

# FOUNDATIONS OF STRATEGY



**ROBERT M. GRANT &  
JUDITH JORDAN**

Second edition

WILEY



# Foundations of Strategy

Second Edition

Robert M. Grant &  
Judith Jordan

WILEY

Copyright © 2015, 2012 Robert M. Grant and Judith Jordan

All efforts have been made to trace and acknowledge ownership of copyright. The Publisher would be glad to hear from any copyright holders whom it has not been possible to contact.

Cover illustration credit: © Valentina Razumova. Used under licence from Shutterstock.com.

*Registered office*

John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at [www.wiley.com](http://www.wiley.com).

The rights of Robert M. Grant and Judith Jordan to be identified as the authors of this work have been asserted in accordance with the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior permission of the publisher.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit [www.wiley.com](http://www.wiley.com).

Designations used by companies to distinguish their products are often claimed as trademarks. All brand names and product names used in this book are trade names, service marks, trademarks or registered trademarks of their respective owners. The publisher is not associated with any product or vendor mentioned in this book. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold on the understanding that the publisher is not engaged in rendering professional services. If professional advice or other expert assistance is required, the services of a competent professional should be sought.

*Library of Congress Cataloging-in-Publication Data*

Grant, Robert M., 1948-

Foundations of strategy / Robert M. Grant & Judith Jordan.—Second Edition.  
pages cm

Includes index.

ISBN 978-1-118-91470-0 (pbk.)

1. Strategic planning. 2. Industrial management—Technological innovations.

I. Jordan, Judith. II. Title.

HD30.28.G7214 2015

658.4'012—dc23

2014039505

ISBN: 978-1-118-91470-0 (pbk)

ISBN: 978-1-119-00131-7 (ebk)

ISBN: 978-1-119-00127-0 (ebk)

A catalogue record for this book is available from the British Library.

Set in 10/12.5 Sabon LT Std by Aptara Inc., New Delhi, India

Printed and bound in Italy by Printer Trento Srl.



# Brief contents

	<i>Preface to 2nd edition</i>	<i>ix</i>
	<i>Preface to 1st edition</i>	<i>x</i>
	<i>Online teaching and learning resources</i>	<i>xi</i>
	<i>Case list</i>	<i>xii</i>
<b>1</b>	The concept of strategy	1
<b>2</b>	Industry analysis	39
<b>3</b>	Resources and capabilities	81
<b>4</b>	The nature and sources of competitive advantage	119
<b>5</b>	Industry evolution and strategic change	151
<b>6</b>	Technology-based industries and the management of innovation	193
<b>7</b>	Corporate strategy	233
<b>8</b>	Global strategies and the multinational corporation	271
<b>9</b>	Realizing strategy	309
<b>10</b>	Current trends in strategic management	343
	<i>Glossary</i>	<i>365</i>
	<i>Index</i>	<i>371</i>



# Contents

	<i>Preface to 2nd edition</i>	<i>ix</i>
	<i>Preface to 1st edition</i>	<i>x</i>
	<i>Online teaching and learning resources</i>	<i>xi</i>
	<i>Case list</i>	<i>xii</i>
<b>1</b>	The concept of strategy	1
	The role of strategy in success	6
	A brief history of strategy	8
	Strategy today	11
	Strategic management of not-for-profit organizations	25
	The approach taken in this book	27
<b>2</b>	Industry analysis	39
	From environmental analysis to industry analysis	42
	The determinants of industry profit: Demand and competition	45
	Analysing industry attractiveness	47
	Applying industry analysis to forecasting industry profitability	57
	Using industry analysis to develop strategy	60
	Defining an industry	62
	Reviewing the five forces of competition framework	64
	Segmentation analysis	66
	Dealing with dynamic competition	68
	From industry attractiveness to competitive advantage: Identifying key success factors	68
<b>3</b>	Resources and capabilities	81
	The role of resources and capabilities in strategy formulation	87
	Identifying the organization's resources and capabilities	89
	Appraising resources and capabilities	100
	Developing strategy implications	106

