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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'.¹ 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'.² 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.³

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 Abacus 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.

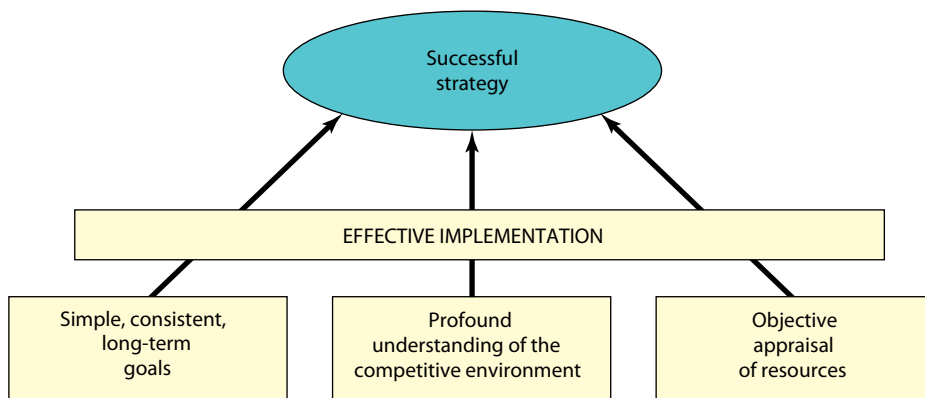


Figure 1.1 Common elements in successful strategies.

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.'⁴

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.⁵

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.⁶

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.⁷ 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.⁸ 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.⁹

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.¹⁰ 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?'

emphasized that: ‘Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.’¹¹

During the 21st century, new challenges have continued to shape the principles and practice of strategy. Digital technologies have had a massive impact on the competitive dynamics of many industries, creating winner-takes-all markets and standards wars.¹² Disruptive technologies¹³ and accelerating rates of change have meant that strategy has become less and less about plans and more about creating options for the future¹⁴, fostering strategic innovation¹⁵ and seeking ‘blue oceans’¹⁶ of uncontested market space. The complexity of these challenges has meant being self-sufficient is no longer viable for most firms – they increasingly depend on other firms through outsourcing and strategic alliances.

The continuing challenges of the 21st century, including the recession of 2008/9, are encouraging new thinking about the purpose of business. Disillusion with ‘shareholder value capitalism’ has been accompanied by renewed interest in corporate social responsibility, ethics, sustainability of the natural environment and the role of **social legitimacy** in long-term corporate success.

Figure 1.2 summarizes the main developments in strategic management over the past 60 years.

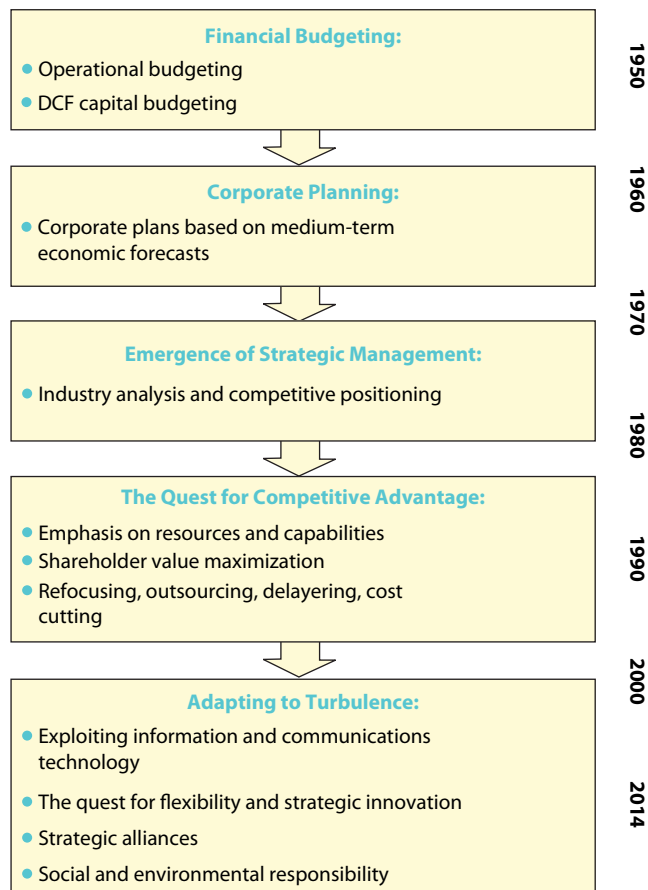


Figure 1.2 Evolution of strategic management: Dominant themes.

Strategy today

Having looked at the origins of strategy and how views on strategy have changed over time, we are ready to start our exploration of strategy today. We do this by posing a series of basic questions. What is strategy? How might we describe strategy? How do we go about identifying strategies in practice? How is strategy made? What purpose and whose interests does strategy serve? Can the concepts and tools of strategy be applied to not-for-profit organizations? In providing preliminary answers to these questions we introduce a number of key concepts and debates that we return to throughout this book. As you will see when you get further into the subject, strategy is a complex and contested field of study, so answers, which at first sight seem straightforward, can on deeper inspection raise further questions and force us to reflect on some things we may have previously taken for granted. For example, when we address the question of whose interests strategy serves, we find ourselves immediately propelled into considering whose interests strategy should serve. Before we get to that debate, we need to familiarize ourselves with some basic terminology and concepts and the obvious starting point is with the definition of the term ‘strategy’ itself.

What is strategy?

In its broadest sense, **strategy** is the means by which individuals or organizations achieve their objectives. Figure 1.3 presents a number of definitions of the term strategy. Common to definitions of business strategy is the notion that strategy is focused on achieving certain *goals*; that the critical actions which make up a strategy involve *allocation of resources*; and that strategy implies *consistency, integration or cohesiveness*.

Yet, as we have seen, the conception of firm strategy has changed greatly over the past half century. As the business environment has become more unstable and unpredictable, so strategy has become less concerned with detailed plans and more about the quest for success. This is consistent with our starting point to the chapter. If we think back to Jeff Bezos and Lady Gaga, neither wrote detailed strategic plans but both possessed clear ideas

- Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect.
– Wordsmyth Dictionary
- The determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
– Alfred Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962)
- Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.
– Kenneth Andrews, *The Concept of Corporate Strategy* (Homewood, IL: Irwin, 1971)

Figure 1.3 Some definitions of strategy.

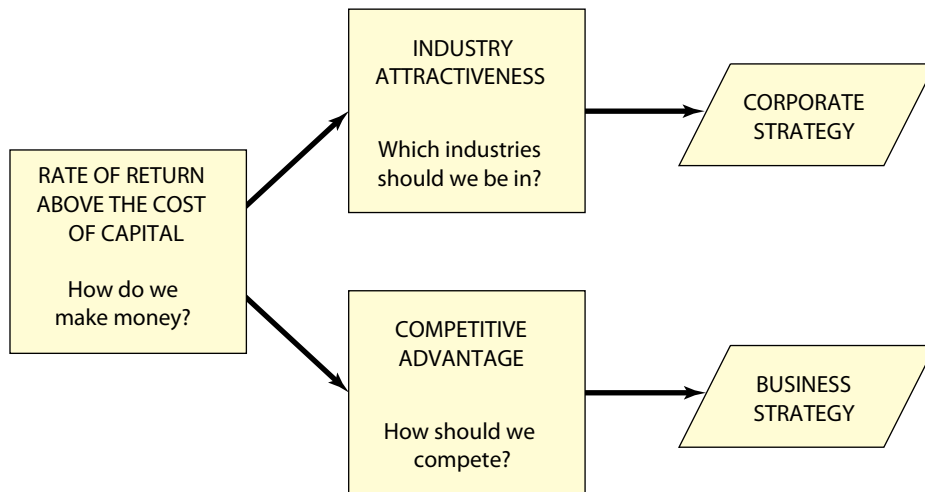


Figure 1.4 Corporate versus business strategy.

of what they wanted to achieve and how they would achieve it. This shift in emphasis from *strategy as plan* to *strategy as direction* does not imply any downgrading of the role of strategy. Certainly, in a turbulent environment, strategy must embrace flexibility and responsiveness. It is precisely in these conditions that strategy becomes more rather than less important. In an environment of uncertainty and change, a clear sense of direction is essential to the pursuit of objectives. When the firm is buffeted by unforeseen threats and when new opportunities are constantly appearing, strategy becomes a vital tool to navigate the firm through stormy seas.

