I

INTRODUCTION

1 The Concept of Strategy
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Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

—SUN TZU, THE ART OF WAR

To shoot a great score you need a clever strategy.

—RORY MCILROY, GOLF MONTHLY, MAY 19, 2011

Everybody has a plan until they get punched in the mouth.

—MIKE TYSON, FORMER WORLD HEAVYWEIGHT BOXING CHAMPION

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Introduction and Objectives

Strategy is about achieving success. This chapter explains what strategy is and why it is important to success, for both organizations and individuals. We will distinguish strategy from planning. Strategy is not a detailed plan or program 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 will be to introduce the basic framework for strategy analysis that underlies this book. I will introduce the two basic components of strategy analysis: analysis of the external environment of the firm (mainly industry analysis) and analysis of the internal environment (primarily analysis of the firm’s resources and capabilities).

By the time you have completed this chapter, you will be able to:

◆ Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations, and recognize the key characteristics of an effective strategy.
◆ Comprehend the basic framework of strategy analysis that underlies this book.
◆ Recognize how strategic management has evolved over the past 60 years.
◆ Identify and describe the strategy of a business enterprise.
◆ Understand how strategy is made within organizations.
◆ Recognize the distinctive features of strategic management among not-for-profit organizations.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

The Role of Strategy in Success

Strategy Capsules 1.1 and 1.2 describe the careers of two individuals, Queen Elizabeth II and Lady Gaga, who have been outstandingly successful in leading their organizations. Although these two remarkable women operate within vastly different arenas, can their success be attributed to any common factors?

For neither of these successful women can success be attributed to overwhelmingly superior resources. For all of Queen Elizabeth’s formal status as head of state, she has very little real power and, in most respects, is a servant of the democratically elected British government. Lady Gaga is clearly a creative and capable entertainer, but few would claim that she has outstanding talents as a vocalist, musician, or songwriter.

Nor can their success be attributed either exclusively or primarily to luck. Indeed, Queen Elizabeth has experienced a succession of difficulties and tragedies, while Lady Gaga has experienced setbacks (e.g. the cancelation of her first recording
contract and various health problems). Central to their success has been their ability to respond to events—whether positive or negative—with flexibility and clarity of direction.

My contention is that common to both the 60-year successful reign of Queen Elizabeth II and the short but stellar career of Lady Gaga is the presence of a soundly formulated and effectively implemented strategy. While these strategies did not exist as explicit plans, for both Queen Elizabeth and Lady Gaga we can discern a consistency of direction based clear goals and a keen awareness of how to maneuver into a position of advantage.

Elizabeth Windsor’s strategy as queen of the UK and the Commonwealth countries may be seen in the role she has created for herself in relation to her people. As queen she is figurehead for the nation, an embodiment of the stability and continuity of the nation, a symbol of British family and cultural life, and an exemplar of service and professional dedication.

Lady Gaga’s remarkable success during 2008-15 reflects a career strategy that uses music as her gateway, upon which she has built a 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.

What do these two 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):

- **Goals that are consistent and long term**: Both Queen Elizabeth and Lady Gaga display a focused commitment to career goals that they have pursued steadfastly.

- **Profound understanding of the competitive environment**: The ways in which both Elizabeth II and Gaga define their roles and pursue their careers reveal a deep and insightful appreciation of the external environments in which they operate. Queen Elizabeth has been alert both to the changing political environment in which the monarchy is situated and to the mood and needs of the British people. 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.

- **Objective appraisal of resources**: Both Queen Elizabeth and Lady Gaga have been adept at recognizing and deploying the resources at their disposal. Both, too, have been aware of the limits of those resources and drawn upon the resources of others—Queen Elizabeth through her family, the royal household, and a network of loyal supporters; Lady Gaga upon the variety of talents in her Haus of Gaga.

- **Effective implementation**: Without effective implementation, the best-laid strategies are of little use. Critical to the success of Queen Elizabeth and Lady Gaga has been their effectiveness as leaders and the creation of loyal, supportive organizations to provide decision support and operational implementation.

These observations about the role of strategy in success can be made in relation to most fields of human endeavor. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome
STRATEGY CAPSULE 1.1
Queen Elizabeth II and the House of Windsor

By late 2015, Elizabeth Windsor had been queen for 63 years—longer than any of her predecessors. At her birth on April 21, 1926, hereditary monarchies were common throughout the world. Apart from the British Empire, 45 countries had this form of government. By 2015, the forces of democracy, modernity, and reform had reduced these to 26—mostly small autocracies such as Bahrain, Qatar, Oman, Kuwait, Bhutan, and Lesotho. Monarchies had also survived in Denmark, Sweden, Norway, the Netherlands, and Belgium, but these royal families had lost most of their wealth and privileges.

By contrast, the British royal family retains considerable wealth—the Queen’s personal net worth was estimated by Forbes magazine at $500 million—not including the $10 billion worth of palaces and other real estate owned by the nation but used by her and her family. Queen Elizabeth’s formal status is head of state of the UK and 15 other Commonwealth countries (including Canada and Australia), head of the Church of England, and head of the British armed forces. Yet none of these positions confers any decision making power—her influence comes from the informal role she has established for herself. According to her website, she “has a less formal role as Head of Nation” where she “acts as a focus for national identity, unity and pride; gives a sense of stability and continuity; officially recognises success and excellence; and supports the ideal of voluntary service” (www.royal.gov.uk).