<b>4</b>	The nature and sources of competitive advantage	119
	How competitive advantage emerges and is sustained	123
	Types of competitive advantage: Cost and differentiation	131
	Porter's generic strategies and being 'stuck in the middle'	140
<b>5</b>	Industry evolution and strategic change	151
	The industry lifecycle	157
	Managing organizational adaptation and strategic change	167
	Managing strategic change	170
<b>6</b>	Technology-based industries and the management of innovation	193
	Competitive advantage in technology-intensive industries	198
	Strategies to exploit innovation: How and when to enter	204
	Competing for standards	210
	Implementing technology strategies: Creating the conditions for innovation	215
<b>7</b>	Corporate strategy	233
	The scope of the firm	238
	Key concepts for analysing firm scope	239
	Diversification	241
	Vertical integration	249
	Managing the corporate portfolio	258
<b>8</b>	Global strategies and the multinational corporation	271
	The implications of international competition for industry analysis	277
	Analysing competitive advantage in an international context	280
	The international location of production	285
	How should firms enter foreign markets?	288
	Multinational strategies: Global integration vs. national differentiation	292
	Strategy and organization within the multinational corporation	297
<b>9</b>	Realizing strategy	309
	From strategy to execution	313
	Organizational design: The fundamentals of organizing	318
	Organizational design: Choosing the right structure	325
	Organizational culture	332



# 10

Current trends in strategic management	343
The new environment of business	344
New directions in strategic thinking	349
Redesigning organizations	354
The changing role of managers	358
<i>Glossary</i>	365
<i>Index</i>	371



# Preface to 2nd edition

The second edition retains its aim of providing a concise introduction to the key concepts, frameworks and techniques of strategy for those who are coming to the subject for the first time. The emphasis remains on practicality and how theory can be used to gain strategic insight into the challenges facing business organizations. At the same time, the content of the book has been revised to reflect recent developments in the business environment and in strategy research and to take into account feedback from instructors.

The distinctive features of the second edition include:

- changes and updates to opening and closing cases to reflect the current issues facing decision makers in a broad array of business organizations (Chapters 1 to 9);
- a more integrated approach to value creation and strategic analysis in not-for-profit contexts (particularly Chapter 1 but throughout the text);
- a stronger emphasis on strategic change that is structured around the challenges and ways of managing change and highlights the development of new capabilities and ways in which organizations seek to become more responsive and flexible (Chapter 5);
- a more concise and integrated treatment of strategy implementation; while the book maintains its emphasis on integrating strategy formulation and integration, Chapters 5 and 9 offer a more accessible and systematic approach to strategy execution;
- updates to the discussion of current trends in strategic management to reflect changes in the business climate and new strands of research including practice-based approaches (Chapter 10).

Like the first edition, the second edition of *Foundations of Strategy* draws heavily on the ideas, theories and evidence presented in Robert Grant's text *Contemporary Strategy Analysis*. It has also benefited from the feedback and suggestions of academic staff and students in the many universities and colleges where *Foundations of Strategy* has been adopted. We look forward to broadening and deepening our engagement with users.

We are also grateful for the professionalism and enthusiasm of the editorial, production, and sales and marketing teams at John Wiley & Sons Ltd.

# Preface to 1st edition

Robert Grant's *Contemporary Strategy Analysis* is one of the market-leading text books used on MBA and advanced undergraduate courses around the world. During the continuing development of that text, now in its 8th edition, it has become apparent that there is also considerable demand for a more accessible and concise version of the text. In response to this demand, we have developed *Foundations of Strategy* as a brand new textbook. While maintaining the accessible writing style, clear approach and sound theoretical depth, this new text is better suited to the needs of both undergraduate students and Masters' students requiring a more concise treatment of the subject.