When discussing strategy a distinction is commonly made between corporate strategy and business strategy (Figure 1.4).

- **Corporate strategy** defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, vertical integration, acquisitions and new ventures; the allocation of resources between the different businesses of the firm; and divestments.
- **Business strategy** is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as **competitive strategy**.

This distinction may be expressed in even simpler terms. The basic question facing the firm is: ‘How do we make money?’ The answer to this question corresponds to the two basic strategic choices we identified above: ‘Where to compete?’ and ‘How to compete?’ The distinction between corporate strategy and business strategy corresponds to the organizational structure of most large companies. Corporate strategy is typically the responsibility of the top management team and the corporate strategy staff. Business strategy is primarily the responsibility of divisional management.

Case Insight 1.3

Corporate versus business strategy

Lady Gaga's extension of her brand from recorded music to live concerts and interactive games illustrates the decisions she has taken at a corporate strategic level, because they are concerned with where she competes. In contrast her frequent changes in image, her emphasis on personal interaction with fans using digital media and her focus on theatricality are examples of how she chooses to compete and constitute decisions about business strategy.

As an integrated approach to firm strategy, this book deals with both business and corporate strategy. Our initial emphasis is on business strategy. This is because the critical requirement for a company's success is its ability to establish competitive advantage. Hence, issues of business strategy precede those of corporate strategy. At the same time, these two dimensions of strategy are intertwined: the scope of a firm's business has implications for the sources of competitive advantage; and the nature of a firm's competitive advantage determines the range of businesses in which it can be successful.

How do we describe a firm's strategy?

These same two questions 'Where is the firm competing?' and 'How is it competing?' also provide the basis upon which we can describe the strategy that a firm is pursuing. The *where* question has multiple dimensions. It relates to the industry or industries in which the firm is located, the products it supplies, the customer groups it targets, the countries and localities in which it operates and the vertical range of the activities it undertakes.

However, strategy is not simply about competing for today; it is also concerned with competing for tomorrow. This dynamic concept of strategy involves establishing objectives for the future and determining how they will be achieved. Future objectives relate to the overall purpose of the firm (*mission*), what it seeks to become (*vision*) and specific performance targets (Figure 1.5).

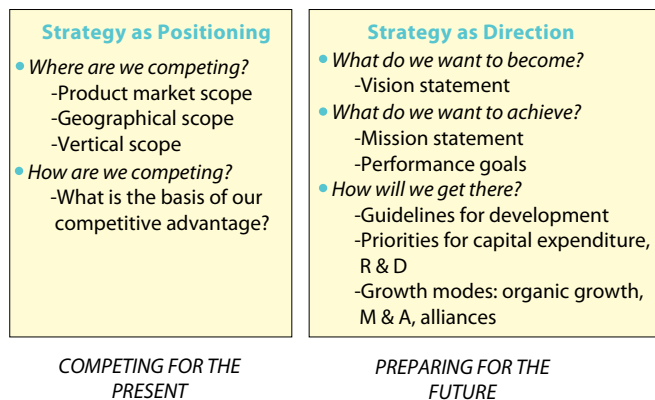


Figure 1.5 Describing a firm's strategy: Competing in the present, preparing for the future.

How do we identify a firm's strategy?

Even if we know how to describe a firm's strategy, where do we look to find what strategy a firm is pursuing? Where does information of the type outlined in Figure 1.5 come from? Strategy is located in three places: in the heads of the chief executive, senior managers and other members of the organization; in the top management team's articulations of strategy in speeches and written documents; and in the decisions through which strategy is enacted. Only the last two are observable.

While the most explicit statements of strategy – in board minutes and strategic planning documents – are almost invariably confidential, most companies, and public companies in particular, see value in communicating their strategy to employees, customers, investors and business partners and, inevitably, to the public at large. Collis and Rukstad identify a hierarchy of strategy statements:¹⁷

- The mission statement is the basic statement of organizational purpose; it addresses 'Why we exist'.
- A statement of principles or values outlines 'What we believe in and how we will behave'.
- The vision statement projects 'What we want to be'.
- The strategy statement articulates 'What our competitive game plan will be'.

Collis and Rukstad argue that the game plan should comprise three definitive components of strategy: *objectives*, *scope* (where we will compete) and *advantage* (how we will compete).

A version of some or all of these statements is typically found on the corporate pages of companies' websites. Featured Example 1.1 illustrates this point. More detailed statements of strategy, including qualitative and quantitative medium-term targets, are often found in top management presentations to analysts which are typically included in the 'For investors' pages of company websites. More detailed information on scope (Where?) and advantage (How?) can be found in companies' annual reports but this kind of information can be difficult to find for privately owned companies.

The usefulness of public statements of strategy is, however, limited by their role as public relations vehicles. This is particularly evident in vision and mission statements, which are frequently grandiose and clichéd. Hence, explicit statements of strategy need to be checked against decisions and actions:

- Where is the company investing its money? Notes to financial statements often provide detailed breakdowns of capital expenditure by region and business segment.
- What technologies is the company developing? Identifying the patents that a company has filed (using the online databases of the US and EU patent offices) indicates the technological trajectory it is pursuing.
- What new products have been released, major investment projects initiated and/or top management hires made? A company's press releases usually announce these strategic decisions.

Identifying a firm's strategy requires drawing upon multiple sources of information in order to build an overall picture of what the company says it is doing and what it is actually doing.

Featured Example 1.1

Statements of company strategy: McDonald's and the Merck Group

McDonald's Plan to Win	The Merck Group's Mission and Strategy
McDonald's brand mission is to be our customers' favorite place and way to eat and drink. Our worldwide operations are aligned around a global strategy called the Plan to Win, which center on an exceptional customer experience – People, Products, Place, Price and Promotion. We are committed to continuously improving our operations and enhancing our customers' experience.	Our aspiration is to make great things happen. With our research-driven specialty businesses, we help patients, customers, partners and the communities in which we operate around the world to live a better life. We achieve entrepreneurial success through innovation.
Plan to Win provides a common framework that aligns our global business and allows for local adaptation. We continue to focus on our three global growth priorities of optimizing our menu, modernizing the customer experience, and broadening accessibility to Brand McDonald's within the framework of our Plan. We believe these priorities align with our customers' evolving needs, and – combined with our competitive advantages of convenience, menu variety, geographic diversification and system alignment – will drive long-term sustainable growth.	Merck focuses on innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. The company's goal is sustainable and profitable growth. Merck intends to achieve this by growing primarily organically and by further developing its competencies, but also by making targeted acquisitions that complement and expand existing strengths in meaningful ways. Building on leading branded products in its four divisions, Merck aims to generate income that is largely independent of the prevailing economic cycles. Moreover, the aim is to further expand the strong market position in emerging markets in the medium to long term.
Source: www.aboutmcdonalds.com	Source: www.merckgroup.com

How is strategy made? Design versus emergence

How companies make strategy has been one of the most hotly debated issues in strategic management. Our emphasis on strategy analysis encourages the view that strategy is the result of managers engaging in deliberate, rational analysis. However, strategy may also emerge through adaptation to circumstances. In discussing Lady Gaga's career, we discerned a consistency and pattern to her career decisions that we described as a strategy, yet there is no evidence that she engaged in any systematic strategic planning. And this is the same with many successful companies: Walmart's winning strategy built on large store formats, hub-and-spoke distribution, small-town locations and employee motivation was not a product of grand design; it emerged from Sam Walton's hunches and a series of historical accidents.

