult for everyone concerned to appreciate the desired end points and the routes forward. As the business grows and perhaps diversifies, it separates into different parts and these have to be co-ordinated. Strategy takes on a different complexity. The ideal outcome is synergistic – the sum of the achievements of the various parts exceeds what they could be expected to achieve individually and independently. At this stage, issues of strategy and structure (including managing and controlling within the structure) have to be dealt with together. The ability to execute and implement strategic ideas holds the key to prosperity.

If something goes wrong, it could be that the organization has made a strategic misjudgement – it has attempted to do something for which it is inadequately or inappropriately resourced, for example – or it could be that it makes mistakes in implementation – it underestimates the reaction of its competitors, perhaps.

Uncertainty (and, therefore, risk, a key theme in entrepreneurship) is always prevalent in strategy. Organizations will plan to some extent, whether this planning is directed or executed or both, and they will vary in the extent to which they do plan. But managers can never plan for every eventuality and possibility. Strategies emerge as managers and organizations react to the world around them. They attempt to counter threats and seize opportunities. Flexibility is essential. How they achieve these objectives comes down to the style and approach of the person in ultimate charge – the strategic leader. But in some way or other, every manager is (potentially) a 'strategy-maker' – or, at least, a strategy influencer.

Strategy may involve planning, with plans and even formal documentation, but, fundamentally, our study is really concerned with thinking and understanding behaviour.

Ultimately, it is probably true that 'everything in strategy is simple, but nothing in strategy is very easy'. Hence the popular adage: 'Keep it simple, stupid'. It is a mistake to overcomplicate things. It is also a mistake to underestimate competition – in part, because new competitors can enter an industry quickly and surprisingly – or to ignore change pressures and become complacent.

It has to be tempting, though, to sit back and enjoy the fruits of success once an organization has become an industry leader and perhaps a global organization in the process, and is benefiting from a visible media profile. But size and success are no guarantee of permanency, especially in the uncertain and turbulent economic conditions we have witnessed globally in the recent past. In fact, the phrase 'new normal' has come to characterize these turbulent times. Corporate history (as with military history) contains numerous stories of once-great, once-dominant corporations that have fallen by the wayside. It is vital that stasis and inertia are avoided. Again, it is an attitude of mind.

Prolonged success, then, in part, depends on how organizations deal with setbacks and crises when they occur. Astute companies will have made preparations for dealing with possible crises, but these will still have to be dealt with when they happen. Yet again, this comes down to an ability to think things through and to stay vigilant and flexible. As always happens, some organizations will emerge intact from the political and economic challenges we are experiencing as we write these comments in 2022 as we emerge from COVID-19; they will be in a position to exploit the opportunities that are there. But other organizations will have fared less well. We need to understand why this is the case.

Of course, from time to time, there will be changes of strategic leadership. When these changes happen, it is likely that newcomers will want to change strategies and/or structures. There is always the potential to improve a situation, but it is equally possible to destroy something that works well.

You will quickly realize that strategic agility and strategic resilience are critically important – and you will easily recognize these themes as they crop up in various chapters throughout the book.

The E–V–R congruence framework in Chapter 1 is central to the book. The core argument here is that strategic and organizational success is dependent upon how well organizations are able to create and deliver (perceived) value to customers (and clients) in a changing world where competitors are always attempting to add value and thereby steal customers and business. The 'E' in the framework represents 'environment', which is the source of both opportunities and risks (the two key themes of entrepreneurship). 'R' stands for 'resources' and encompasses, in particular, people, capability, funding and information. These resources not only have to be fit for purpose, but they will ideally be distinctively strong. 'V' is for 'values', but it embraces everything that affects the decisions that, in turn, determine the strength of the fit between 'E' and 'R'. We have already introduced our first complexity in this straightforward subject: perceived value for customers and organizational values are not the same thing!

The first part of this book is designed to provide a broad appreciation of strategic management and to develop the framework used in the book to:

- outline the scope and complexity of the study area
- provide an initial overview of some major contributors to the subject in order to illustrate what is meant by, and included in the definition of, strategic management and to demonstrate that there is no single universally accepted approach
- provide a framework for the structure and content of the book
- explain the significance of a robust **business model**
- examine what is meant by purpose, direction and **objectives**, and consider how these may be set and used
- help you to think and act in a strategic way.
- distinguish between 'teaching strategy' and 'teaching about strategy'

In Chapter 1, we introduce the subject of **strategy** and create the framework for this book. We examine and discuss what strategy is, who is involved in strategic decisions, and how and when they are involved.