As all those with an interest recognise, the way in which business and management education is delivered continues to evolve and change over time. Strategy modules remain a key part of business and management programmes but are now delivered in a wide variety of different formats, to a diverse range of students using a variety of different technologies. Strategy educators frequently find themselves with the challenge of having to deliver strategy modules in relatively short time frames to students with limited prior knowledge and experience of business and management practice. This text is designed to assist educators and students meet this challenge. Our aim has been to cover the key areas of strategy as concisely as possible without sacrificing intellectual rigour. To that end we have:

- Made clear the learning objectives and provided summary tables against these objectives at the start and end of each chapter.
- Organised the book on the basis of ten chapters.
- Provided a range of short cases that students can read and digest quickly and that can be used as an alternative to, or in conjunction with, longer cases available on the web.
- Included worked examples relating to the opening case of each chapter demonstrating how theory can be applied to practice in order to gain insight into strategic decision-making.
- Highlighted key concepts in the margin.
- Provided a glossary of key terms.



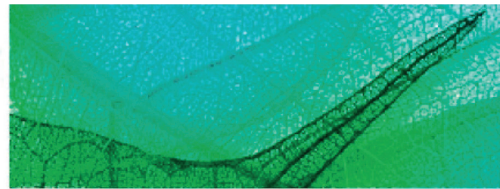
# Online teaching and learning resources

Visit [www.foundationsofstrategy.com](http://www.foundationsofstrategy.com) to access all the teaching and learning materials that accompany this text.

## FOUNDATIONS OF STRATEGY

Second edition

ROBERT M. GRANT &  
JUDITH JORDAN



Home  
About the Book  
About the Authors  
Reviews  
Table of Contents  
Student Resources  
Teaching Resources  
Strategy Teaching Workshops  
Request Inspection Copy  
Purchase  
Licence Grant Cases  
Links

**WILEY**

**The New Edition of the bestselling, concise strategy text**

**Table of Contents**

1. The Concept of Strategy
2. Industry Analysis
3. Resources and Capabilities
4. The Nature and Sources of Competitive Advantage
5. Industry Evolution and Strategic Change
6. Technology-Based Industries and the Management of Innovation
7. Corporate Strategy
8. Global Strategies and the Multinational Corporation
9. Realising Strategy
10. Current Trends in Strategic Management

**FOUNDATIONS OF STRATEGY**  
ROBERT M. GRANT &  
JUDITH JORDAN  
Second edition  
WILEY

Instructors will find extensive teaching materials such as an **Instructor's Manual**, including **Case Teaching Notes**, a **Test Bank** and **PowerPoint Slides**. The website also features extra, longer **Case Studies** written by Robert M. Grant, as well as **Case Video Clips**.

Resources for students include **Self-Test Quizzes** and **Glossary Flashcards**.

# Case list

Chapter	Opening Case	Closing Case
1. The concept of strategy	Strategy and success: Lady Gaga and Jeff Bezos	Tough Mudder LLC: Turning mud runs into a global business
2. Industry analysis	Pot of gold? The Colorado marijuana-growing industry	Fitness First and the UK health and fitness club industry
3. Resources and capabilities	Harley-Davidson, Inc.	Wal-Mart Stores, Inc.
4. The nature and sources of competitive advantage	Singapore Airlines (SIA)	Starbucks Corporation
5. Industry evolution and strategic change	The evolution of personal computers	Cirque du Soleil
6. Technology-based industries and the management of innovation	eBook readers	Nespresso
7. Corporate strategy	Tesco plc.: From food to finance	Diversification at Disney
8. Global strategies and the multinational corporation	IKEA's international strategy	Sharp and the production of liquid crystal displays
9. Realizing strategy	BP's environmental disasters	Designing and redesigning Cisco
10. Current trends in strategic management		



