
Chapter 1

The Strategic Development Process

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The strategic development process is defined here to embrace the management processes that inform, shape and support the strategic decisions confronting an organisation. We have adopted the term 'strategic development' for a number of reasons. Firstly, we see strategy formulation and implementation as inseparable activities in which every organisation engages on a continuous basis, so the idea of ongoing development is central to our thinking. Secondly, the widely used term 'strategic planning' has become debased by association with the creation of deterministic, one-shot 5- and 10-year plans: for us this suggests an unhelpful rigidity in thinking about the future. Thirdly, 'strategic management' is too loose a term to describe the emphasis that we wish to place here upon reflective engagement and analytical questioning that characterises the approaches introduced in this book: nor does that term suggest the same focus upon the development of the organisation.

Strategic decisions, the focus of the strategic development process, do not form a distinct category at one extreme of some imagined spectrum leading from tactical, through operational to strategic decisions. Rather, there is a set of characteristics that lead towards a decision being labelled as 'strategic'. These characteristics include the following:

- Breadth of scope and therefore of implications right across and beyond the organisation.
- Complexity and inter-relatedness of decision-making context, demanding integrated treatment.
- Enduring effects, possibly of an irreversible nature, with little or no scope for trial and error.
- Significant time lag before impact, with widening uncertainty over the timescale involved.
- Disagreement about the motivation for, and the direction and nature of, development.
- Challenging the status quo, creating a politicised setting where change is contested.

ORGANISATIONAL DEVELOPMENT

To set the strategic development process in a practical context, it is helpful to think about the categories of strategic decisions through which organisations evolve and develop. Such categories might include vertical integration, diversification/reputation, retrenchment/re-focus, opportunism, market development, product/process development and e-strategy. Specific examples of each are shown in Figure 1.1.

A vertically integrated organisation is one that owns and controls all aspects of the supply chain from the raw material through to the sales of the final product. The PIMS studies (Profit Impact for Market Strategy; Schoeffler, Buzzell & Heany, 1974) of the 1960s and 1970s indicated that vertical integration was a key driver of profitability and as a result became a focus for strategic development for many organisations at that time. The clearest examples would be the oil companies, which encompass exploration, drilling, refining, distribution and finally filling stations (often franchised). This strategy by the major oil companies effectively drove the small independent garage/filling station out of business, giving the major companies a considerable competitive advantage. This advantage has been challenged at the downstream end by the major supermarket chains.

Diversification/reputation strategies typically involve a portfolio of businesses producing a range of products or services. There may be minimal synergy between some of the elements of the portfolio, apart of course from financial synergy through cash movements and the risk-reduction benefits of portfolios. Richard Branson's Virgin brand has retained its reputation associated with airlines, mega-stores, mobile phones and rail companies, and the reputation has been retained despite the difficulties with the West Coast mainline railway in the UK. Tesco has diversified from supermarket food retailing to general retailing, local stores and financial services, whilst Mitsubishi (like Virgin) has a broad portfolio of companies. The University of Warwick (UW) was one of the first UK universities to respond to the cutbacks in government spending in the early 1980s. The University diversified into post-experience education through the Warwick Business School and Warwick Manufacturing Group, into the overseas student market and executive education centres, and

Vertical Integration	Shell
Diversification/Reputation	Tesco, Virgin, Mitsubishi, BA, UW
Retrenchment/Re-focus	Sainsbury's, BA
Market Development	VW, UW
Product/Process Development	Sony, Phillips, Pilkington, UW
Opportunism	Group 4, Stagecoach, Jarvis
e-Strategy	Prudential/Egg, e-Bay, Tesco
Mergers and Acquisitions	IBM, GlaxoSmithKline

Figure 1.1. Classes of Strategic Decisions

generally diversified its revenue base. British Airways (BA) diversified into low-cost air travel by establishing the company Go, although it was later divested at a time when such airlines were becoming increasingly popular. It was finally sold by its financial backers to easyJet – a rather pointless set of strategic moves in terms of business development.