How has Queen Elizabeth been able to retain not just the formal position of the monarchy but also its status, influence, and wealth despite the challenges of the past 60 years? These challenges include the social and political changes which have swept away most of the privileges conferred by hereditary status (including the exclusion of most hereditary lords from the House of Lords, Britain’s upper chamber of Parliament) and the internal challenges presented by such a famously dysfunctional family—including the failed marriages of most of her family members and the controversy that surrounded the life and death of her daughter-in-law, Diana, Princess of Wales.

At the heart of Elizabeth’s sustaining of the British monarchy has been her single-minded devotion to what she regards as her duties to the monarchy and to the nation. Throughout her 60-year reign she has cultivated the role of leader of her nation—a role that she has not compromised by pursuit of personal or family interests. In pursuing this role she has recognized
the need for political neutrality—even when she has personally disagreed with her prime ministers (notably with Margaret Thatcher’s “socially divisive” policies and Tony Blair’s commitment of British troops to Iraq and Afghanistan).

Through her outreach activities she has played a major role in promoting British influence, British culture, and British values within the wider world. She has made multiple visits to each of the 54 Commonwealth nations, including 26 to Canada and 16 to Australia.

Maintaining her popularity with the British people has required adaptation to the wrenching changes of her era. Recognizing the growing unacceptability of hereditary privilege and the traditional British class system, she has repositioned the royal family from being the leader of the ruling class to an embodiment of the nation as a whole. To make her and her family more inclusive and less socially stereotyped she cultivated involvement with popular culture, with ordinary people engaged in social service and charitable work, and, most recently, endorsing the marriage of her grandson William to Kate Middleton—the first member of the royal family to marry outside the ranks of the aristocracy.

Elizabeth has been adept at exploiting new media. Television has provided an especially powerful medium for communicating both with her subjects and with a wider global audience. Her web page appeared in 1997, in 2009 she joined Twitter, and in 2010 Facebook. Throughout her reign, her press and public relations strategy has been carefully managed by a group of top professionals who report to her private secretary.

While respecting tradition and protocol, she adapts in the face of pressing circumstances. The death of her daughter-in-law, Diana, created difficult tensions between her responsibilities as a grandmother and her need to show leadership to a grieving nation. In responding to this time of crisis she departed from several established traditions: including bowing to the coffin of her ex-daughter-in-law as it passed the palace.

Elizabeth has made effective use of the resources available to her. First and foremost of these has been the underlying desire of the British people for continuity and their inherent distrust of their political leaders. By positioning herself above the political fray and emphasizing her lineage—including the prominent public roles of her mother and her children and grandchildren—she reinforces the legitimacy of herself, her family, and the institution they represent. She has also exploited her powers of patronage, using her formal position to cultivate informal relationships with both political and cultural leaders.

The success of Elizabeth’s 63-year reign is indicated by the popular support for her personally and for the institution of the monarchy. Outside of Northern Ireland, the UK lacks any significant republican movement; republicanism is also weak in Canada and Australia.

and reconciling. They know the environments within which they play and tend to be fast learners in terms of recognizing the paths to advancement. They know themselves well in terms of both strengths and weaknesses. Finally, 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.”

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 Jean Paul Getty in business, Richard Nixon and
Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is one of the most successful popular entertainers to emerge in the 21st century. Since releasing her first album, The Fame, in 2008 she has certified album sales of 27 million, swept leading music awards including Grammy, MTV, and Billboards, topped Forbes Celebrity 100 list, and generated $382 million in ticket sales for her 2012 “Born this Way” tour. Her 79 concerts during her 2014 “Artrave: The Artpop Ball” tour generated $271 million.

Since dropping out of NYU’s Tisch School of the Arts in 2005, Germanotta has shown total commitment to advancing her musical career, first as a songwriter, and then developing her Lady Gaga persona. Her debut album, The Fame, and its follow up, The Fame Monster, yielded a succession of number-one hits during 2009 and 2010.

Gaga’s music is a catchy mix of pop and dance, well suited to dance clubs and radio airplay. It features good melodies, Gaga’s capable singing voice, and her reflections on society and life, but it is hardly exceptional or innovative: music critic Simon Reynolds described it as: “ruthlessly catchy, naughties pop glazed with Auto-Tune and undergirded with R&B-ish beats.”

However, music is only one element in the Lady Gaga phenomenon—her achievement is not so much as a singer or songwriter as in establishing a persona which transcends pop music. Like David Bowie and Madonna before her, Lady Gaga is famous for being Lady Gaga. To do this requires a multi-media, multi-faceted offering that comprises an integrated array of components including music, visual appearance, newsworthy events, a distinctive attitude and personality, and a set of values with which fans can identify.

Key among these is visual impact and theatricality. Her hit records were heavily promoted by the visually stunning music videos that accompanied them. Paparazzi and Bad Romance each won best video awards at the 2009 and 2010 Grammies; the latter is the second-most-downloaded YouTube video of all time. Most striking of all has been Lady Gaga’s dress and overall appearance, which have set new standards in eccentricity, innovation, and impact. Individual outfits—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. The range of visual images she projects is so varied that her every appearance creates a buzz of anticipation as to her latest incarnation.

More than any other star, Lady Gaga has developed 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 model: first build market presence, and then think about monetizing that presence. Her record releases are accompanied, sometimes preceded, by music videos on YouTube. With 45 million Facebook fans, 15.8 million Twitter followers, and 1.9 billion YouTube views (as of November 16, 2011), Famecount crowned her “most popular living musician online.” Her networking with fans includes Gagaville, an interactive game developed by Zynga, and The Backplane, a music-based social network.