# 1

## The concept of strategy

**Introduction and objectives** 2

**Opening Case: Strategy and success:  
Lady Gaga and Jeff Bezos** 3

**The role of strategy in success** 6

**A brief history of strategy** 8

Origins 8

The evolution of business strategy 9

**Strategy today** 11

What is strategy? 11

How do we describe a firm's strategy? 13

How do we identify a firm's strategy? 14

How is strategy made? Design versus  
emergence 15

What roles does strategy perform? 17

Strategy: In whose interest? Shareholders versus  
stakeholders 18

Strategy: Whose interests **should** be prioritized? 20

Profit and purpose 22

The debate over corporate social responsibility 24

**Strategic management of not-for-profit  
organizations** 25

**The approach taken in this book** 27

*Summary* 28

*Further reading* 29

*Self-study questions* 30

**Closing Case: Tough Mudder LLC: Turning  
mud runs into a global business** 31

*Notes* 35

## Introduction and objectives

Strategy is about success. This chapter explains what strategy is and why it is important to individuals and organizations in achieving their goals. We will distinguish strategy from planning. Strategy is not a detailed plan or programme of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter is to introduce the notion of strategy, to make you aware of some of the key debates in strategy and to present the basic framework for strategy analysis that underlies this book.

By the time you have completed this chapter, you will:

- appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations;
- be aware of the origins of strategy and how views on strategy have changed over time;
- be familiar with some of the key questions and terminology in strategy;
- understand the debates that surround corporate values and social responsibility;
- gain familiarity with the challenges of strategy making in **not-for-profit organizations**;
- comprehend the basic approach to strategy that underlies this book.

Since the purpose of strategy is to help us to understand success, we start by looking at the role that strategy has played in enabling individuals to achieve their goals. Our Opening Case provides a brief outline of two different success stories: Lady Gaga's attainment of celebrity status and Jeff Bezos's building of Amazon. These two individuals working in very different fields offer fascinating insights into the foundations of success and the nature of strategy.



## Opening Case


### Strategy and success: Lady Gaga and Jeff Bezos

#### *Lady Gaga*

Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is the most successful popular entertainer to emerge in the 21st century. Her three albums, *The Fame*, released August 2008, *Born This Way*, released May 2011, and *Artpop*, released November 2013, sold a total of 26 million copies by the end of 2013. Her Monster Ball completed a 2009 concert world tour that grossed \$227.4 million (the highest for any debut artist). She has earned five Grammy music awards and 13 MTV video music awards and places on *Forbes'* listings of The World's 100 Most Powerful Women (though some way behind German Chancellor Angela Merkel).

Since dropping out of NYU's Tisch School of the Arts in 2005, she has shown total commitment to advancing her career as an entertainer and developing her Lady Gaga persona. Gaga's music is an appealing pastiche of Seventies glam, Eighties disco and Nineties Europop. One music critic, Simon Reynolds, described it as, 'ruthlessly catchy, noughties pop glazed with Auto-Tune and undergirded with R&B-ish beats'.<sup>1</sup> Her songs embody themes of stardom, love, religion, money, identity, liberation, sexuality and individualism.

However, music is only one element in the Lady Gaga phenomenon – her achievement is based less upon her abilities as a singer or songwriter and more upon her establishing a persona which transcends pop music. Like David Bowie and Madonna before her, Lady Gaga is famous for being Lady Gaga. The Gaga persona comprises a multimedia, multifaceted offering built from an integrated array of components that include her music, her stunning visual appearance, newsworthy events, distinctive social attitudes, her personality and a set of clearly communicated values. Key among these is visual impact and theatricality. Lady Gaga's outfits have set new standards in eccentricity and innovation. Her dresses – including her plastic bubble dress, meat dress and 'decapitated-corpse dress' – together with weird hairdos, extravagant hats and extreme footwear (she met President Obama in 16-inch heels) – are as well-known as her hit songs, and her music is promoted through visually stunning videos that combine fantasy, sex, sadism and science fiction. The variety of visual images she projects is such that her every appearance creates a buzz of anticipation as to her latest incarnation.