Chapter 2 is on the business and **revenue models**. These topics could have been included in Chapter 1, but we believe they are of significant importance and deserve special treatment.

Chapter 3 sets strategic decision-making in the context of strategic purpose; it helps us to understand why organizations pursue particular routes and what they are hoping to achieve.

Chapter 1

What is strategy and who is involved?

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Understanding strategy
1 What is strategy and who is involved?
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STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

PART 4
Strategic growth issues
11 Strategic control and measuring success
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13 Failure, consolidation and recovery strategies

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

Learning objectives

Having read to the end of this chapter, you should be able to:

- define strategic management and **strategic change**, distinguishing between different types of, and perspectives on, strategy **(Section 1.1)**

- apply Thompson's **Environment–Values–Resources (E–V–R) congruence** model to organizations and their strategies **(Section 1.2)**

- clarify the three broad approaches to **strategy creation** – namely, visionary ideas, planning and emergence **(Section 1.3)**

- appreciate how different views and theoretical underpinnings of strategy have developed **(Section 1.4)**.

- comprehend the importance of strategy as practice and in reality **(Section 1.5)**

*Strategies are means to ends. To succeed, both strategies and organizations must create and add value for customers and clients. All organizations, large and small, profit-seeking and not-for-profit, private and public sector, have a purpose; this 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 these issues are addressed by our study of strategic management.*

1.1 Strategy explained

Organizations that succeed and sustain success over a period of time will be able to demonstrate a number of achievements.

First, there is a clear purpose to what they are doing, which gives a degree of focus and directs the key decisions that need to be made. The purpose thus provides direction against which alternative choices and actions can be evaluated. We could also describe having a clear purpose and direction – together with the choice of actions designed to help fulfil that purpose – as having mastery of the so-called 'big picture'. Strategies are the means by which organizations seek to fulfil their purpose.

Working towards this big picture requires (co-ordinated) **activities** which cut across the various functional areas of the business – and, sometimes, a number of different individual businesses within the corporate whole. This more detailed level could be described as the 'little picture'. It is at this level that limited but critical competitive gains may be made. If we take a sporting analogy, then single goals can determine matches, and sprinters beat their rivals by fractions of a second. The extent of the difference may not be great, but it still matters.

Second, as well as mastery of the big picture, strategic success requires getting the details right and creating perceived and appreciated value. Sustaining success requires continuous improvement and **innovation** at the activity level – but always with the big picture in mind. Changing activities to strengthen the organization and its competitiveness are really **tactics**, rather than strategies, but tactics that make a broader strategic contribution. In summary, strategic success requires a clear big picture and mastery of the details. Both are required; one alone is not enough.

While we talk about organizations, they comprise people working individually and in teams (both formal and informal teams) who make decisions and carry out (and improve) all the activities in which the organization engages. Clear understanding of the purpose and the overall strategy, commitment towards these, and consistent **values** are, therefore, important in making serious progress. An additional argument could be made that an ethical approach is also of great significance.

In turn, these are affected by the way the organization is led and directed. Understanding **strategic leadership** is, therefore, at the core of strategic management. Companies and organizations create and sustain success by clarifying, creating and delivering something their customers and clients judge to be valuable to them and, therefore, worth choosing and consuming.

Strategy in a nutshell

Adding some detail to this description, but still keeping the message simple, is a very important task. Strategy is about how organizations cope with a world which is dynamic and emergent. Technologies, fashion and competitors all change constantly and simultaneously. Organizations have to harness all their strategic resources (including, in particular, their employees), deal with other **stakeholders** (such as funders and suppliers) and meet the expectations of their customers or clients. They sometimes have to deal with legislative and other constraints, and often they have to out-manoeuvre competitors.

Strategies are means to ends; the process of strategic management involves:

- clarifying the desired ends
- mapping out a route for achieving them (*creating strategies*)
- putting those strategies into practice (**implementation**)
- changing what you are doing tactically in the face of competition and unexpected issues that arise
- evaluating progress and performance.