In recent years the interest in retrenchment and re-focus strategies has predominated, in contrast to the earlier vertical integration and diversification strategies. Sainsbury's set up Homebase to build on their retailing skills but later divested it. BT divested its mobile phone business. BA divested Go just as low-cost airlines were 'taking off'. The fashion for retrenchment and re-focus has been fuelled by outsourcing as a strategy. These strategies lose any benefits of vertical integration and the risk-reduction benefits of a portfolio. BA also outsourced catering to Gate Gourmet, on the grounds that it was not core business. However, the difficulties that the company experienced in 2005 suggest perhaps that the concept of core business should not be drawn too tightly (you can't travel long haul without food on board). In contrast to the move to outsourcing, the motor racing Formula 1 company BAR (now Honda), which required quality of the highest order, produced every part of their car and engine in-house in order to retain complete control over the quality system.

Market development strategies involve targeting new geographical markets, possibly through mergers or acquisitions. VW, for example, made an early and significant impact on the Chinese automobile market. Product and process development is a key strategy in the fast-moving electronics business, whilst a classic example of process development was the invention of float glass by Pilkington in the 1950s. The new process was such an improvement on the previous sheet and plate glass processes that every company in the world had to adopt the process within a few years, giving considerable licence fees to the inventor. (Pilkington was taken over by Nippon Sheet Glass in 2006.) Many strategies arise out of the resources, competencies and capabilities of the organisation but that may not be the case for opportunistic strategies when they arise. The opportunities arising from the retrenchment of the government under the Thatcher administration in the UK allowed Stagecoach to invent itself, starting with two buses in the north of England and moving rapidly to become a global enterprise. Group 4, a security company, won the contract to organise the inspection system for nursery schools. Jarvis took advantage of the private finance initiatives but found the opportunities not so rewarding. The arrival of the internet allowed e-strategies, which could range from completely new businesses such as e-Bay through to a reinvention of grocery delivery by Tesco Online. Many organisations see acquisitions as a way to develop, such as IBM taking over the consultancy arm of PriceWaterhouseCoopers or GlaxoSmithKline seeing acquisitions as a way of extending their product range; merger activity is also evident in the names of the companies just cited.

Each of these forms of strategic development demonstrates to different degrees the characteristics indicated earlier. The richness of possible developments is clear from these varied histories, but also the fact that even the high level of expertise in many company boards cannot guarantee sound strategic direction and guidance. An argument here, expanded in detail in the chapters that follow, is that explicit rehearsal of strategy is essential to augment and improve strategic thinking.

MANAGEMENT AS CONTROL

We begin our development of an organising framework to represent the strategic development process from a most basic – indeed some might think most unpromising – foundation. This is the simple control system model shown in Figure 1.2. We chose this model, not because we are wedded to some mechanistic metaphor about the behaviour of people or the systems that they create, but because it offers a clear insight into the concept of feedback, a concept that lies at the very heart of the model that we shall go on to develop.

Consider then a situation that we wish to manage. Further, suppose that this management activity is essentially about the achievement of some target state, and that it involves the manipulation of a range of resources that can be drawn upon to obtain the requisite performance. Then the managerial task is centrally concerned with adjusting those factors that are controllable within a situation that is in continual flux, and being buffeted by external forces. Figure 1.2 shows this process as a ‘control procedure’ that can inject a ‘resource’ in order to adjust the realised performance (captured through ‘performance measurement’) to meet the ‘target’: but though the procedure is implemented in the ‘system’, further ‘uncontrolled inputs’ lead to perturbations, which in turn demand subsequent adjustments.

The diagram could describe the operation of an air-conditioning system: the target is a set room temperature that is monitored, and the resource is a device for heating/cooling the incoming air. So feedback based upon the actual state of the ambient air is used to establish the necessary control action. A more pertinent example for our purposes in this book might be the meeting of a sales target by a product division. Any monitored shortfall (e.g. variance from budgeted figures) would most probably lead to an injection of effort into promoting the product to achieve the hoped-for sales revenue.