Her emphasis on visual imagery reflects the ways in which her fame is converted into revenues. While music royalties are important, concerts are her primary revenue source. Other revenue sources—endorsements, product placement in videos and concerts, merchandizing deals, and media appearances—also link closely with her visual presence.

A distinctive feature of Gaga’s market presence is her relationship 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. The sense of belonging is reinforced by gestures and symbols such as the “Monster Claw” greeting and the “Manifesto of Little Monsters.” As “Mother Monster,” Gaga is spokesperson and guru for this community.

Lady Gaga’s most outstanding talents are her showmanship and theatricality. Modeled on Andy Warhol’s “Factory,” The Haus of Gaga is her creative workshop and augments her own capabilities. It includes manager Troy Carter, choreographer and creative director Laurieann Gibson, fashion director Nicola Formichetti, hair stylist Frederic Aspiras, stylist and designer Anna Trevelyan, fashion photographer Nick Night, makeup artist Tara Savelo, marketing director Bobby Campbell, and others involved in designing and producing songs, videos, concert sets, photo shoots, and the whole range of Gaga’s public appearances.


Joseph Stalin in politics, Elvis Presley and Marilyn Monroe in entertainment, Mike Tyson and O. J. Simpson in sport, and Bobby Fischer in chess. Fulfillment in our personal lives is likely to require broad-based lifetime strategies.

These same ingredients of successful strategies—clear goals, understanding the competitive environment, resource appraisal, and effective implementation—form the key components of our analysis of business strategy.

The Basic Framework for Strategy Analysis

Figure 1.2 shows the basic framework for strategy analysis that we shall use throughout the book. The four elements of a successful strategy shown 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 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 embodies the fourth (“profound understanding of the competitive environment”) and is defined by the firm’s relationships with competitors, customers, and suppliers.

This view of strategy as a link between the firm and its industry environment has close similarities with the widely used SWOT framework. However, as I explain in Strategy Capsule 1.3, a two-way classification of internal and external forces is superior to the four-way SWOT framework.

The task of business strategy, then, is to determine how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how it will organize itself to implement that strategy.

**Strategic Fit**

Fundamental to this view of strategy as a link between the firm and its external environment is the notion of **strategic fit**. This refers to the consistency of a firm’s strategy, first, with the firm’s external environment and, second, with its internal environment, especially with its goals and values and resources and capabilities. A major reason for the decline and failure of some companies comes from their having a strategy that lacks consistency with either the internal or the external environment. The decline of Nokia (which lost over 90% of its stock market value in the four years up to July 2012) may be attributed to a strategy which failed to take account of a major change in its external environment: the growing consumer demand for smartphones. Other companies struggle to align their strategies to their internal resources and capabilities. A critical issue for Nintendo 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.

The concept of strategic fit also relates to the internal consistency among the different elements of a firm’s strategy. Effective strategies are ones where functional strategies and individual decisions are aligned with one another to create a consistent strategic position and direction of development. This notion of internal fit is central to Michael Porter’s conceptualization of the firm as an **activity system**.
Porter states that “Strategy is the creation of a unique and differentiated position involving a different set of activities.” The key is how these activities fit together to form a consistent, mutually reinforcing system. Ryanair’s strategic position is as Europe’s lowest-cost airline providing no-frills flights to budget-conscious travelers. This is achieved by a set of activities which fit together to support that positioning (Figure 1.3).

The concept of strategic fit is one component of a set of ideas known as **contingency theory**. Contingency theory postulates that there is no single best way of organizing or managing. The best way to design, manage, and lead an organization depends upon circumstances—in particular the characteristics of that organization’s environment.4
A Brief History of Business Strategy

Origins and Military Antecedents

Enterprises need business strategies for much the same reason 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*, from about 500 BC is regarded as the first treatise on strategy.⁵

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 favorable position; a tactic is a scheme for a specific action. Whereas tactics are concerned with the maneuvers 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.

Many of the principles of military strategy have been applied to business situations. These include the relative strengths of offensive and defensive strategies; the merits of outflanking over frontal assault; the roles of graduated responses to aggressive initiatives; the benefits of surprise; and the potential for deception, envelopment, escalation, and attrition.⁶ At the same time, there are major differences between business competition and military conflict. The objective of war is (usually) to defeat the enemy. The purpose of business rivalry is seldom so aggressive: most business enterprises seek to coexist with their rivals rather than to destroy them.
The tendency for the principles of military and business strategy to develop along separate paths indicates the absence of a general theory of strategy. The publication of Von Neumann and Morgenstern’s *Theory of Games* in 1944 gave rise to the hope that a general theory of competitive behavior would emerge. During the subsequent six decades, *game theory* has revolutionized the study of competitive interaction, not just in business but in politics, military conflict, and international relations as well. Yet, as we shall see in Chapter 4, game theory has achieved only limited success as a broadly applicable general theory of strategy.7

**From Corporate Planning to Strategic Management**

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 experienced increasing difficulty in coordinating decisions and maintaining control in companies that were growing in size and complexity. While new techniques of discounted cash flow analysis allowed more rational choices over individual investment projects, firms lacked systematic approaches to their long-term development. *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, forecasted key economic trends (including market demand, the company’s 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.8 The new techniques of corporate planning proved particularly useful for guiding the diversification strategies that many large companies pursued during the 1960s.9 By the mid-1960s, most large US and European companies had set up corporate planning departments. Strategy Capsule 1.4 provides an example of this formalized corporate planning.