Henry Mintzberg is a leading critic of rational approaches to strategy design. He distinguishes *intended*, *realized* and *emergent* strategies. **Intended strategy** is strategy as conceived of by the top management team. Even here, intended strategy is less a product of rational deliberation and more an outcome of negotiation, bargaining and compromise among the many individuals and groups involved in the process. However, **realized strategy**– the actual strategy that is

implemented – is only partly related to that which was intended (Mintzberg suggests only 10–30% of intended strategy is realized). The primary determinant of realized strategy is what Mintzberg terms **emergent strategy**– the decisions that emerge from the complex processes in which individual managers interpret the intended strategy and adapt to changing external circumstances.¹⁸ According to Mintzberg, not only is rational design an inaccurate account of how strategies are actually formulated, it is a poor way of making strategy.

‘The notion that strategy is something that should happen way up there, far removed from the details of running an organization on a daily basis, is one of the great fallacies of conventional strategic management.’¹⁹

Featured Example 1.2

Honda’s entry into the US motorcycle market

Honda’s successful entry into the US motorcycle market has provided a central battleground between those who view strategy making as primarily a rational, analytical process of deliberate planning (*the design school*) and those who envisage strategy as emerging from a complex process of organizational decision making (*the emergence or learning school of strategy*).²⁰ The Boston Consulting Group lauded Honda for its single-minded pursuit of a global strategy based on exploiting economies of scale and learning to establish unassailable cost leadership.²¹ However, subsequent interviews with the Honda managers in charge of US market entry revealed a different story: a haphazard entry with little analysis and no clear plan.²² As Mintzberg observes: ‘Brilliant as its strategy may have looked after the fact, Honda’s managers made almost every conceivable mistake until the market finally hit them over the head with the right formula.’²³

The emergent approaches to strategy making permit adaptation and learning through continuous interaction between strategy formulation and strategy implementation in which strategy is constantly being adjusted and revised in light of experience.

In practice, strategy making almost always involves a combination of centrally driven rational design and decentralized adaptation. The design aspect of strategy comprises a number of organizational processes through which strategy is deliberated, discussed and decided. In larger companies these include board meetings and a formalized process of strategic planning supplemented by more broadly participative events such as strategy workshops.

At the same time, strategy is being continually enacted through decisions that are made by every member of the organization, and by middle management especially. The decentralized, bottom-up strategy emergence may in fact lead to more formalized strategy formulation. Intel’s historic decision to abandon memory chips and concentrate on microprocessors was initiated by incremental decisions taken by business unit and plant managers that were subsequently promulgated by top management into strategy.²⁴

In all the companies we are familiar with, strategic planning combines design and emergence – a process that Grant refers to as **planned emergence**.²⁵ The balance between the two depends

greatly upon the stability and predictability of a company's business environment. The Roman Catholic Church, for example, inhabits a relatively stable environment. For Google, Al Qaeda and Zimbabwe Banking Corporation, however, strategic planning will inevitably be restricted to a few principles and guidelines; the rest must emerge as circumstances unfold. As the business environment becomes more turbulent and less predictable, so strategy making becomes more concerned with guidelines and less with specific decisions. We return to these issues again throughout the book.

What roles does strategy perform?

The transition from corporate planning to strategic management has involved strategy moving from planning departments to the centre of corporate leadership. As such, strategy occupies multiple roles within organizations.

STRATEGY AS DECISION SUPPORT We have described strategy as a pattern or theme that gives coherence to the decisions of an individual or organization. But why can't individuals or organizations make optimal decisions in the absence of such a unifying theme? Consider the 1997 'man versus computer' chess epic in which Garry Kasparov was defeated by IBM's Deep Blue computer.

Deep Blue did not need strategy. Its phenomenal memory and computing power allowed it to identify its optimal moves based on a huge decision tree.²⁶ Kasparov, although the world's greatest chess player, was subject to **bounded rationality**: his decision analysis was subject to the cognitive limitations that constrain all human beings.²⁷ For chess players, a strategy offers guidelines and decision criteria that assist positioning and help create opportunities.



Credit: AFP/Getty Images

Strategy improves decision making in several ways. First, strategy simplifies decision making by *constraining* the range of decision alternatives considered and by acting as a *heuristic* (a rule of thumb) that reduces the search required to find an acceptable solution to a decision problem. Second, a strategy-making process permits the knowledge of different individuals to be pooled and integrated. Third, a strategy-making process facilitates the use of analytic tools: the frameworks and techniques that we will encounter in the ensuing chapters of this book.

STRATEGY AS A COORDINATING DEVICE The greatest challenge of managing an organization is coordinating the actions of different organizational members. Strategy can promote coordination in several ways. First, it is a communication device. Statements of strategy are a powerful means through which the CEO can communicate the identity, goals and positioning of the company to all organizational members. However, communication alone is not enough. For coordination to be effective, *buy-in* is essential from the different groups that make up the organization. The strategic planning process can provide a forum in which views are exchanged and consensus developed. Once formulated, the implementation of strategy through goals, commitments and performance targets that are monitored over the strategic planning period also provides a mechanism to ensure that the organization moves forward in a consistent direction.

STRATEGY AS TARGET Strategy is forward looking. It is concerned not only with how the firm will compete now but also with what the firm will become in the future. A key purpose of a forward-looking strategy is not only to establish a direction of the firm's development but also to set aspirations that can *motivate* and *inspire* the members of the organization. Gary Hamel and C. K. Prahalad use the term *strategic intent* to describe the articulation of a desired leadership position. They argue that: 'strategic intent creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by building new competitive advantages.'²⁸ The implication they draw is that strategy should be less about fit and resource allocation and more about *stretch* and *resource leverage*.²⁹ The evidence from Toyota, Virgin and Southwest Airlines is that resource scarcity may engender ambition, innovation and a 'success against the odds' culture. Jim Collins and Jerry Porras make a similar point: US companies that have been sector leaders for 50 years or more – Merck, Walt Disney, 3M, IBM and Ford – have all generated commitment and drive through setting 'Big, Hairy, Ambitious Goals'.³⁰

STRATEGY AS ANIMATION AND ORIENTATION Karl Weick popularized the story of a group of soldiers on reconnaissance in the Alps who, after a snowstorm, lose their way.³¹ They are feeling cold and despondent until one of the party discovers a tattered map in a little-used pocket. Finding the map animates the group and gets group members walking until they are back on a familiar bearing. On reaching shelter they find that the map was of another mountain range, the Pyrenees. The moral of the story is that the map is like strategy. Often the most important role of strategy is to animate and orientate individuals within organizations so that they are mobilized, encouraged and work in concert to achieve focus and direction even if the plan isn't correct. It helps, of course, to work with a map or a plan that is as accurate as possible.

Strategy: In whose interest? Shareholders versus stakeholders

We have highlighted the multiple roles that strategy plays in organizations and its central role is assisting organizations to achieve their goals, but while it is easy to comprehend an individual having personal goals, the notion of organizations having goals is slightly more problematic. Organizations are composed of many different individuals and groups, many of which may have different agendas. As a consequence, firms are likely to have multiple goals some of which may, at times, conflict. Nonetheless, at the broadest level, all businesses seek to create value through the activities they undertake. This, of course, invites the questions about what we mean by value and who benefits from the value businesses create. Defining value is not straightforward, because it is rarely a matter of objective fact. Perceptions of value arise through the interplay of supply and demand and through processes of negotiation and argument but, in the business world, value is usually assessed in monetary terms through customers' willingness to pay for a good or service. Firms create value for their customers to the extent that the satisfaction customers gain exceeds the price they pay for the goods or services they purchase.