To achieve all of these aspects effectively, organizations need a clear, if broad, vision and a willingness to be flexible in its pursuit. Strategies are sometimes determinedly intentional, but, on occasions, they emerge from the choices that organizations make in the face of dynamic uncertainty. Intention can come from the personal insight of individuals and from a more analytical process.

Organizations thus need to be able to harness and deploy the necessary resources and to respond to both opportunities and competition. It is here that any distinctive **competitive advantage** (a real edge over rivals) is created.

To thrive and grow, organizations must be able to meet the expectations of their customers or clients and to do what they do at least as well as, and ideally better than, any rivals. Competitiveness is based on many things, but being different (in both a distinctive and a meaningful way), cost management and speed are all critical.

We can, therefore, think of strategy from three distinct, but clearly linked, perspectives – opportunity, capability and competitiveness. These three themes, together with aspirations and values, are the five key strategy drivers. They affect the choices organizations make and how well they perform.

The five key drivers of strategy are: opportunity, capability, competitiveness, aspiration and values.

Strategy involves creation and ideas, and also delivery – implementation. Implementation depends on people who work together in organizations which can be cohesive and effective or more disjointed.

When organizations succeed, it is highly likely that they are doing the right things well. But if things go wrong, was the real problem what they were doing (the strategies) or how they were doing it (implementation)? It can be either – or both!

Put another way, successful organizations have a clear business model, which they implement well. They are clear what their product (or service) is, for whom it is intended and why these target customers (clients) have a compelling reason to do business with them. And they produce and deliver the right **quality** both on time and consistently. Their customers are satisfied.

A number of important themes thus emerge. It is people who produce and deliver the products and services, and so their skills, capabilities and motivation are critical. In turn, people work in organizations in which their roles need to be clear but where they have some freedom to influence what goes on. In a competitive and uncertain **environment**, it will be necessary for organizations to change from time to time and, sometimes, quite frequently. Organizations must react to what happens in the world and in their industry; and they should look to innovate proactively to get and stay one step ahead of their rivals.

The ability to match resources and opportunities effectively, to harness resources and satisfy customer expectations, meeting performance targets in the process, and to change things as and when necessary, are very dependent on the strategic leadership of the organization and on the **culture** and values prevalent within the organization. The congruence (or relative incongruence) of environment, resources and values is, therefore, a good test of strategic **effectiveness**.

Above all, strategy is about choices: choosing what to do and choosing what not to do. The secret is to keep things focused and straightforward and to 'deliver' through the implementation stage.

In their book, Lafley and Martin (2013) argue that there is no single, universally accepted definition of strategy, and they contend that strategy is really about choices. Successful organizations make more 'smart' choices than 'bad' ones. These choices, they argue, are (or should be!) designed to position a firm in its industry in order to create **sustainable competitive advantage** by offering value to customers that is superior to the value offered by competitors. We shall see that this relates to themes that have been championed by Porter, whose work is referenced throughout the book. Lafley and Martin (2013) warn against the danger of 'allowing what is urgent to crowd out what is important'. It is, they say, inadequate to define strategy as either a vision or a plan; it is short-sighted not to embrace the long term, medium term and short term when choosing strategies and tactics; it is also short-sighted to assume that successful strategies and tactics adopted by competitors are best practice that can and should be copied.

What are strategies?

At their simplest, strategies help to explain the things that managers and organizations do. These actions or activities are designed and carried out in order to fulfil certain designated purposes, some of them short term in nature, others longer term. The organization has a direction and broad purpose, which should always be clear, articulated and understood, and which sometimes will be summarized in the form of a **mission statement**. More specific **milestones** and targets (objectives) can help to guide specific actions and measure progress.

Strategies are the ways that organizations and their strategic leaders choose to go, the paths they follow, with some broad or specific end in mind. Strategic management might, therefore, be described as wayfinding.

Strategies, then, are means to ends

They are relevant for the organization as a whole and for the individual businesses and/or functions that comprise the organization. They are created and changed in a variety of ways. They have, however, one common feature: they all have **life cycles** and need changing, either marginally or dramatically, at certain times.