During the 1970s and early 1980s, confidence in corporate planning was severely shaken. Not only did diversification fail to deliver the anticipated synergies but the oil shocks of 1974 and 1979 ushered in a new era of macroeconomic instability, while increased international competition intensified as Japanese, Korean, and Southeast Asian firms stepped onto the world stage. The new turbulence meant that firms could no longer plan their investments and resource requirements three to five years ahead—they couldn’t forecast that far ahead.

The result was a shift in emphasis from planning to strategy making, where the focus was less on the detailed management of a company’s growth path as on market selection and competitive positioning in order to maximize the potential for profit. This transition from corporate planning to what became called *strategic management* involved a focus on competition as the central characteristic of the business environment, and on performance maximization as the primary goal of strategy.

This emphasis on strategy as a quest for performance directed attention to the sources of profitability. During the late 1970s and into the 1980s, the focus was upon how a firm’s competitive environment determined its potential for profit. Michael Porter of Harvard Business School pioneered the application of industrial organization economics to analyzing the profit potential of different industries and markets.10 Other studies examined how strategic variables—notably market share—determined how profits were distributed between the different firms in an industry.11
PART I INTRODUCTION

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. This emphasis on what has been called the resource-based view of the firm represented a substantial shift in thinking about strategy. While the quest for attractive industries and market leadership encouraged firms to adopt similar strategies, emphasis on internal resources and capabilities has encouraged firms to identify how they are different from their competitors and design strategies that exploit these differences.

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-take-all markets and standards wars. Disruptive technologies and accelerating rates of change have meant that strategy has become less and less about plans and more about creating options of the future, fostering strategic innovation, and seeking the “blue oceans” of uncontested market space. The complexity of these challenges have meant that being self-sufficient is no longer viable for most firms—alliances and other forms of collaboration are an increasingly common feature of firms’ strategies.

The 2008–2009 financial crisis triggered new thinking about the strategy and purpose of business. Disillusion with the excesses and unfairness of market capitalism has renewed interest in corporate social responsibility, ethics, sustainability, and the role of legitimacy in long-term corporate success.

Figure 1.4 summarizes the main developments in strategic management since the mid-20th century.

STRATEGY CAPSULE 1.4
Corporate Planning in a Large US Steel Company, 1965

The first step in developing long-range plans was to forecast the product demand for future years. After calculating the tonnage needed in each sales district to provide the “target” fraction of the total forecast demand, the optimal production level for each area was determined. A computer program that incorporated the projected demand, existing production capacity, freight costs, etc. was used for this purpose. When the optimum production rate in each area was found, the additional facilities needed to produce the desired tonnage were specified. Then the capital costs for the necessary equipment, buildings, and layout were estimated by the chief engineer of the corporation and various district engineers. Alternative plans for achieving company goals were also developed for some areas, and investment proposals were formulated after considering the amount of available capital and the company debt policy. The vice president who was responsible for long-range planning recommended certain plans to the president and, after the top executives and the board of directors reviewed alternative plans, they made the necessary decisions about future activities.

Strategy Today

What Is Strategy?

In its broadest sense, strategy is the means by which individuals or organizations achieve their objectives. Table 1.1 presents a number of definitions of the term strategy. Common to most definitions is the notion that strategy is focused on achieving certain goals; that it involves allocating resources; and that it implies some consistency, integration, or cohesiveness of decisions and actions.

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 guidelines for success. This is consistent with the examples that began this chapter. Neither Queen Elizabeth nor Lady Gaga appears to have articulated any explicit strategic plan, but the consistency we discern in their actions suggests both possessed clear ideas 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. The more turbulent the environment, the more must strategy embrace flexibility and responsiveness. But it is precisely in these conditions that strategy becomes more, rather than less, important. When the firm is buffeted by unforeseen threats and where new opportunities are constantly

FIGURE 1.4 Evolution of strategic management

- Financial Budgeting:
  - Operational budgeting
  - DCF capital budgeting

- Corporate Planning:
  - Corporate plans based on medium-term economic forecasts

- Emergence of Strategic Management:
  - Industry analysis and competitive positioning

- The Quest for Competitive Advantage:
  - Emphasis on resources and capabilities
  - Shareholder value maximization
  - Refocusing, outsourcing, delayering, cost cutting

- Adapting to Turbulence:
  - Adapting to and exploiting digital technology
  - The quest for flexibility and strategic innovation
  - Strategic alliances
  - Social and environmental responsibility
appearing, then strategy becomes the compass that can navigate the firm through stormy seas.

**Why Do Firms Need Strategy?**

This transition from strategy as plan to strategy as direction raises the question of why firms (or any type of organization) need strategy. Strategy assists the effective management of organizations, first, by enhancing the quality of decision making, second, by facilitating coordination, and, third, by focusing organizations on the pursuit of long-term goals.

**Strategy as Decision Support**  Strategy is 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 machine” 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.\(^9\) 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.\(^{20}\) For him, a strategy offered guidance that assisted positioning and helped create opportunities. Strategy improves decision making in several ways:

- It simplifies decision making by constraining the range of decision alternatives considered and acts as a *heuristic*—a rule of thumb that reduces the search required to find an acceptable solution to a decision problem.
- The strategy-making process permits the knowledge of different individuals to be pooled and integrated.
- It facilitates the use of analytic tools—the frameworks and techniques that we will encounter in the ensuing chapters of this book.