The control system is a poor model from the strategic development perspective as it is likely to be narrow in scope. The effects of the decision are likely to be short term and there is typically the opportunity for repeated decision-making. Nevertheless, it has some attractive features. It highlights the need for a sense of purpose through the target, it introduces a concept of feedback of performance and the system contains a number of essential elements, all of which need to be in place and effective for the system to work effectively. For example, if the resource is inadequate then it will

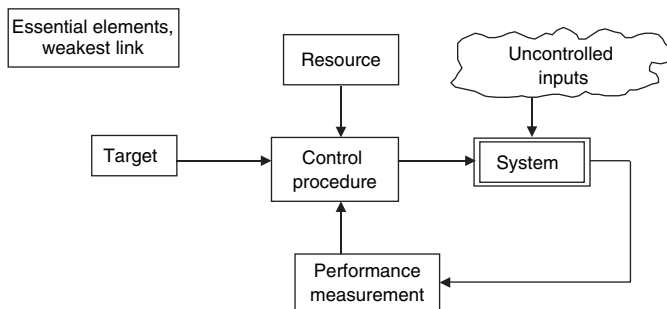


Figure 1.2. A Simple Single-Loop Control System

not be possible to achieve the target; if there is no target then there is no rationale for development; and if there is no measurement of performance and feedback then control cannot be achieved. The system is only as effective as its weakest link.

Nevertheless, a simple control system is surprisingly good at mimicking purposeful behaviour. Consider a car fitted with cruise control. In this case the control process regulates the speed of the car and replaces the normal thinking, judgement and reaction of the driver, albeit in a limited way. It is an uncanny experience to drive such a vehicle because the accelerator pedal seems to have a mind of its own. As the terrain changes the pedal presses itself down or eases off exactly as a person would move it. The control procedure is shown in Figure 1.3. A target speed is set and compared with the measured speed of the car on the motorway. When the car encounters a hill its measured speed declines and the cruise control depresses the accelerator, thereby drawing more engine power and increasing the car's speed until it reaches the target speed. When dipping into a valley the reverse happens, and the pedal moves up to reduce power. On the flat the accelerator pedal setting remains fixed with target speed and measured speed equal, with just enough engine power to overcome the road surface and wind resistance.

The striking similarity between the reaction of a cruise controller and a normal driver demonstrates vividly that feedback and intelligent adaptation are more closely related than is commonly thought. Indeed, control processes that incorporate additional feedback channels and more information can replicate quite sophisticated processes of adaptation. Imagine, for example, a system capable of delivering a car safely to a chosen destination in a specified time. Skilful taxi drivers routinely accomplish this task, so what kind of feedback describes their behaviour? Cruise control alone is obviously not enough. Simultaneous speed *and* distance control are important to maintain a target speed without hitting the car in front. Also, the car should not drift off the road, so there is a need to monitor and control positioning. In other words, intelligent adaptation is characterised by multiple goals, with corresponding performance measures and priorities to be managed. But then there is what taxi drivers call 'the knowledge', where to go and which road to take. Destination and route also belong in the control model to help plan the journey and take an overview. Nowadays, satellite navigation systems make it possible to chart the best route to a given destination. This capability to look ahead, coupled with multiple

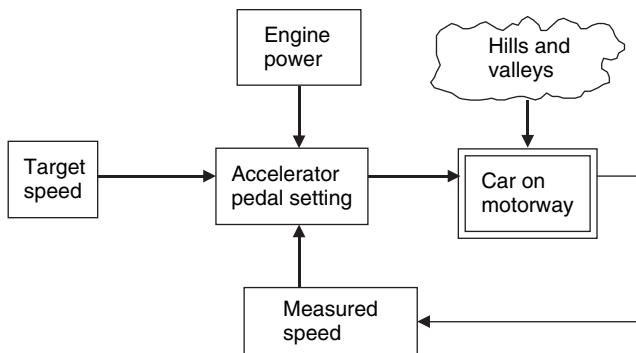


Figure 1.3. A Car on Cruise Control, Slightly Intelligent Adaptation

feedback control processes, contains the necessary intelligence and information to complete the journey and indeed to outdo the taxi driver.