The 'value' created by firms is distributed among different parties: employees (wages and salaries), lenders (interest), landlords (rent), government (taxes) and owners (profit). Given that the value added by firms is distributed between these different parties, it is tempting to think of all businesses as operating for the benefit of multiple constituencies. This view of business organizations as coalitions of interest groups where top management's role to balance these different, often conflicting, interests is referred to as the *stakeholder approach* to the firm.³²

Stakeholder analysis is a useful tool for identifying, understanding and prioritizing the needs of key stakeholders. The needs and goals of stakeholders often conflict, requiring

organizations to engage in an ongoing process of balancing and managing multiple objectives and relationships. Bryson outlines a number of key steps in stakeholder analysis:³³

- Identification of the list of potential stakeholders – this stage usually involves a brainstorming session between informed parties;
- Ranking stakeholders according to their importance and influence on the organization;
- For each stakeholder identifying the criteria that stakeholder would use to judge the organization's performance or the extent to which it is meeting stakeholders' expectations;
- Deciding how well the organization is doing from its stakeholders' perspective;
- Identifying what can be done to satisfy each stakeholder;
- Identifying and recording longer-term issues with individual stakeholders and stakeholders as a group.

To assist with this analysis Eden and Akerman suggest the use of *power interest grids* (Figure 1.6).³⁴ These grids array stakeholders in a matrix with stakeholder interest forming one dimension and stakeholder power the other.

Stakeholder interest refers to a particular stakeholder's political interest in an organization or issue rather than merely their degree of inquisitiveness. *Stakeholder power* refers to the stakeholder's ability to affect the organization's or the issue's future. Four categories of stakeholders result. Players are stakeholders who have both an interest and significant power; subjects are stakeholders with an interest but little power; context setters are stakeholders with power but little direct interest; and the crowd make up the final box comprising those with neither interest nor power. The grid is used to identify which stakeholder interests and power bases should be taken into account, but it also helps identify what coalitions amongst

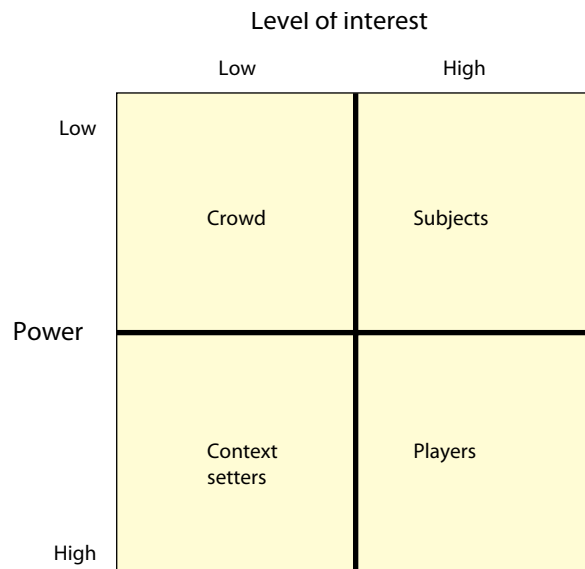


Figure 1.6 Stakeholder power/interest grid.

Source: C. Eden and F. Ackerman (1998) *Making Strategy: The Journey of Strategic Management* (London: Sage).

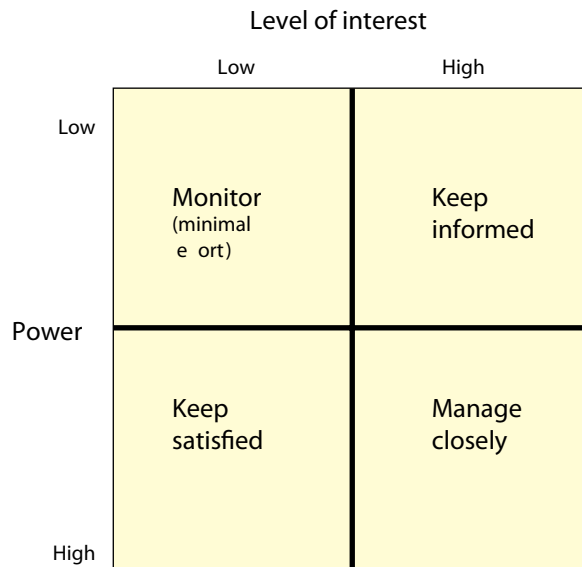


Figure 1.7 Responses to stakeholders' positions within the power/interest grid.

stakeholders managers may wish to encourage or discourage. Figure 1.7 redraws the matrix to show how managers may respond to different groups in order to gain their compliance. Obviously ensuring the acceptability of strategies to *players* is of key importance and relationships with these stakeholders need to be managed closely. In contrast stakeholders categorized as part of the *crowd* may be considered passive but they do have the potential to reposition by taking a more active interest so need to be monitored. Bryson suggests that stakeholder participation, if properly organized, can be of a positive assistance in strategy formulation, implementation and review.³⁵ This is particularly important in the public and not-for-profit sectors, where empowering stakeholders is often a key objective in its own right.

In contrast, however, in many countries the prime concern of firms is seen as producing profits for shareholders. The question of whose interests strategy *should* serve is the subject of much debate, particularly since the 2008 financial crisis revealed some of the shortcomings of shareholder capitalism so in the next section we review some of the main arguments.

Strategy: Whose interests should be prioritized?

The notion of the corporation balancing the interests of multiple stakeholders has a long tradition, especially in Asia and continental Europe. By contrast, most English-speaking countries have endorsed shareholder capitalism, where companies' overriding duty is to produce profits for owners. These differences are reflected in international differences in companies' legal obligations. In the US, Canada, the UK and Australia, company boards are required to act in the interests of shareholders. In continental European countries, companies are legally required to take account of the interests of employees, the state and the enterprise as a whole. Whether companies should operate exclusively in the interests of their owners or should also pursue the goals of other stakeholders is an ongoing debate.

During the 1990s, *Anglo-Saxon* shareholder capitalism was in the ascendancy – many continental European and Japanese companies changed their strategies and **corporate**

governance to increase their responsiveness to shareholder interests. However, during the 21st century, shareholder value maximization has come to be associated with short-termism, financial manipulation (Enron, WorldCom), excessive CEO compensation and the failures of risk management that precipitated the 2008/9 financial crisis. The responsibilities of business to employees, customers, society and the natural environment are central ethical and social issues.

Featured Example 1.3

The Kraft takeover of Cadbury: Shareholders versus stakeholders

Cadbury plc was a globally recognized confectionery company, second only to the Mars-Wrigley group in size worldwide. Its brands included Crunchie, Flake, Creme Eggs, Roses and Milk Tray, to name but a few. In its long history Cadbury had acquired many other companies but in February 2010 the company itself became an acquisition target, was taken over by the US food giant Kraft and ceased to exist as an independent corporate entity.

The business was originally founded in the UK by John Cadbury in 1824 selling tea, coffee and drinking chocolate. The business flourished and John extended his activities into the production of cocoas and drinking chocolates and formed the partnership Cadbury Brothers of Birmingham with his brother Benjamin. The business gained particular momentum in the 1850s when a reduction in the high rate of import tax on cocoa and chocolate meant the Cadbury Brothers' products, which had hitherto been the preserve of the wealthy owing to their high cost, became more affordable to the general public. Around this time master confectioner Frederic Kinchelman joined the business, bringing with him his recipes and production secrets. This allowed Cadbury to move into the chocolate-covered confectionery products that eventually became the basis of the company's growth and development.

In due course, the business was taken over by John Cadbury's sons, who decided that they needed larger premises. They acquired land just outside Birmingham and their new Bournville factory opened in 1879. John's sons, like their father and uncle, were Quakers, that is to say members of a Protestant religious group that rejected ritual and formal creed and had a commitment to social reform. Acting in the Quaker philanthropic tradition, George Cadbury (one of John's sons) bought land adjacent to the new factory and built a model village for workers at his own expense in order to 'alleviate the evils of more cramped living conditions'. His aim was to operate a profitable company that cared for and nurtured its employees. The company retained its commitment to social philanthropy over time and was known for its caring attitude to its workers and for its charitable works. The company ethos proved so enduring that in 2010, when faced



Credit: AFP/Getty Images

with the hostile bid from Kraft, the then chief executive of Cadbury, Todd Stitzer, argued that his firm was the embodiment of a distinctive style of 'principled capitalism' that was 'woven into its fabric' by its founders. He saw the Cadbury culture as something distinctive that contributed to the company's competitive success and argued that this advantage would be lost if the company were acquired by Kraft.