Lady Gaga has established a business model that recognizes the realities of the post-digital world of entertainment. Like Web 2.0 pioneers such as Facebook and Twitter, Gaga has followed the dictum 'first build market presence then monetize that presence'. She builds market presence through a range of online channels: her website, YouTube, Facebook and Twitter. With 2.8 billion YouTube views, 64 million Facebook fans and 41 million Twitter followers, she is outranked in online presence only by Justin Bieber and Katy Perry. Her emphasis on visual imagery reflects the ways in which her fame is converted into revenue. Music royalties are dwarfed by her concert earnings. Her other revenue sources – merchandizing deals, endorsements and product placements – are also linked to her market presence. 

◀ A distinctive feature of Gaga's market development is the emphasis she places on building relations with her fans. The devotion of her fans – her 'Little Monsters' – is based less on their desire to emulate her look as upon empathy with her values and attitudes. They recognize Gaga's images more as social statements of non-conformity than as fashion statements. In communicating her experiences of alienation and bullying at school and her values of individuality, sexual freedom and acceptance of differences – reinforced through her involvement in charities and gay rights events – she has built a global fan base that is unusual in its loyalty and commitment. As 'Mother Monster', Gaga is spokesperson and guru for this community, which is reinforced by her 'Monster Claw' greeting and the 'Manifesto of Little Monsters'.<sup>2</sup> To support her own talents as a singer, musician and songwriter, designer and showman, she created the Haus of Gaga as a creative workshop. Modelled on Andy Warhol's 'Factory', it includes choreographers, fashion designers, hair stylists, photographers, makeup artists, publicists, marketing professionals and is led by a creative director.<sup>3</sup>

### *Jeff Bezos and Amazon*

In 1994, at the age of 30, Jeff Bezos left the investment firm D. E. Shaw & Company and travelled from New York to Seattle in order to set up an e-commerce business that a year later became Amazon. Since he was a child, Bezos had been obsessed with science and technology and while researching investment opportunities at D. E. Shaw he had become convinced that the Internet would offer a once-in-a-lifetime business opportunity.

On 3rd April 1995, Amazon made its first book sale through a primitive website which linked to a catalogue drawn from Books in Print. Amazon then ordered the book from a local book distributor and dispatched the book from its office, a converted garage, using the US Postal Service. The customer received the book within two weeks.

However, Bezos's goal was not to create an online bookselling business. His vision was the potential to use the Internet as an intermediary between manufacturers and customers, thereby offering an unprecedented range of products supported by information that could allow these products to be tailored to each customer's needs – what Bezos referred to as the 'everything store'. Books would be Bezos's first product: their durability, transportability and huge variety made them suitable for the online venture that Bezos envisaged.

Amazon was not the first online bookstore: books.com and Abacis preceded it – nor was it alone in its market space: by 1998 a host of new start-ups and established booksellers had established online businesses, including Borders and Barnes & Noble. However, what distinguished Amazon was Bezos's uncompromising ambition, its obsessive frugality and its unshakable belief in the potential of technology to transform the customer experience through augmented services and unprecedented efficiency.

Amazon's strategy was dominated by a single objective: growth. According to Bezos: 'This is a scale business ... fixed costs are very high and the variable costs of doing this business are extremely low. As a result our major strategic objective has always been GBF – Get Big Fast.' Achieving growth meant offering customers the cheapest deal possible, irrespective of its impact on profitability. Amazon's price cutting and offers of free delivery meant that as business grew so did Amazon's losses: not until the final quarter of 2001 did Amazon finally turn a profit. Achieving growth also meant continually augmenting customers'

buying experience: designing the website to make customers' shopping experience quick, easy and interesting; allowing customers to review and rate books; offering personalized book recommendations; and constantly seeking new opportunities to surprise and delight customers.