DIRECTION-DRIVEN STRATEGIC DEVELOPMENT

Strategy-making is about the crafting of deliberate actions to shape an organisation’s future. This implies intentionality steered by an explicit sense of direction. The implications of a lack of sense of direction are nicely illustrated by the Cat in *Alice in Wonderland*. ‘Would you tell me please which way I ought to go from here?’ said Alice. ‘That depends a good deal on where you want to get to’ said the Cat. ‘I don’t care much where’ said Alice. ‘Then it doesn’t matter which way you go’ said the Cat.

Eden and Ackermann (1998) view strategy as ‘a coherent set of individual discrete actions in support of a system of goals, and which are supported as a portfolio by a self-sustaining critical mass, or momentum of opinion in an organisation’. We see ‘desired direction’ as a key driver of strategic development, which may be articulated through a mission or vision statement, a set of strategic objectives or goals supported by performance measures and possibly targets. A well ‘articulated direction’ will stimulate behavioural responses in the organisation, shaping change (hopefully) in the direction in which we wish to see strategic development. Ideally, this leads to the virtuous circle shown in Figure 1.4, where the solid lines denote the direction of desired influence and the dotted lines denote the components of the articulated direction that together influence behaviour.

There may, however, be many pitfalls and unintended consequences along the way that result in the ‘realised direction’ being different from the ‘desired direction’. For instance, the use of share options as incentives may lead to senior management focusing on improving the share price in the short term, which may not be in the longer-term interest of shareholders; targets for waiting lists in hospitals may lead to easy operations being prioritised to the detriment of patients with more serious conditions, or to faster throughput at the expense of hygiene; school league tables may lead schools to seek to improve the quality of their intake as much as the educational process; targets for train punctuality may mean that the schedule time

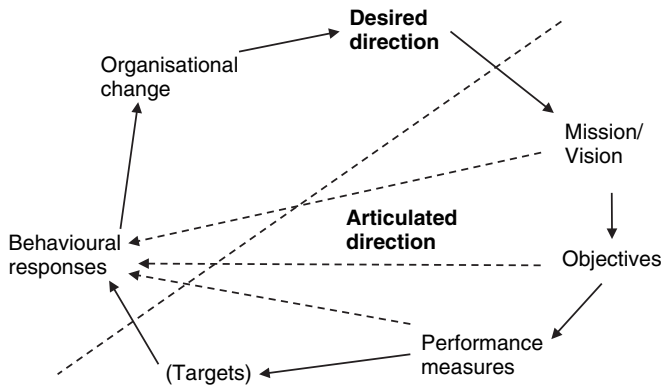


Figure 1.4. Direction-Driven Organisational Change

is unnecessarily long. Furthermore, the mission or vision itself may be unrealistic or misguided: for example, Marconi (previously known as GEC), a cash-rich diversified company, developed and pursued the vision of converting itself into a focused telecoms company overnight. Unfortunately, profitable businesses were divested as they did not fit the vision, the cash mountain was spent on a series of overpriced acquisitions and the company was brought to its knees. So, a major programme of organisational change can have benefits that fall far short of the original intentions.

At the same time, unexpected events and changed circumstances can lead to hurriedly changed actions. Contingency plans may need to be put in place to deal with foreseeable emerging challenges, which can disrupt or even overturn plans. Unforeseeable events may require unplanned emergency actions. Each of these situations may again result in the organisation's realised direction being different from its desired direction. This is especially the case in today's global business environment, where the shockwaves of local events can be amplified and promulgated in quite unanticipated ways. Oil price hikes have obvious impacts across all sectors: more insidious changes – consider, for example, the fallout from a successful computer virus attack – have differential and destabilising consequences. Such threats (or opportunities) provide the stimulus for creative strategy development: making up strategy 'on the hoof'. More subtle strategy-making can be seen in the aggregation of small-scale responses to localised situations. So independent, uncoordinated reactions by front-line staff to customer demands may share some common pattern (e.g. stemming from an organisational culture in which customers are seen as 'a nuisance') that retrospectively can be characterised as a *de facto* strategy. Such emergent strategies may be 'unauthorised' and even unwanted, but they can be as potent as any deliberate plan if undetected by management.