Kraft eventually acquired control of Cadbury in February 2010 but the takeover was particularly controversial. Cadbury workers protested on the streets, the Royal Bank of Scotland was fiercely criticized for lending Kraft the money to close the deal and a few politicians tried to have the takeover blocked on competition grounds. At the heart of the debate over Cadbury's future was disagreement about whose interests were being served. Those who wished to block the bid argued that past history suggested that Kraft would prioritize shareholders' interests above those of other stakeholders and in the pursuit of profit would negate everything that Cadbury had previously stood for. Others saw no such conflict, arguing that doing good is good for business and, anyway, firms that do not pay attention to shareholders' interests do not survive.

In practice the extent to which firms take a narrow (shareholder) or broad (stakeholder) view of their purpose is probably more a matter of pragmatics than arbitrary choice. In a competitive labour market, firms that failed to take their employees into account would soon find themselves incurring costs of high labour turnover. Similarly, firms that failed to take the interests of customers or suppliers into account would be at a disadvantage relative to competitors with different policies. In practice what is important is the priority given to different groups and senior managements' judgement calls on the trade-offs required to satisfy important interest groups.

Profit and purpose

As the Cadbury example illustrates, there is more to business than making money. Profit maximization (enterprise value maximization, to be more precise) provides a convenient foundation for building our tools of strategy analysis, yet it is not the goal that inspired Henry Ford to build a business that precipitated a social revolution.

'I will build a motor car for the great multitude ... It will be so low in price that no man making good wages will be unable to own one and to enjoy with his family the blessing of hours of pleasure in God's great open spaces ... When I'm through, everyone will be able to afford one and everyone will have one.'³⁶

We saw in our opening case that Lady Gaga and Jeff Bezos were not so much driven by the desire for riches as the desire to fulfil a broader vision. Likewise, the world's most consistently successful companies in terms of profits and shareholder value tend to be those that are motivated by factors other than profit. A succession of studies point to the role of strategic intent, vision and ambitious goals in driving sustained corporate success.³⁷ Indeed, the

converse may also be true: companies that are most focused on profitability and the creation of shareholder value are often remarkably unsuccessful at achieving those goals.

Why does the pursuit of profit so often fail to realize its goal? First, profit will only be an effective guide to management action if managers know what determines profit. Obsession with profitability can blinker managers' perception of the real drivers of superior performance. Conversely, a strategic goal 'to build a motor car for the great multitude that everyone will be able to afford' (Ford) or to 'build great planes' (Boeing) or to 'become the company most known for changing the worldwide poor quality image associated with Japanese products' (Sony, 1950s) may lead a company to direct its efforts towards the sources of competitive advantage within its industry – ultimately leading to superior long-term profitability.

Some companies have kept alive a keen sense of purpose. It is embedded in organizational culture and implicit in strategy and in the behaviour of corporate leaders. However, sustaining a sense of purpose typically requires articulation in explicit statements of mission, vision and purpose. For example:

- Google's mission is: 'to organize the world's information and make it universally accessible and useful'.
- 'The IKEA vision is to create a better everyday life for the many people. They make this possible by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.'
- SAP strives to define and establish undisputed leadership in the emerging market for business process platform offerings and accelerate business innovation powered by IT for companies and industries worldwide.
- Oxfam aspires to create lasting solutions to poverty, hunger and social injustice.

The second factor concerns motivation. Success is the result of coordinated effort. The goal of maximizing the return to stockholders is unlikely to inspire employees and other company stakeholders and it's unlikely to be especially effective in inducing cooperation and unity between them. Dennis Bakke, founder of the international power company AES, offers the following analogy:

Profits are to business as breathing is to life. Breathing is essential to life, but is not the purpose for living. Similarly, profits are essential for the existence of the corporation, but they are not the reason for its existence.³⁸

A sense of purpose is common to most new, entrepreneurial enterprises and is also very evident in numerous non-private-sector organizations. But what about established companies? What happens to the sense of purpose that was presumably present at their founding?

Is organizational purpose instilled at birth or can companies choose or adapt their *raison d'être* during the course of their lives? Certainly many of the companies that are most

closely identified with clarity of purpose – HP, Johnson & Johnson, Walt Disney – have a sense of mission that is little changed from that articulated by their founders. Yet, Cynthia Montgomery argues that ‘forging a compelling organizational purpose’ is the ongoing job of the CEO; indeed, it is the ‘crowning responsibility of the CEO’.³⁹ The challenge is to link change with continuity. Some of the most successful corporate turnarounds have been engineered by corporate leaders – Gerstner at IBM, Eisner at Walt Disney – who have renewed and redirected organizational purpose while appealing to a continuity of tradition and values. We re-engage with this debate in Chapter 9, where we explore how strategy is realized in practice.

The debate over corporate social responsibility

This issue of ‘whose interests should strategy serve’ has re-emerged in recent years as part of the debate over **corporate social responsibility** (CSR). What are a company’s obligations to society as a whole?

In a sharp rebuttal to calls for business to address the broader problems of society, free-market economist Milton Friedman declared CSR to be both unethical and undesirable. Unethical because it involved management spending owners’ money on projects that owners had not approved of and undesirable because it involved corporate executives determining the interests of society. Once business enterprises accept responsibility for society, does this justify support for political groups, for religious movements, for elitist universities? According to Friedman:

There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.⁴⁰

Some of the main arguments for prioritizing shareholder interests and seeking to maximize profits rather than returns to other stakeholders are:

- *Competition.* Competition erodes profitability. As competition increases, the interests of different stakeholders converge around the goal of survival. Survival requires that, over the long term, the firm earn a rate of profit that covers its cost of capital; otherwise, it will not be able to replace its assets. Across many sectors of industry, the heat of international competition is such that few companies have the luxury of pursuing goals that diverge from profit maximization.
- *The market for corporate control.* Management teams that fail to maximize the profits of their companies will be replaced by teams that do. In the *market for corporate control*, companies that underperform financially suffer a declining share price that acquirers – other public companies or private equity funds – will use as a basis for personnel replacement. Despite the admirable record of British chocolate maker Cadbury in relation to employees and local communities (Featured example 1.3), its poor return to shareholders between 2004 and 2009 meant that it was unable to resist acquisition by Kraft Foods. In addition, activist investors – both individuals and institutions – pressure boards of directors to dismiss CEOs who fail to create value for shareholders.⁴¹

- *Convergence of stakeholder interests.* Even beyond a common interest in the survival of the firm, there is likely to be more community of interests than conflict of interests among different stakeholders. Profitability over the long term requires loyalty from employees, trusting relationships with suppliers and customers and support from governments and communities.
- *Simplicity.* A key problem of the stakeholder approach is that considering multiple goals and specifying trade-offs between them vastly increase the complexity of decision making.⁴² Virtually all the major tools of business decision making, from pricing rules to discounted cash flow analysis, are rooted in the assumption of profit maximization. Adopting stakeholder goals risks opening the door to political wrangling and management paralysis.