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**TABLE 1.1  Some definitions of strategy**

<table>
<thead>
<tr>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect.</td>
<td><em>Wordsmyth Dictionary</em> (<a href="http://www.wordsmyth.net">http://www.wordsmyth.net</a>)</td>
</tr>
<tr>
<td>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.</td>
<td><em>Alfred Chandler, Strategy and Structure</em> (Cambridge, MA: MIT Press, 1962)</td>
</tr>
<tr>
<td>Lost Boy: “Injuns! Let’s go get ‘em!”</td>
<td><em>Walt Disney’s Peter Pan</em></td>
</tr>
<tr>
<td>John Darling: “Hold on a minute. First we must have a strategy.”</td>
<td></td>
</tr>
<tr>
<td>Lost Boy: “Uhh? What’s a strategy?”</td>
<td></td>
</tr>
<tr>
<td>John Darling: “It’s, er . . . it’s a plan of attack.”</td>
<td></td>
</tr>
</tbody>
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\(^{9}\) 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.\(^{20}\)
Strategy as a Coordinating Device  
The central challenge of management is coordinating the actions of different organizational members. Strategy acts as a communication device to promote coordination. Statements of strategy are a means by which the CEO can communicate the identity, goals, and positioning of the company to all organizational members. The strategic planning process acts as a forum in which views are exchanged and consensus developed; once formulated, strategy can be translated into goals, commitments, and performance targets that 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 for the firm’s development but also to set aspirations that can motivate and inspire members of the organization. Gary Hamel and C. K. Prahalad use the term strategic intent to describe this desired strategic position: “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.”

The implication is that strategy should be less about fit and resource allocation and more about stretch and resource leverage. 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, Hair, Ambitious Goals.” Striving, inspirational goals are found in most organizations’ statements of vision and mission. One of the best known is that set by President Kennedy for NASA’s space program: “before this decade is out, to land a man on the moon and return him safely to Earth.” However, Richard Rumelt warns us not to confuse strategy with goal setting: “Strategy cannot be a useful … tool if it is confused with ambition, determination, inspirational leadership, and innovation … strategy should mean a cohesive response to an important challenge.”

Where Do We Find Strategy?  
A company’s strategy can be found in three places: in the heads of managers, in their articulations of strategy in speeches and written documents, and in the decisions through which strategy is enacted. Only the last two are observable.

Strategy has its origins in the thought processes of entrepreneurs and senior managers. For the entrepreneur the starting point of strategy is the idea for a new business. In most small companies, strategy remains in the heads of business proprietors: there is little need for any explicit statement of strategy. For large companies statements of strategy are found in board minutes and strategic planning documents, which are invariably confidential. However, most companies—public companies in particular—see value in communicating their strategy to employees, customers, investors, and business partners. Collis and Rukstad identify four types of statement through which companies communicate their strategies:

- The mission statement describes 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 the company’s competitive game plan, which typically describe objectives, business scope, and advantage.\textsuperscript{25}

These statements can be found on the corporate pages of companies’ websites. 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.

Further information on a firm’s business scope (products and its markets) and how it competes within these markets can be found in a company’s annual reports. For US corporations, the description of the business that forms Item 1 of the 10-K annual report to the Securities and Exchange Commission (SEC) is particularly informative about strategy.

Strategy Capsule 1.5 provides statements of strategy by McDonald’s, the global fast-food giant, and Twitter, the online messaging service.

Ultimately, strategy becomes enacted in the decisions and actions of an organization’s members. Indeed, checking strategy statements against decisions and actions may reveal a gap between rhetoric and reality. As a reality check upon grandiose and platitudinous sentiments of vision and mission, it is useful to ask:

- Where is the company investing its money? Notes to financial statements provide detailed breakdowns of capital expenditure by region and by 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 top management hired? These strategic decisions are typically announced in press releases and reported in trade journals.

To identify a firm’s strategy it is necessary to draw 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. We will return to this topic when we discuss competitive intelligence in Chapter 4.

**Corporate and Business Strategy**

Strategic choices can be distilled into two basic questions:

- Where to compete?
- How to compete?

The answers to these questions define the two major areas of a firm’s strategy: corporate strategy and business strategy.

Corporate strategy defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include choices over diversification, vertical integration, acquisitions, and new ventures, and the allocation of resources between the different businesses of the firm.
**McDONALD’S CORPORATION**

Our goal is to become customers’ favorite place and way to eat and drink by serving core favorites such as our World Famous Fries, Big Mac, Quarter Pounder and Chicken McNuggets.

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the “System”) has been key to McDonald’s success. By leveraging our System, we are able to identify, implement and scale ideas that meet customers’ changing needs and preferences.

McDonald’s customer-focused Plan to Win (“Plan”) 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. Our initiatives support these priorities, and are executed with a focus on the Plan’s five pillars—People, Products, Place, Price and Promotion—to enhance our customers’ experience and build shareholder value over the long term. 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.


**TWITTER, INC.**

We have aligned our growth strategy around the three primary constituents of our platform:

**Users.** We believe that there is a significant opportunity to expand our user base…

- Geographic Expansion. We plan to develop a broad set of partnerships globally to increase relevant local content … and make Twitter more accessible in new and emerging markets.
- Mobile Applications. We plan to continue to develop and improve our mobile applications…
- Product Development. We plan to continue to build and acquire new technologies to develop and improve our products and services…

**Platform Partners.** We believe growth in our platform partners is complementary to our user growth strategy…

- Expand the Twitter Platform to Integrate More Content. We plan to continue to build and acquire new technologies to enable our platform partners to distribute content of all forms.
- Partner with Traditional Media … to drive more content distribution on our platform …
- Advertisers … ([I]nc)rease the value of our platform for our advertisers by enhancing our advertising services and making our platform more accessible.
- Targeting. We plan to continue to improve the targeting capabilities of our advertising services.
- Opening our Platform to Additional Advertisers. We believe that advertisers outside of the United States represent a substantial opportunity …
- New Advertising Formats.