Bezos viewed Amazon as, first and foremost, a technology company. Its mission 'to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online and that endeavours to offer its customers the lowest possible prices,' was to be achieved primarily through information technology. However, this also required the company to build leading logistical and merchandising capabilities which involved hiring executives from leaders in marketing and physical distribution companies such as Walmart, Coca-Cola, Allied Signal and the US Army. Amazon's basis in technology, its mission and its array of marketing, logistical and customer service capabilities meant that books were merely a starting point in fulfilling its growth ambitions: its online business system could be transferred to other products and replicated in other countries.

In 1998, Amazon diversified into audio CDs and DVDs and expanded into the UK and Germany. By the end of 2001, Amazon was offering a vast range of products that included computers and electronic products, software and video games, tools, toys and housewares. In addition, it was also hosting products from third-party suppliers – a move that further reinforced its identity as a technology platform rather than an online retailer.

Amazon's second decade (2005–2014) saw further diversification that proclaimed its credentials as one of the world's leading technology companies. Initiatives included:

- 2005 Mechanical Turk – crowdsourcing Internet marketplace where 'requesters' post tasks and 'responders' bid to do the work.
- 2006 Amazon Web Services – online services for other websites and client-side applications; by 2010, Amazon Web Services had established itself as the world's leading provider of cloud computing services.
- 2007 Kindle – Amazon's e-book reader was launched a year after the Sony Reader but soon dominated the market for dedicated e-book readers.
- 2014 Amazon Instant Video – Amazon's entry into streaming movies and TV shows began with Amazon Unbox in 2006 and was built through the acquisition of UK-based LoveFilm in 2011.

## Case Insight 1.1

### The basis of success

Our opening case describes two very different examples of outstanding success in highly competitive fields. Can their success be attributed to any common factors? Both Lady Gaga and Jeff Bezos are highly capable individuals, yet few would claim that Lady Gaga possesses outstanding talents as a popular musician or that Bezos was able to marshal stronger resources and capabilities than online rivals such as Barnes & Noble and Walmart. Nor can their success be attributed primarily to luck. Both have benefitted from lucky breaks, but both have suffered the cruel hand of fate: a hip injury forced Lady Gaga to cancel her Born This Way tour, while most of Amazon's acquisitions and investments of 1998–1999 were rendered worthless by the dot.com bust of 2000. Our contention is that underpinning the success of both Lady Gaga and Jeff Bezos was a soundly formulated and effectively implemented strategy. While these strategies existed more in the heads of the two leaders than as explicit plans, for both we can observe a consistency of direction based on a clear vision of a desired future and a keen awareness of how to manoeuvre into a position of advantage:

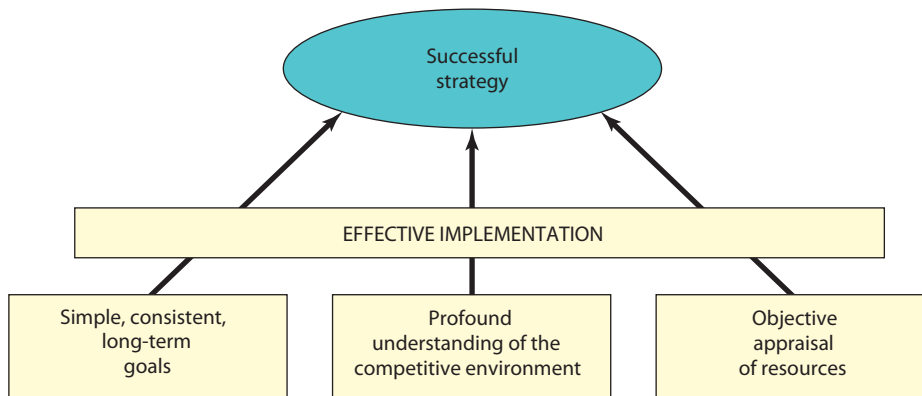
- Lady Gaga's career strategy has used music as a foundation upon which she has built her celebrity status by combining the generic tools of star creation – shock value, fashion leadership and media presence – with a uniquely differentiated image that has captured the imagination and affection of teenagers and young adults throughout the world.
- Jeff Bezos has honed a strategy for Amazon based upon the relentless pursuit of growth based on price leadership, the continual enhancement of the consumer experience and a relentless quest for new opportunities.