Despite these arguments, companies are increasingly accepting responsibilities that extend well beyond the immediate interests of their owners. The case for CSR is based on both ethics and efficacy. Ethical arguments about management responsibility depend, ultimately, upon what we conceive the firm to be. William Allen contrasts two different notions of the public corporation: *the property conception*, which views the firm as a set of assets owned by stockholders and the *social entity conception*, which views the firm as the community of individuals that is sustained and supported by its relationships with its social, political, economic and natural environment.⁴³ The **firm as property** view implies that management's responsibility is to operate in the interests of shareholders. The **firm as social entity** implies a responsibility to maintaining the firm within its overall network of relationships and dependencies. Charles Handy dismisses the 'firm as property' view as a hangover from the 19th century: in the 21st century shareholders invest in companies but are not 'owners' in any meaningful sense. To regard profit as the purpose for which companies exist, he argues, is a tragic confusion.⁴⁴

Strategic management of not-for-profit organizations

When strategic management meant top-down, long-range planning, there was little distinction between business corporations and not-for-profit organizations: the techniques of forecast-based planning applied equally to both. As strategic management has become increasingly oriented towards the identification and exploitation of sources of profit, it has become more closely identified with for-profit organizations. So, can the concepts and tools of corporate and business strategy be applied to not-for-profit organizations? The short answer is yes. Strategy is as important in not-for-profit organizations as it is in business firms. The benefits we have attributed to strategic management in terms of improved decision making, achieving coordination and setting performance targets may be even more important in the non-profit sector. Moreover, many of the same concepts and tools of strategic analysis are readily applicable to not-for-profits, albeit with some adaptation. However, the not-for-profit sector encompasses a vast range of organizations. Both the nature of strategic planning and the appropriate tools for strategy analysis differ among these organizations.

The basic distinction here is between those not-for-profits that operate in competitive environments (most non-governmental, non-profit organizations) and those that do not (most government departments and government agencies). Among the not-for-profits that

Table 1.1 Applying the concepts and tools of strategic analysis to different types of not-for-profit organization.

	Organizations in competitive environments that charge users	Organizations in competitive environments that provide free services	Organizations sheltered from competition
Examples	Royal Opera House Guggenheim Museum Stanford University	Salvation Army Habitat for Humanity Greenpeace Linux	UK Ministry of Defence European Central Bank New York Police Dept World Health Organization
Analysis of goals and performance	Identification of mission, goals and performance indicators and establishing consistency between them is a critical area of strategy analysis for all non-profits		
Analysis of the competitive environment	Main tools of competitive analysis are the same as for for-profit firms	Main arena for competition and competitive strategy is the market for funding	Not important. However, there is inter-agency competition for public funding
Analysis of resources and capabilities	Identifying and exploiting distinctive resources and capabilities critical to designing strategies that confer competitive advantage		Analysis of resources and capabilities essential in determining priorities and designing strategies
Strategy implementation	The basic principles of organizational design, performance management and leadership are common to all organizational types		

inhabit competitive environments we may distinguish between those that charge for the services they provide (most private schools, non-profit-making private hospitals, social and sports clubs, etc.) and those that provide their services free – most charities and NGOs (non-governmental organizations). Table 1.1 summarizes some key differences between each of these organizations with regard to the applicability of the basic tools of strategy analysis. Among the tools of strategy analysis that are applicable to all types of not-for-profit organizations, those which relate to the role of strategy in specifying organizational goals and linking goals to resource-allocation decisions are especially important. For businesses, profit is always a key goal since it ensures survival and fuels development. But for not-for-profits, goals are typically complex. The mission of Harvard University is to ‘create knowledge, to open the minds of students to that knowledge, and to enable students to take best advantage of their educational opportunities’. But how are these multiple objectives to be reconciled in practice? How should Harvard’s budget be allocated between faculty research and financial aid for students? Is Harvard’s mission better served by investing in graduate or undergraduate education? The strategic planning process of not-for-profits needs to be designed so that mission, goals, resource allocation and performance targets are closely aligned. Similarly, most of the principles and tools of strategy implementation – especially in relation to organizational structure, management systems, techniques of performance management and choice of leadership styles – are common to both for-profit and not-for-profit organizations.

In terms of the analysis of the external environment, there is little difference between the techniques of industry analysis applied to business enterprises and those relevant to

not-for-profits that inhabit competitive environments and charge for their services. In many markets (theatres, sports clubs, vocational training) for-profits and not-for-profits may be in competition with one another. Indeed, for these types of not-for-profit organizations, the pressing need to break even in order to survive may mean that their strategies do not differ significantly from those of for-profit firms. In the case of not-for-profits that do not charge users for the services they offer (mostly charities), competition does not really exist at the final market level: different homeless shelters in San Francisco cannot really be said to be competing for the homeless. However, these organizations compete for funding: raising donations from individuals, winning grants from foundations or obtaining contracts from funding agencies. Competing in the market for funding is a key area of strategy for most not-for-profits. The analysis of resources and capabilities is important to all organizations that inhabit competitive environments and must deploy their internal resources and capabilities to establish a competitive advantage; however, even for those organizations that are monopolists – many government departments and other public agencies, for example – performance is enhanced by aligning strategy with internal strengths in resources and capabilities.

The approach taken in this book

Figure 1.8 shows the basic framework for strategy analysis that we use throughout the book. The four elements of a successful strategy that we outline at the start of this chapter and illustrate in Figure 1.1 are recast into two groups – the firm and the industry environment – with strategy forming a link between the two. The firm embodies three sets of these elements: goals and values ('simple, consistent, long-term goals'), resources and capabilities ('objective appraisal of resources') and structure and systems ('effective implementation').

The industry environment ('profound understanding of the competitive environment') represents the core of the firm's external environment and is defined by the firm's relationships with customers, competitors and suppliers. Hence, we view strategy as forming a link between the firm and its external environment.

Fundamental to this view of strategy as a link between the firm and its external environment is the notion of **strategic fit**. For a strategy to be successful, it must be consistent with the firm's external environment and with its internal environment – its goals and values, resources and capabilities and structure and systems. As we shall see, the failure of many companies is caused by a lack of consistency with either the internal or external environment. General Motors' long-term decline is a consequence of a strategy that has failed to break away from its long-established ideas about multibrand market segmentation and adapt to the changing market for cars. In other cases, many companies have failed to

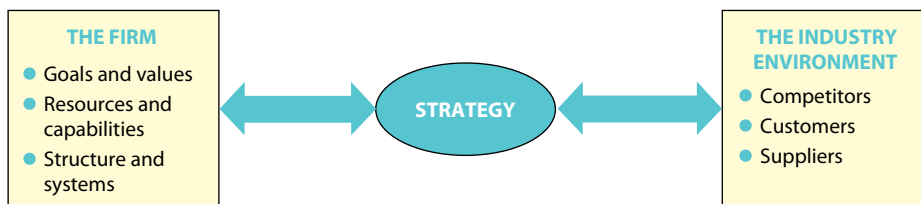


Figure 1.8 The basic framework: Strategy as a link between the firm and its environment.

align their strategies to their internal resources and capabilities. A critical issue for Nintendo in the coming years will be whether it possesses the financial and technological resources to continue to compete head-to-head with Sony and Microsoft in the market for video game consoles. We address the ways in which successful firms achieve *fit* in the first half of the book, exploring the key tools of strategic analysis. In Chapters 2, 3 and 4, we focus on business strategy and the quest for competitive advantage before exploring the ways in which business strategies need to adapt and change in response to different industry contexts in Chapters 5 and 6. In Chapters 7 and 8, we turn our attention to corporate strategy and the scope of a firm's activities and conclude in Chapters 9 and 10 by looking at the challenges of realizing strategy and recent thinking on ways organizations can adapt their strategies to deal with an ever-changing world.

Summary

This chapter covers a great deal of ground. If you are feeling a little overwhelmed, not to worry: we shall be returning to the themes and issues raised in this chapter in subsequent sections of the book. Through the examples provided in our opening case and our subsequent discussion, we have sought to show you the links between strategy and success and to outline the different ways of thinking about strategy. By posing a series of fundamental questions we have uncovered a number of central debates. Is strategy about planning or about recognizing patterns? Is strategy formulation the prerogative of the top management team or something that emerges? Whose interests *does* strategy serve and, equally importantly, whose interests *should* it serve? Can the concepts and tools of corporate and business strategy be applied to not-for-profit organizations or are they only of value to for-profit firms?