These enhancements of the 'ideal' model of direction-driven organisational change lead to the more realistic picture shown in Figure 1.5. Here the notions of deliberate,

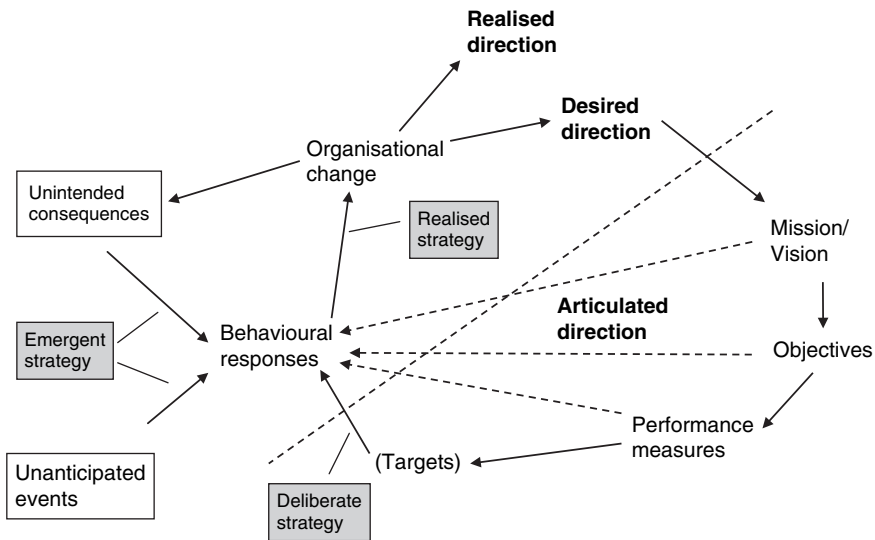


Figure 1.5. Deliberate, Emergent and Realised Strategy

emergent and realised strategy correspond to those distinguished by Mintzberg *et al.* (2003). In practice, it is quite likely that the realised direction differs from the desired direction for a variety of reasons that have been explored above. One of the key tasks of strategic development is to minimise the gap between what is experienced in terms of the realised direction of the organisation and what is actually desired.

STRATEGY REHEARSAL

A simple single-loop control system of the kind introduced earlier is inadequate to the task represented in Figure 1.5. Quite apart from the infeasibility of handling the unexpected (whether derived from the unintended consequences of organisational actions or from the occurrence of unforeseen events), the sheer variety of possibilities would overwhelm any simple homeostat. Furthermore, reactive control only adjusts strategy once an undesirable change has been detected, and given the likelihood of delay occurring before the effects of strategic action become apparent, this means that an organisation could find itself on the path to irrecoverable decline. An effective strategic development process therefore needs to be pro-active and to possess a learning mechanism that involves looking ahead. Such a mechanism involves anticipating possible futures, developing strategic options and testing out their possible future impact by considering their projected performance along with the organisation's current performance; such a combination forms the corporate equivalent of satellite navigation with multiple feedback control.

Our enhanced representation of the strategic development process has, as a principal feature, the creation and use in strategic discussions of models of the organisation that can explore future performance and be used to test and evaluate alternative strategic options. This future performance can then be fed back to be compared with the desired future direction of the organisation. The future performance will also, of course, be influenced by external uncontrollable factors and the evaluation needs a way of capturing this uncertainty. The rationale behind evaluation is, of course, that we should adopt a critical stance to strategic initiatives. The more that a strategic option is tested and shown to be valid then the more likely it is that it will operate well in practice. There is a danger that this approach is seen as over-elaborate, and key decision-makers may well prefer the 'hunch and hope' approach augmented by a search for supporting evidence. There is nothing wrong with hunches, but hoping for the best without testing and evaluating the hunches can be a high-risk way of managing an organisation. Nevertheless, the testing and evaluation of strategic options must be timely; a balance must be struck between thorough testing and timely actions.