To some extent all managers are strategy-makers

While strategic management incorporates major changes of direction for the whole business, such as **diversification** and growth overseas, it also involves smaller changes in strategies for individual products and services and, in particular, functions such as marketing and operations. Decisions by managers in relation to their particular areas of product or functional responsibility have a strategic impact and contribute to strategic change.

Strategic management is a complex and fascinating subject with straightforward underlying principles but no 'right answers'. Strategy is about issues and perspectives on problems – there is no single, *prescriptive* doctrine which satisfies everyone's views.

Companies succeed if their strategies are appropriate for the circumstances they face; feasible in respect of their resources, skills and capabilities; and desirable to their important stakeholders – those individuals and groups, both internal and external, who have a stake in, and an influence over, the business. Simply, strategy is fundamentally about a fit between the organization's resources, the markets and customers it targets – plus, of course, the ability to sustain that fit over time and in changing circumstances.

Companies fail when their strategies fail to meet the expectations of these stakeholders or produce outcomes which are undesirable to them. To succeed in the long term, companies must compete effectively and outperform their rivals in a dynamic, and often turbulent, environment. To accomplish such *strategic success*, they must find suitable ways for creating and **adding value** for their customers. A culture of internal co-operation and customer orientation, together with a willingness to learn, adapt and change, is ideal. **Alliances** and good working relationships with suppliers, distributors and customers are often critically important as well.

Morrison and Lee (1979) concluded that successful companies seem to be distinguished from their less successful competitors by a common pattern of management practices, and these still hold:

- First, they identify more effectively than their competitors the **key success factors** inherent in the economics of each business. For example, in the airline industry, with its high fixed costs and relatively inflexible route allocations, a high load factor is critical to success. It is important, though, that high load factors are not at the expense of healthy sales of more expensive seats, and this requires skilful marketing.

- Second, they segment their markets so as to gain decisive competitive advantage, basing the segmentation on competitive analysis and often separating segments according to the strengths and weaknesses of different competitors, which enables them to concentrate on segments where they can maximize their competitive advantage and avoid head-on competition with stronger competitors. They are not all things to all people.
- Third, they carefully measure and analyze any competitive advantage. This requires a sound basis for assessing a company's advantages relative to its competitors.
- Fourth, they anticipate their competitors' responses. Good **strategic thinking** also implies an understanding of how situations will change over time. Business strategy, as with **military strategy**, is a matter of manoeuvring for superior position and anticipating how competitors will respond and with what measure of success.
- Fifth, they exploit more, or different, degrees of freedom than their competitors. Specifically, they seek to stay ahead of their rivals by looking for new competitive opportunities. While innovation and constant improvement are essential, there are also potentially huge rewards for organizations which are first to reach the new competitive high ground by changing the currently practised rules of competition.
- Finally, they give investment priority to businesses or areas that promise a competitive advantage.

Because there are many views on strategy and strategic management and no single, universally accepted approach, a study of strategic changes in a variety of different organizations is valuable. An examination of outcomes, followed by an analysis of the decisions which led to these relative successes and failures, is rich in learning potential. Examples should not be confined to just one sector. Manufacturing and service businesses, the private and public sectors and **not-for-profit organizations** are all relevant.

Everyone in a position to make or influence decisions which impact on the strategic effectiveness of the business should have at least a basic understanding of the concepts and processes of strategy. The processes will often be informal and the outcomes not documented clearly. But they still exist, and managing the processes effectively determines the organization's future. Without this understanding, people often fail to appreciate the impact of their decisions and actions for other people within the business. They are less likely to be able to learn from observing and reflecting on the actions of others. They are also more likely to miss or misjudge new opportunities and growing threats in the organization's environment.

As a starting point, key terms used in this book are defined in Key Terms 1.1 and examples of strategic changes over time in three familiar organizations are illustrated in Strategy in Action 1.1.

Key Terms 1.1

Mission and vision both relate to the essential purpose of the organization: the **vision** concerns why it is in existence and what it aims to become; the **mission** reflects what it needs to be if it is to pursue its purpose. It embraces the nature of the business(es) it is in and the customers it seeks to serve and satisfy.

Values statements represent word pictures which reflect the future standing of the organization and how it will behave and feel. They will typically comprise a set of behaviours and key values to which employees should subscribe. They are linked to the mission, but there is a subtle difference.