The strategic issues that individuals face in their careers and firms face in their business operations are too complex to lend themselves to simple solutions, and as we progress through this book and introduce an array of analytical tools and techniques, you will soon come to appreciate that the purpose of studying strategy is not to provide quick-fix answers (there aren't any!) but to understand the issues better. Most of the analytical concepts and techniques we introduce in this and subsequent chapters are designed to help us identify, classify and understand the principal factors relevant to strategic decisions. Often one of the most useful contributions strategic analysis makes is to enable us to make a start on unpicking problems. It helps us to find those initial threads that are the key to untangling complex knots.

We have seen that strategy is about providing common purpose, committing resources and creating value, so inevitably strategy is bound up with ethical questions. What values and principles should a business organization adopt? What are a business organization's broader obligations to society as a whole? As we progress through the illustrative cases and chapters of this book, we will see that strategic decisions always have an ethical dimension and that the pursuit of shareholder as opposed to broader stakeholder interests remains a hotly contested debate. We will also see that the pursuit of wider social and environmental goals does not necessarily have to conflict with shareholder interests. Strategy's main concern is about creating value for the future and this requires identifying and exploiting the fundamental drivers of value in a principled way.

Summary table

Learning objectives	Summary
Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations	Using the stories of Lady Gaga and Jeff Bezos to illustrate, we argue that success is associated with strategy. In particular success is linked to the adoption of goals that are simple, consistent and long term; having a profound understanding of the competitive environment; objective appraisal of resources; and effective implementation
Be aware of the origins of strategy and how views on strategy have changed over time	Strategy derives from the Greek word <i>strategia</i> but its roots can be traced to Sun Tzu's classic work <i>The Art of War</i> . Strategy has been driven by the practical needs of business and has moved from a focus on corporate planning to an emphasis on strategic management
Be familiar with some of the key questions and terminology in strategy	We have outlined six key questions: What is strategy? How can strategy be described? How can strategy be identified? How is strategy made? What roles does strategy perform? Whose interests does strategy serve? In our discussion of these issues we introduce a range of key terms and concepts
Understand the debates that surround corporate values and social responsibility	Our discussion of whose interests strategy serves leads to a further discussion of whose interests strategy <i>should</i> serve – shareholders or stakeholders? We review the arguments on both sides
Gain familiarity with the challenges of strategy making in not-for-profit organizations	Strategy is as important for not-for-profit organizations as it is for for-profit firms and many of the same concepts and tools are applicable to both types of organization. However, it is useful to distinguish between those not-for-profits that operate in competitive environments and those that do not. Appropriate tools for strategic analysis differ among these different types of organization
Comprehend the basic approach to strategy that underlies this book	Figure 1.8 outlines the basic framework for strategy analysis that we use throughout this book

Further reading

In his 1996 article, Michael Porter provides an excellent discussion on the difference between strategy and operational effectiveness and in a later article he provides some good insights into current debates about shareholder versus stakeholder values and corporate social responsibility. Campbell and Yeung's (1991) article on mission and vision is something of a classic, making clear the distinction between a firm's mission and attempts to create a 'sense of mission'. Henry Mintzberg's work is the obvious starting point for deeper insight into the ways in which strategy is made.

Campbell, A. and Yeung, S. (1991). Creating a sense of mission. *Long Range Planning*, 24(4), 10–20.

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Self-study questions

- 1 Choose a company that has recently been celebrated in the media for its success and examine its performance in relation to the four characteristics of successful strategies (clear, consistent, long-term objectives; profound understanding of the environment; objective appraisal of resources; and effective implementation).
- 2 The discussion of the evolution of business strategy established that the characteristics of a firm's strategic plans and its strategic planning process are strongly influenced by the volatility and unpredictability of its external environment. On this basis, what differences would you expect in the strategic plans and strategic planning processes of the Coca-Cola Company and Google Inc?
- 3 Select a firm and use Internet resources to identify and describe its strategy. Use the template provided in Figure 1.5 to structure your answer.
- 4 What is your career strategy for the next five years? To what extent does your strategy fit with your long-term goals, the characteristics of the external environment and your own strengths and weaknesses?
- 5 'Firms abandon shareholder value maximization in favour of some woolly notion of stakeholder satisfaction at their peril.' Discuss, explaining the benefits and drawback of firms acting primarily in the interests of shareholders.

Closing Case

Tough Mudder LLC: Turning mud runs into a global business

Really tough. But really fun. When I got back to the office on Monday morning, I looked at my colleagues and thought: 'And what did you do over the weekend?'

Tough Mudder participant

Introduction

Tough Mudder LLC is a New York-based company that hosts endurance obstacle events – a rapidly growing sport also known as 'mud runs'. During 2014, over one million participants will each pay between \$100 and \$180 to tackle a 10- to 12-mile Tough Mudder course featuring 15 to 20 challenging obstacles at 60 different locations in nine different countries. The obstacles include wading through a dumpster filled with ice (the Arctic Enema), crawling through a series of pipes part-filled with mud (Boa Constrictor) and dashing through live wires carrying up to 10 000 volts (Electroshock Therapy). Tough Mudder's website describes the experience as follows:

Tough Mudder events are hardcore obstacle courses designed to test your all around strength, stamina, mental grit and camaraderie. With the most innovative courses, over one million inspiring participants worldwide to date, and more than \$5 million raised for the Wounded Warrior Project, Tough Mudder is the premier adventure challenge series in the world. But Tough Mudder is more than an event; it's a way of thinking. By running a Tough Mudder challenge, you'll unlock a true sense of accomplishment, have a great time and discover a camaraderie with your fellow participants that's experienced all too rarely these days.⁴⁵

Tough Mudder was founded in 2010 by former British school pals Will Dean and Guy Livingston. While a Harvard MBA student, Dean entered Harvard Business School's annual business plan competition using Tough Guy, a UK obstacle race based on British Special Forces training, as the basis for his plan.⁴⁶ On graduating from Harvard, Dean and Livingstone launched their first Tough Mudder event on 21st May 2010 at Bear Creek Mountain, Pennsylvania attracting 4500 participants.

Growing the company, building the brand

Tough Mudder was targeting the market for endurance sports which comprised traditional endurance sports such as marathons, triathlons and orienteering and newer activities, including:

- Adventure races: off-road, triathlon-based events that typically include trekking/orienteering, mountain biking and paddling.
- Obstacle mud runs: cross-country running events with a variety of challenging obstacles.
- Novelty events: fun events such as 5 km races in which competitors are doused in paint (Color Run), running with real bulls (Great Bull Run) and food fights (Tomato Royale).

Obstacle mud runs were initiated in the UK in 1986 with the annual Tough Guy race and in the US with Warrior Dash launched in July 2009. Spartan Races began in May 2010 (the same time as Tough Mudder). A flood of new entries followed and by 2013 there were about 350 organizations offering obstacle mud runs. The surging popularity of mud runs pointed to the desire of the young (and not so young) to turn away from video screens and cossetted lifestyles and test their physical and emotional limits. One observer referred to the 'Walter Mitty weekend-warrior complex' noting that while the events draw endurance athletes and military veterans, 'the muddiest, most avid, most agro participants hail from Wall Street'.⁴⁷

Tough Mudder's strategic priority was to establish leadership within an increasingly crowded market. How to position Tough Mudder in relation both to other endurance sports and to other obstacle runs was a key issue for Dean and Livingstone. They used several variables to analyse their market: degree of risk, competition vs. collaboration and the potential for brand building. While traditional endurance sports – such as marathons and triathlons – were low risk and highly competitive, they viewed the area of the market characterized by high risk and collaboration as 'white space'. Hence, Tough Mudder would be high risk (exhaustion, hypothermia, broken bones, electrocution and drowning) and collaborative – it would be untimed and team-based. Tough Mudder also needed to present itself as formidable ('Probably the Toughest Event on the Planet') while attracting a wide range of participants. Making it a collaborative event and giving participants the option to bypass individual obstacles helped reconcile these conflicting objectives. Team collaboration was a central theme: Tough Mudder would foster 'a true sense of camaraderie ... We want everyone to compete, but being a Tough Mudder is also about making sure no man is left behind, not worrying about your finish time'.⁴⁸ This collaborative nature was a major inducement to corporations seeking to build trust, moral and motivation among employee groups.