Modelling to support decision-making is the focus of the discipline of operational research. Workers in this field have used models for rehearsal – to test strategic initiatives for their future impact before rolling them out in the organisation. Additionally, rather than passively awaiting feedback signals that implementation is off course, models can be used to anticipate what might go wrong and fix hidden inconsistencies in strategy. This implies that instead of hunch and hope we are proposing something more formal involving the ingredients shown in Figure 1.6.

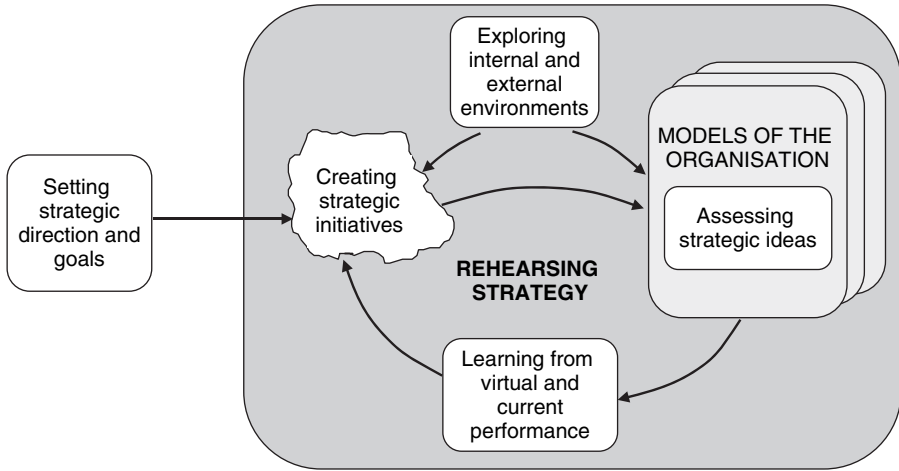


Figure 1.6. The Strategy Rehearsal Process

Here strategic initiatives are fed into a model, or models, of the organisation for assessing strategic ideas and the effects of uncertainty. The use of the models by the management team leads to an imagined outcome and *virtual* performance, for comparison with strategic direction and goals. The introduction of fast-acting ‘virtual feedback’ also provides a learning opportunity with which to adjust strategic initiatives to anticipate and avoid implementation problems, or with which to redesign and create new future direction and goals; we call this learning opportunity ‘strategy rehearsal’. The situations that can be imagined (and how vividly) depends on the modelling approaches and the effort expended. Some models are particularly good at investigating the likely actions and reactions of competitors, while others are helpful for assessing strengths and weaknesses of the firm itself. Some models reveal problems of coordination between functions, while others point to internal political barriers that may block initiatives.

Some models take the form of simple diagrams and maps, while others involve simulations. Some, perhaps the most common, focus on the financial impact of initiatives. The models envisaged here are not perfect replicas of the real organisation in all its complexity; rather, they contain judiciously chosen simplifications of organisational reality so that managers can test vital aspects of strategy development. The rehearsal process itself will involve the evaluation of specific strategic options but also search for the most appropriate overall strategy given the uncertainties faced by the organisation.

To give an immediate and familiar example, the common tool of ‘SWOT analysis’ is a simple framework that focuses managerial attention upon the internal resources (strengths and weaknesses) and the external context (opportunities and threats) of an organisation that is exploring its strategic potential. The focus that SWOT creates is neither inevitable nor in any sense complete, but it has been found to be useful and, when employed effectively (usually within a structured group process), insightful in strategy formation. But SWOT analysis does not produce a *model* in the sense that is often understood by the term. Consider a different example: if we recognise

and seek to specify, say in the form of a demand function, the price elasticity of a product, then this *is* a model of the market concerned and can be used to test the profitability of alternative strategies which might be suggested by different factions within an organisation. Link a number of such relational models together and the more complex response of a dynamic and uncertain marketplace could be represented by a system dynamics model. Nor have all models to be quantifiable. We subscribe to Pidd’s description of a model as ‘an external and explicit representation of a part of reality as seen by the people who wish to use that model to understand, to change, to manage and to control that part of reality’ (Pidd, 2003). Returning then to SWOT analysis, we can say that a map capturing the interconnectedness of individual factors produced using the SWOT framework, particularly in relation to how they combine to drive option development, for example, using the framework of a TOWS matrix, is a model. One distinctive feature of the models that we refer to in this book is that they are individual, localised and purpose-built. Each situation is treated as special, and a model is built that refers to it alone.