Objectives (or **goals**) are desired states or results linked to particular time-scales and concerning such things as the size or type of the organization, the nature and variety of the areas of interest and levels of success.

Taken to a particular level of detail, they can become targets and milestones.

Strategies are means to ends, and these ends concern the purpose and objectives of the organization. They are the things that businesses do, the paths they follow and the decisions they take in order to reach certain points and levels of success.

Tactics are the specific activities which deliver and implement the strategies in order to fulfil objectives and pursue the mission. Often short term, they can be changed frequently if necessary.

Strategic thinking is the ability of the organization (and its managers) to synthesize and share the learning from the organization's history, understand its present competencies and position, and clarify ways forward.

Strategic awareness is the understanding of managers within the organization about:

- the strategies being followed by the organization and its competitors
- how the effectiveness of these strategies could be improved
- the need for, and suitability of, opportunities for change.

Strategic management is a process or series of processes which needs to be understood as more than a discipline which can be taught. It is the process by which organizations determine their purpose, objectives and desired levels of attainment; decide on actions for achieving these objectives within an appropriate time-scale and, frequently, in a changing environment; implement the actions; and assess progress and results. Whenever and wherever necessary, the actions may be changed or modified. While we might teach what (we think) organizations could and should do, understanding what organizations have done, how and why, helps us appreciate strategy in reality.

Strategic change concerns changes which take place over time in relation to the strategies and objectives of the organization. Change can be gradual or evolutionary; or more dramatic, even revolutionary.

Synergy is the term used for the added value or additional cost benefits which ideally accrue from the linkage or fusion of two businesses, or from increased co-operation either between different parts of the same organization, or between a company and its suppliers, distributors and customers. Internal co-operation may represent linkages between either different divisions or different functions.

Strategy in Action 1.1   Examples of Historic Strategy Changes

WH Smith, desiring growth beyond the scope offered from its (then) current business lines (wholesaling and retailing newspapers and magazines, stationery, books and sounds), diversified into do-it-yourself with a chain of Do-It-All stores, introduced travel agencies into a number of its existing stores and acquired related interests in Canada and the United States. Travel was later divested, along with investments in cable television, to enable greater concentration on sounds, videos and consumer and office stationery. Important acquisitions included Our Price and Virgin music stores, and the Waterstones chain of specialist booksellers. Do-It-All became a joint venture with Boots, but it struggled to be profitable with strong competition from B&Q and Texas, acquired by Sainsbury's in the mid-1990s. In 1996, WH Smith divested Do-It-All and its office stationery businesses. Later in the 1990s, Waterstones and Our Price were also divested, and the book publisher Hodder Headline was acquired – and later also divested.

In the last few years, the group has split into two separately listed companies: WH Smith now incorporates the retail stores in town centres, and at airports and railway stations, while WH Smith News (now called Connect) is in the newspaper and magazine wholesale and distribution business. The retail stores have reduced their interest in music (because of the low margins and serious competition from other retailers, especially online retailers) and, instead, they focus on books, magazines, newspapers, cards and stationery.

Other products – including chocolate – have been added as impulse purchase opportunities. Customers who have bought from WH Smith over the years generally now comment that the stores feel different than in the past, that they are cluttered as the company attempts to achieve as much revenue as possible from every square metre of floor space. As a bookshop, for example, WH Smith is very different from a specialist bookseller such as Waterstones – although this company, too, has been subject to major changes. The highest growth in recent years has come from the shops at airports and railway stations.

The **Burton Group** is another UK high street retailer whose name has 'always seemed to be around'. Unlike WH Smith, Burton originally manufactured the men's suits that it sold. At one time, made-to-measure bespoke suits were far more popular than off-the-peg clothes. But technology changed this as sizing became easier. Burton closed the last of its manufacturing interests in 1988. Once one of the leading men's clothing manufacturers in Europe, the group, by a series of related acquisitions and divestments, essentially became a major retailer of fashion goods for men and women, changing the group name to Arcadia. In recent years, Arcadia acquired – and later divested – Debenhams. Arcadia was owned by the family of the entrepreneur and specialist in corporate turnarounds, Philip Green. In part because of the opportunities offered by IT – and also faster transportation – bespoke clothing, often manufactured