The spirit of unity and collaboration provided a central element of Tough Mudder's marketing strategy. Tough Mudder has relied almost exclusively on Facebook for building its profile, encouraging participation and building community among its participants. Its Facebook ads target specific locations, demographics and 'likes' such as ice hockey and other physical sports. It also runs sponsored stories in Facebook's news and uses Facebook Exchange to show ads to people who visited the Tough Mudder website. Most important, Facebook is the ideal medium for Tough Mudder to exploit its greatest appeal to participants: the ability of participants to proclaim their courage, endurance and fighting spirit. As the *New York* magazine observes: 'the experience is perfect for bragging about on social media, and from the outset Tough Mudder has marketed to the boastful'.⁴⁹ By February 2014, Tough Mudder had 3.7 million Facebook 'likes'.

To reinforce its reputation for toughness, in 2011 Tough Mudder launched an annual competitive run to find 'The World's Toughest Mudder': individuals and teams competed to complete the greatest number of course laps during a 24-hour period. The *Financial Times* described the event: 'Le Mans on foot, through a Somme-like landscape with Marquis de Sade-inspired flourishes'.⁵⁰

Partnering

Partnering with other organizations has been a central feature of Tough Mudder's growth. Its partnerships have been important for building market momentum, providing resources and capabilities that Tough Mudder lacked and generating additional sources of revenue.

Since its inaugural run in 2010, Tough Mudder has been an official sponsor of the Wounded Warriors Project, a charity that offers support to wounded veterans. The relationship reinforces Tough Mudder's military associations and helps legitimize Tough Mudder's image of toughness, resilience and bravery. Its military connections were further reinforced in September 2013 when the US Army Reserve agreed to sponsor eight Tough Mudder events for promotional and recruiting purposes.

Other sponsorships were primarily to generate revenue. Commercial sponsors include Under Armour, the official outfitter to Tough Mudder; Dos Equis, supplier of beer to refresh Tough Mudder finishers; General Mills, whose Wheaties are the official cereal of Tough Mudder; and several other consumer goods companies.

Management

As CEO of Tough Mudder LLC, Will Dean focuses upon key priorities. 'There are only two things a leader should worry about,' he told *Inc.* magazine, 'strategy and culture ... We aspire to become a household brand name, so mapping out a long-term strategy is crucial. I speak with Cristina DeVito, our chief strategy officer, every day, and I meet with the entire five-person strategy team once a week ... We go on retreats every quarter to a house in the Catskill Mountains ... There's no phone coverage, and the Internet connection is slow ... We started the retreats to get everyone thinking about the future.'⁵¹

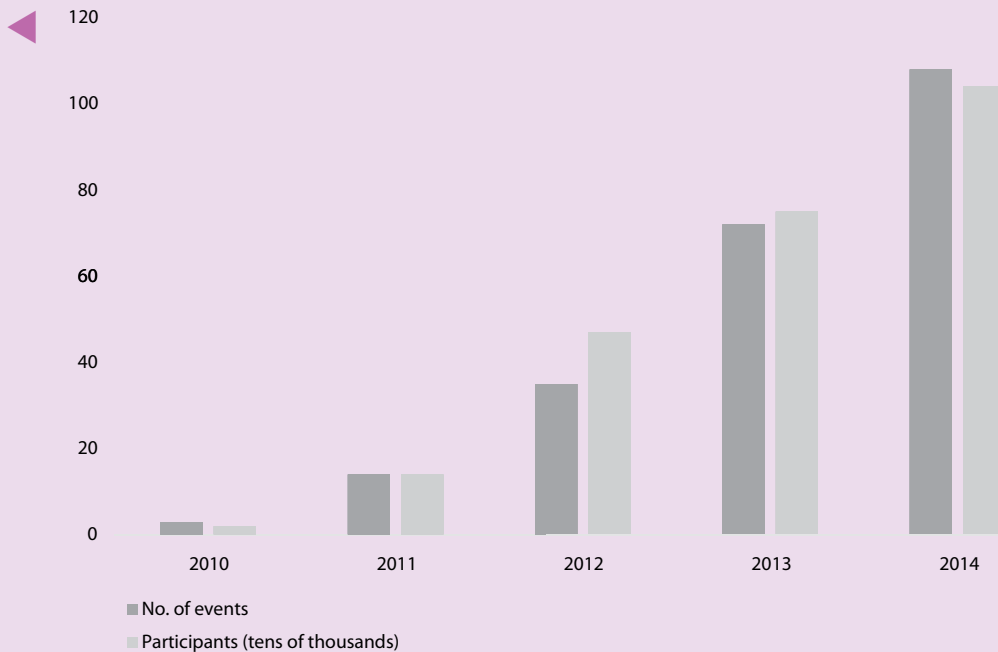
At the core of Tough Mudder's strategy is its sense of identity, which is reinforced through the culture of the company: 'Since Day 1, we've had a clear brand and mission: to create life-changing experiences. That clear focus means that every employee is aligned on the same vision and knows what they're working toward ... We know who we are and what we stand for,' said Dean.⁵² To sustain the culture, Tough Mudder has established a list of core values to guide the actions and behaviour of the management team.

The other key responsibility of Will Dean as CEO is hiring. Tough Mudder grew from eight employees in 2010 to over 200 by the end of 2013. 'A business is only as good as the people who build it,' observed Dean, who has been meticulous in seeking out the best available talent and ensuring that its new hires share his own passion and values. Hires included executives from ESPN, Diageo, Bain & Company and the London Olympic Committee – typically individuals who combined professional achievement with the quest for adventure.

Tough Mudder in 2014

By 2014, the industry appeared to be consolidating and the market leaders – Tough Mudder, Spartan Races and Warrior Dash – were vying for dominance (Figure 1.9). While Tough Mudder was generally regarded as the market leader, its margin of leadership over Spartan Races and Warrior Run was narrow. Spartan Races, which offered obstacle races of between three and 13 miles, was hosting 34 events in the US and Canada during 2014 as well as events in 11 other countries. In 2013, it signed Reebok as its lead partner. In 2014, Warrior Dash would offer its 5 km mud runs in 35 US locations plus seven in Mexico and two in Denmark.

Tough Mudder's success was a result of astute strategic positioning, effective brand building, careful product design, meticulous operational planning and obsessive focus on the quality of the customer experience. However, as leading rivals became increasingly sophisticated in design, marketing and operations, CEO Will Dean recognized that sustaining



Note: Data for 2014 are projections. Each event typically involves two runs on separate days

Figure 1.9 Tough Mudder: Growth 2010–2014.

Tough Mudder's growth and market leadership would be an ongoing challenge. This would require Tough Mudder enhancing its market presence and, most of all, delivering an experience that participants would want to come back for, time and time again. Staying ahead of the competition involved two major activities at Tough Mudder. First, meticulous attention to customer feedback: through customer surveys, on-site observations and following social media communities, Tough Mudder continually sought clues to how it could improve the experience of its participants. Second was the continual development of obstacles and course design. Achieving this continual enhancement while reinforcing the unconventional and edgy aspects of the Tough Mudder brand would require the company to maintain an innovative, dynamic and committed culture that matched the energy, determination and gung-ho spirit of the participants.

Case questions

- How would you describe Tough Mudder's strategy?
- Why has the strategy been successful?
- What do you think is the role of Tough Mudder's sense of identity ('We know who we are and what we stand for') in influencing the effectiveness with which it implements its strategy?

- Distinguish between the following concepts using examples drawn from the case:
 - corporate and competitive strategy;
 - strategy and tactics.
- What challenges and opportunities does Tough Mudder currently face and how should it adapt its strategy to meet these challenges and exploit the opportunities?
- Is Tough Mudder a socially responsible company? To what extent are Tough Mudder's corporate social responsibility activities a tool of competitive strategy?

Notes

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