*Source:* Twitter, Inc. Amendment no. 4 to Form S-1, Registration Statement, SEC, November 4, 2013.
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.

The distinction between corporate strategy and business strategy corresponds to the organizational structure of most large companies. Corporate strategy is the responsibility of corporate top management. Business strategy is primarily the responsibility of the senior managers of divisions and subsidiaries.

This distinction between corporate and business strategy also corresponds to the primary sources of superior profit for a firm. As we have noted, the purpose of strategy is to achieve superior performance. Basic to this is the need to survive and prosper, which in turn requires that over the long term the firm earn a rate of return on its capital that exceeds its cost of capital. There are two possible ways of achieving this. First, by choosing to locate within industries where overall rates of return are attractive (corporate strategy). Second, by attaining a position of advantage vis-à-vis competitors within an industry, allowing it to earn a return that exceeds the industry average (Figure 1.5).

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?” (“In which industries and markets should we be?”) and “How to compete?”

As an integrated approach to firm strategy, this book deals with both business and corporate strategy. However, my primary emphasis will be 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 industries and markets it can be successful in.

**FIGURE 1.5** The sources of superior profitability
Describing 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 products the firm supplies, the customers it serves, the countries and localities where it operates, and the vertical range of activities it undertakes.

However, strategy is not simply about “competing for today”; it is also concerned with “competing for tomorrow.” This dynamic aspect 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 how it will meet specific performance targets.

These two dimensions of strategy—the static and the dynamic—are depicted in Figure 1.6 and are illustrated by the Coca-Cola Company. As we shall see in Chapter 8, reconciling these two dimensions of strategy—what Derek Abell calls “competing with dual strategies”—is one of the central dilemmas of strategic management.26

How Is Strategy Made? The Strategy Process

How companies make strategy and how they should make strategy are among the most hotly debated issues in strategic management. The corporate planning undertaken by large companies during the 1960s was a highly formalized approach to strategy making. Strategy may also be made informally: emerging through adaptation to circumstances. In our opening discussion of Queen Elizabeth and Lady Gaga, I discerned a consistency and pattern to their career decisions that I identified as strategy, even though there is no evidence that either of them engaged in any systematic process of strategy formulation. Similarly, most successful companies are not products of grand designs. The rise of Apple Inc. to become the world’s most
valuable company (in terms of stock market capitalization) has often been attributed to a brilliant strategy of integrating hardware, software, and aesthetics to create consumer electronic products that offered a unique consumer experience. Yet, there is little evidence that Apple’s incredible success since 2004 was the result of any grand design. Dick Rumelt reports when Steve Jobs was reappointed as Apple’s CEO in 1997, his first actions were to cut costs, slash investment spending, and prune the product range. When asked in 1998 about his strategy for Apple, he replied: “I’m going to wait for the next big thing.”

Clearly, Apple’s remarkable success since 2001 with its iPod, iPhone, and iPad was not the result of a preconceived plan. It was the outcome of a set of strategic decisions that combined penetrating insight into consumer preferences and technological trends with Apple’s own design and development capabilities, and astute responses to unfolding circumstances.

So, what does this mean for strategy making by companies and other organizations? Should managers seek to formulate strategy through a rational systematic process, or is the best approach in a turbulent world to respond to events while maintaining some sense of direction in the form of goals and guidelines?

**Design versus Emergence**

Henry Mintzberg is a leading critic of rational approaches to strategy design. He distinguishes intended, emergent, and realized strategies. Intended strategy is strategy as conceived of by the leader or top management team. Even here, intended strategy may be less a product of rational deliberation and more an outcome of negotiation, bargaining, and compromise among the many individuals and groups involved in the strategy-making 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 circumstances.

According to Mintzberg, rational design is not only an inaccurate account of how strategies are actually formulated but also 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.” The emergent approaches to strategy making permit adaptation and learning through a continuous interaction between strategy formulation and strategy implementation in which strategy is constantly being adjusted and revised in the light of experience.

The debate between those who view strategy making as a rational, analytical process of deliberate planning (the design school) and those who envisage strategy making as an emergent process (the emergence or learning school of strategy) has centered on the case of Honda’s successful entry into the US motorcycle market during the early 1960s. 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. However, subsequent interviews with the Honda managers in charge of its US market entry revealed a different story: a haphazard, experimental approach with little analysis and no clear plan. 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."

In practice, strategy making involves both thought and action: “Strategy exists in the cognition of managers but also is reified in what companies do.” This is typically through a process in which top-down rational design is combined with 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. I will discuss processes of strategic planning more fully in Chapter 6.

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

In all the companies I am familiar with, strategy making combines design and emergence—a process that I have referred to as “planned emergence.” The balance between the two depends greatly upon the stability and predictability of the organization’s business environment. The Roman Catholic Church and La Poste, the French postal service, inhabit relatively stable environments; they can plan activities and resource allocations in some detail quite far into the future. For WikiLeaks, Credit Bank of Iraq, or Somali pirate gangs, strategic planning will inevitably be restricted to a few guidelines; most strategic decisions must be responses to unfolding circumstances.