## The role of strategy in success

What do these examples tell us about the characteristics of a strategy that are conducive to success? In both stories, four common factors stand out (Figure 1.1):

- 1 Goals that are simple, consistent and long term.
  - a Stefani Germanotta has demonstrated a single-minded devotion to the pursuit of stardom for her alter ego, Lady Gaga.
  - b The founding of Amazon and its relentless growth are a tribute to the focused ambition of Jeff Bezos to create a business that would exploit the power of the World Wide Web to revolutionize the way in which people bought goods and services.
- 2 Profound understanding of the competitive environment.
  - a Lady Gaga's business model and strategic positioning show a keen awareness of the changing economics of the music business, the marketing potential of social networking and the needs of Generation Y.
  - b Jeff Bezos's growth strategy for Amazon combines acute awareness of the business potential of the Web with insight into the role of low prices and superior convenience in driving consumer demand.





**Figure 1.1** Common elements in successful strategies.

### 3 Objective appraisal of resources.

- a In positioning herself as a celebrity performance artist, Lady Gaga has exploited her talents in relation to design, creativity, theatricality and self-promotion while astutely augmenting these skills with capabilities she has assembled within her Haus of Gaga.
- b Jeff Bezos's leadership of Amazon has exploited his talent as a business and technological visionary and his attributes of persistence and ruthlessness while bringing in the technical, logistical and merchandising know-how that he lacked.

### 4 Effective implementation.

- a Without effective implementation, even the best-laid strategies are likely to flounder. The ability of Lady Gaga and Amazon to beat the odds and establish outstanding success owes much to their leaders' determination and ability to encourage collaboration and commitment from others.

These observations about the role of strategy in success can be made in relation to most fields of human endeavour. Whether we look at warfare, chess, politics, sport or business, the success of individuals and organizations is seldom the outcome of a purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on the basic four elements almost always play an influential role.

Look at the 'high achievers' in any competitive area. Whether we review the world's political leaders, the CEOs of the Fortune 500 or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers seldom possessed the greatest innate abilities. Success has gone to those who combine the four strategic factors mentioned above. They are goal focused; their career goals have taken primacy over the multitude of life's other goals – friendship, love, leisure, knowledge, spiritual fulfilment – which the majority of us spend most of our lives juggling and reconciling. They know the environments within which they play and tend to be fast learners in terms of understanding the keys to advancement. They know themselves in terms of both strengths and weaknesses. And they implement their career strategies with commitment, consistency and determination. As the late Peter Drucker observed: 'We must learn how to be the CEO of our own careers.'<sup>4</sup>

There is a downside, however. Focusing on a single goal may lead to outstanding success but may be matched by dismal failure in other areas of life.

Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Steve Jobs in business, Richard Nixon and Joseph Stalin in politics, Marilyn Monroe and Elvis Presley in entertainment, Joe Louis and O. J. Simpson in sport and Bobby Fischer in chess. Fulfilment in our personal lives is likely to require broad-based lifetime strategies.<sup>5</sup>

## A brief history of strategy

### Origins

Enterprises need business strategies for much the same reasons that armies need military strategies: to give direction and purpose, to deploy resources in the most effective manner and to coordinate the decisions made by different individuals. Many of the concepts and theories of business strategy have their antecedents in military strategy. The term ‘strategy’ derives from the Greek word *strategia*, meaning ‘generalship’. However, the concept of strategy did not originate with the Greeks. Sun Tzu’s classic *The Art of War*, written in about 500 BC, is regarded as the first treatise on strategy.<sup>6</sup>

Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics. *Strategy* is the overall plan for deploying resources to establish a favourable position; a *tactic* is a scheme for a specific action. Whereas tactics are concerned with the manoeuvres necessary to win battles, strategy is concerned with winning the war. Strategic decisions, whether in military or business spheres, share three common characteristics:

- they are important;
- they involve a significant commitment of resources;
- they are not easily reversible.