As the business environment becomes more turbulent and less predictable, so strategy making becomes less about detailed decisions and more about guidelines and general direction. Bain & Company advocates the use of strategic principles—“pithy, memorable distillations of strategy that guide and empower employees”—to combine consistent focus with adaptability and responsiveness. McDonald’s strategy statement in Strategy Capsule 1.5 is an example of such strategic principles. Similarly, Southwest Airlines encapsulates its strategy in a simple statement: “Meet customers’ short-haul travel needs at fares competitive with the cost of automobile travel.” For fast-moving businesses, strategy may be little more than a set of “simple rules.” For example, Lego evaluates new product proposals by applying a checklist of rules: “Does the product have the Lego look?” “Will children learn while having fun?” “Does it stimulate creativity?”

We shall return to the role of rules and principles to guide an organization’s evolution and coordination in our final chapter, where we explore some of the implications of complexity theory for strategic management.

The Role of Analysis in Strategy Formulation

Despite the criticism of rational, analytical approaches to strategy formulation by Henry Mintzberg and others, the approach of this book is to emphasize analytic approaches to strategy formulation. This is not because I wish to downplay the role of intuition, creativity, or spontaneity—these qualities are essential ingredients of successful strategies. Nevertheless, whether strategy formulation is formal or informal,
whether strategies are deliberate or emergent, systematic analysis is a vital input into the strategy process. Without analysis, strategic decisions are susceptible to power battles, individual whims, fads, and wishful thinking. Concepts, theories, and analytic tools are complements of, and not substitutes for, intuition and creativity. Their role is to provide frameworks for organizing discussion, processing information, and developing consensus.

This is not to endorse current approaches to strategy analysis. Strategic management is still a young field and the existing toolbox of concepts and techniques remains woefully inadequate. Our challenge is to do better. If existing analytical techniques do not adequately address the problems of strategy making and strategy implementation under conditions of uncertainty, technological change, and complexity, we need to augment and extend our strategy toolkits. In the course of this book, you will encounter concepts such as real options, tacit knowledge, hypercompetition, complementarity, and complexity that will help you address more effectively the challenges that firms are facing in today’s turbulent business environment. We must also recognize the role and the limitations of strategy analysis. Unlike many of the analytical techniques in accounting, finance, market research, or production management, strategy analysis does not generate solutions to problems. It does not offer algorithms or formulae that tell us the optimal strategy to adopt. The strategic questions that companies face (like those that we face in our own careers and lives) are simply too complex to be programmed.

The purpose of strategy analysis is not to provide answers but to help us understand the issues. Most of the analytic techniques introduced in this book are frameworks that allow us to identify, classify, and understand the principal factors relevant to strategic decisions. Such frameworks are invaluable in allowing us to come to terms with the complexities of strategy decisions. In some instances, the most useful contribution may be in assisting us to make a start on the problem. By guiding us to the questions we need to answer and by providing a framework for organizing the information gathered, strategy analysis places us in a superior position to a manager who relies exclusively on experience and intuition. Finally, analytic frameworks and techniques can improve our flexibility as managers. The concepts and frameworks we shall cover are not specific to particular industries, companies, or situations. Hence, they can help increase our confidence and effectiveness in understanding and responding to new situations and new circumstances.

Applying Strategy Analysis

So, how do we go about applying our tools of strategy analysis in a systematic and productive way that allows us to make sound strategy recommendations?

Inevitably, the procedure we follow depends upon the situation being addressed—in particular whether we are developing a strategy for a firm as a whole or making a specific strategic decision: acquiring a competitor, entering a foreign market, or outsourcing manufacturing. Let us consider a typical strategy situation that we shall encounter, either as students tackling a strategy case study or as consultants on a client engagement: recommending a business strategy.39

Let us consider the principal steps of such an analysis (which are displayed in Figure 1.7):
**FIGURE 1.7** Applying strategy analysis

1 *Identify the current strategy.* Assuming we are dealing with an existing business, as opposed to a new venture, the first task is to identify the current strategy of the business (drawing upon the sections above on “Where do We Find Strategy?” and “Describing Strategy”).

2 *Appraise performance.* How well is the current strategy performing? In the next chapter we shall consider the use of financial analysis to measure firm performance.

3 *Diagnose performance.* Having determined the level and trend of the firm’s performance, the next challenge is *diagnosis*: in the case of poor performance, can we use a combination of financial and strategic analysis to determine the sources of unsatisfactory performance? In the case of good performance, can we identify the factors driving this? As Dick Rumelt observes, the core question in most strategy situations is: “What’s going on here?” Chapter 2 offers guidance on such diagnosis.

4 *Industry analysis.* Analyzing the fit between strategy and the firm’s industry environment is a fundamental input into both diagnosing recent performance and generating future strategic options. Chapters 3 and 4 address industry analysis.

5 *Analysis of resources and capabilities.* Equivalently, analyzing the fit between strategy and the firm’s resources and capabilities is a fundamental input into both diagnosing recent performance and generating future strategic options. Chapter 5 describes the analysis of resources and capabilities.

6 *Formulate strategy.* Performance diagnosis, industry analysis, and the analysis of resources and capabilities provide a basis for generating strategic options for the future, the most promising of which can be developed into a recommended strategy. Chapter 7 outlines how the intersection of internal strengths and external success factors combine to offer a basis for competitive advantage.

7 *Implement strategy.* Executing the chosen strategy requires linking the strategy to performance goals and resource allocations and establishing appropriate organizational structure and management systems. Chapter 6 outlines how this can be done.

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**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 toward 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 I have attributed to strategic management in terms of improved decision making, achieving coordination, and setting performance targets (see the section “Why Do Firms Need Strategy?” above) 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 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 1.2 summarizes some key differences between each of these organizations with regard to the applicability of the basic tools of strategy analysis.