### Case Insight 1.2

#### Strategy versus tactics

A key lever for Amazon to drive sales growth was its shipping charges. During the 2000 and 2001 holiday seasons, Amazon began offering free shipping (initially to customers placing orders of a \$100 or more). Such cuts in shipping costs were tactical measures – they could be introduced and withdrawn at relatively short notice, and while they were effective at boosting sales, they did not necessitate significant resource commitments. The introduction of Amazon Prime in 2005 was different. In charging a \$79 fee to cover 12 months for free express delivery Amazon was, first, making a commitment for a year, second, it shifted consumers’ behaviour: members of Prime had a huge incentive to maximize their purchases from Amazon, which then gave Amazon an incentive to broaden its range of merchandise. Prime was a strategic initiative.

## The evolution of business strategy

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory. During the 1950s and 1960s, senior executives were experiencing increasing difficulty in coordinating decisions and maintaining control in companies that were growing in size and complexity. Financial budgeting, in the form of annual financial planning and investment appraisal, provided short-term control and aided project selection but did little to guide the long-term development of the firm. **Corporate planning** (also known as *long-term planning*) was developed during the late 1950s to serve this purpose. Macroeconomic forecasts provided the foundation for the new corporate planning. The typical format was a five-year corporate planning document that set goals and objectives, forecast key economic trends (including market demand, market share, revenue, costs and margins), established priorities for different products and business areas of the firm and allocated capital expenditures. The diffusion of corporate planning was accelerated by a flood of articles and books addressing this new science.<sup>7</sup> The new techniques of corporate planning proved particularly useful for developing and guiding the diversification strategies that many large companies were pursuing during the 1960s. By the mid-1960s, most large US and European companies had set up corporate planning departments.

During the 1970s and early 1980s, confidence in corporate planning and infatuation with scientific approaches to management were severely shaken. Not only did diversification fail to deliver the anticipated synergies but also the oil shocks of 1974 and 1979 ushered in a new era of macroeconomic instability, combined with increased international competition from resurgent Japanese, European and Southeast Asian firms. Faced with a more turbulent business environment, firms could no longer plan their investments, new product introductions and personnel requirements three to five years ahead, simply because they couldn't forecast that far.

The result was a shift in emphasis from planning to strategy making, where the focus was less on the detailed management of companies' growth paths than on positioning the company in markets and in relation to competitors in order to maximize the potential for profit. This transition from corporate planning to what became termed **strategic management** was associated with increasing focus on competition as the central characteristic of the business environment and competitive advantage as the primary goal of strategy.

The emphasis on strategic management also directed attention to business performance. During the late 1970s and into the 1980s, attention focused on sources of profit within the industry environment. Michael Porter of Harvard Business School pioneered the application of industrial organization economics to analysing industry profitability.<sup>8</sup> Other studies focused on how profits were distributed between the different firms in an industry – in particular the impact of market share and experience upon costs and profits.<sup>9</sup>

During the 1990s, the focus of strategy analysis shifted from the sources of profit in the external environment to the sources of profit within the firm. Increasingly, the resources and capabilities of the firm became regarded as the main source of competitive advantage and the primary basis for formulating strategy.<sup>10</sup> This emphasis on what has been called the **resource-based view** of the firm (a theoretical perspective that highlights the role of resources and capabilities as the principal basis for a firm's strategy) represented a substantial shift in thinking. Rather than firms pursuing similar strategies, as in seeking attractive markets and favourable competitive positions, emphasis on internal resources and capabilities encouraged firms to identify how they were different from their competitors and to design strategies that exploited these differences. Michael Porter's answer to the question 'What is strategy?'