**Table 1.2** The applicability of the concepts and tools of strategic analysis to different types of not-for-profit organizations

<table>
<thead>
<tr>
<th>Organizations in competitive environments that charge users</th>
<th>Organizations in competitive environments that provide free services</th>
<th>Organizations sheltered from competition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples</strong></td>
<td><strong>Analysis of goals and performance</strong></td>
<td><strong>Analysis of the competitive environment</strong></td>
</tr>
<tr>
<td>Royal Opera House</td>
<td>Identification of mission, goals, and performance indicators and establishing consistency between them is a critical area of strategy analysis for all not-for-profits</td>
<td>Main tools of competitive analysis are the same as for for-profit firms</td>
</tr>
<tr>
<td>Guggenheim Museum</td>
<td><strong>Analysis of resources and capabilities</strong></td>
<td>Main arena for competition and competitive strategy is the market for funding</td>
</tr>
<tr>
<td>Stanford University</td>
<td>Identifying and exploiting distinctive resources and capabilities critical to designing strategies that confer competitive advantage</td>
<td>Not important. However, there is interagency competition for public funding</td>
</tr>
<tr>
<td><strong>Strategy implementation</strong></td>
<td>The basic principles of organizational design, performance management, and leadership are common to all organizational types</td>
<td>Analysis of resources and capabilities essential for determining priorities and designing strategies</td>
</tr>
</tbody>
</table>
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 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. Strategy Capsule 1.6 shows the strategic planning framework for the US State Department.

**STRATEGY CAPSULE 1.6**
US State Department Strategic Plan, 2014–2018

**MISSION**
Shape and sustain a peaceful, prosperous, just, and democratic world, and foster conditions for stability and progress for the benefit of the American people and people everywhere.

**STRATEGIC GOALS**

SG 1: Strengthen America’s economic reach and positive economic impact
SG 2: Strengthen America’s foreign policy impact on our strategic challenges
SG 3: Promote the transition to a low-emission, climate-resilient world while expanding global access to sustainable energy
SG 4: Protect core US interests by advancing democracy and human rights and strengthening civil society
SG 5: Modernize the way we do diplomacy and development

**OPERATIONALIZING THE GOALS**
These strategic goals were further specified into a set of strategic objectives which were then translated into specific performance goals. For example, SG3’s strategic objectives included: “Building on strong domestic action, lead international actions to combat climate change.” The corresponding performance goal was: “By September 30, 2015, US bilateral assistance under Low Emission Development Strategies (LEDS) will reach at least 25 countries and will result in the achievement of at least 45 major individual country milestones, each reflecting a significant, measurable improvement in a country’s development or implementation of LEDS. Also by the end of 2015, at least 1200 additional developing country government officials and practitioners will strengthen their LEDS capacity through participation in the LEDS Global Partnership…”

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 (theaters, 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—performance is enhanced by aligning strategy with internal strengths in resources and capabilities.

Summary

This chapter has covered a great deal of ground—I hope that you are not suffering from indigestion. If you are feeling a little overwhelmed, not to worry: we shall be returning to the themes and issues raised in this chapter in the subsequent chapters of this book.

The key lessons from this chapter are:

◆ Strategy is a key ingredient of success both for individuals and organizations. A sound strategy cannot guarantee success, but it can improve the odds. Successful strategies tend to embody four elements: clear, long-term goals; profound understanding of the external environment; astute appraisal of internal resources and capabilities; and effective implementation.

◆ The above four elements form the primary components of strategy analysis: goals, industry analysis, analysis of resources and capabilities, and strategy implementation through the design of structures and systems.

◆ Strategy is no longer concerned with detailed planning based upon forecasts; it is increasingly about direction, identity, and exploiting the sources of superior profitability.

◆ To describe the strategy of a firm (or any other type of organization) we need to recognize where the firm is competing, how it is competing, and the direction in which it is developing.

◆ Developing a strategy for an organization requires a combination of purpose-led planning (rational design) and a flexible response to changing circumstances (emergence).
The principles and tools of strategic management have been developed primarily for business enterprises; however, they are also applicable to the strategic management of not-for-profit organizations, especially those that inhabit competitive environments.

Our next stage is to delve further into the basic strategy framework shown in Figure 1.2. The elements of this framework—goals and values, the industry environment, resources and capabilities, and structure and systems—are the subjects of the five chapters that form Part II of the book. We then deploy these tools to analyze the quest for competitive advantages in different industry contexts (Part III), and then in the development of corporate strategy (Part IV). Figure 1.8 shows the framework for the book.

**FIGURE 1.8** The structure of the book

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**Self-Study Questions**

1. In relation to the four characteristics of successful strategies in Figure 1.1, assess the US government’s Middle East strategy during 2009–2015.

2. The discussion of the evolution of business strategy (see the section “From Corporate Planning to Strategic Management”) 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 Coca-Cola Company and Uber Technologies Inc.?

3. I have noted that a firm’s strategy can be described in terms of the answers to two questions: “Where are we competing?” and “How are we competing?” Applying these two questions, provide a concise description of Lady Gaga’s career strategy (see Strategy Capsule 1.2).

4. Using the framework of Figure 1.6, describe the strategy of the university or school you attend.

5. 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?

Notes

2. Stephen Covey (in The Seven Habits of Highly Effective People, New York: Simon & Schuster, 1989) recommends that we develop lifetime mission statements based on the multiple roles that we occupy: in relation to our careers, our partners, our family members, our friends, and our spiritual lives.
20. The concept of bounded rationality was developed by Herbert Simon (A Behavioral Model of Rational
40. Rumelt, op cit., 79.