THE STRATEGIC DEVELOPMENT PROCESS MODEL

Figure 1.7 shows the whole strategic development process. A vital component of strategic development is the feedback control model described earlier, but added are

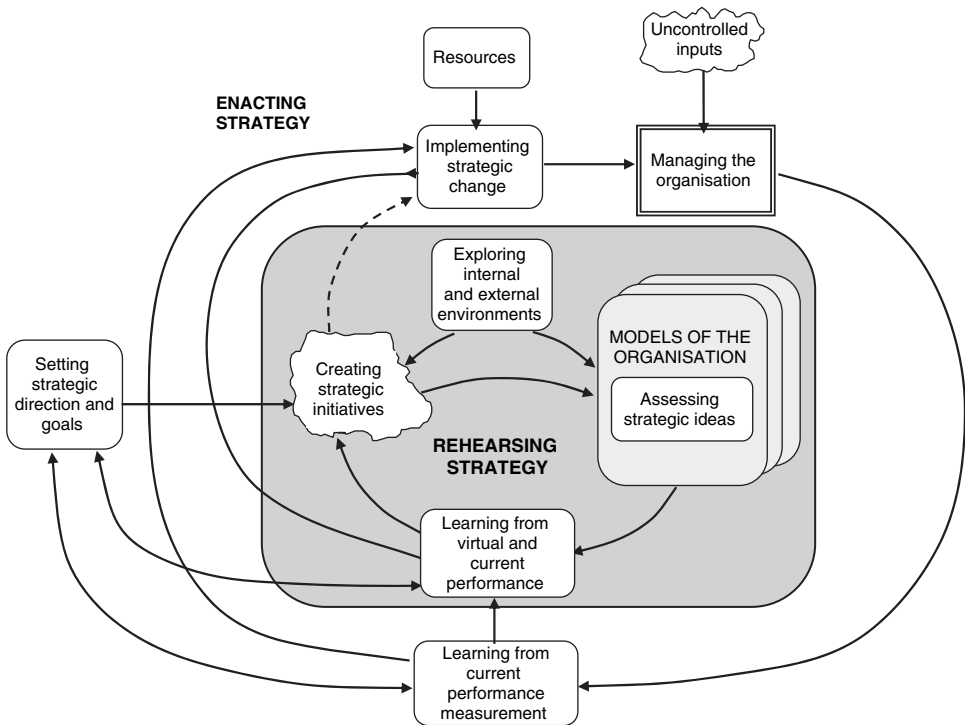


Figure 1.7. The Strategic Development Process

the processes for setting strategic direction, for creating strategic initiatives and for rehearsing strategy that transform myopic corrective action into purposeful action with foresight. One way to interpret the feedback loops of the diagram is to imagine that a new strategic initiative forms inside the organisation within the cloud-like symbol labelled 'creating strategic initiatives'. The initiative can be taken forward in one of two ways. It can be taken straight into the organisation (represented by the dashed arrow) as the basis for implementing strategic change. This route of taking strategic initiatives *directly* to implementation is the route of hunch and hope and emergent strategy, with all its limitations. Incremental corrective action used reactively when unintended consequences arise corresponds to 'single-loop learning' (Argyris & Schon, 1978), since such action encourages the manipulation of present policies in the pursuit of current objectives.

Alternatively, the initiative can be cycled around the inner loop of rehearsing strategy where strategy can be tested, modified and refined. Here, aspects of the real world are replicated to enable learning from virtual performance. The advantage of this inner loop is the feedback it provides about the desirability and feasibility of strategic initiatives. We are suggesting that management teams conduct complementary tests to rehearse strategy in the inner loop, both before and during implementation. Tests that reveal unsatisfactory virtual performance may suggest pre-emptive tactical adjustments in implementation. Such tests may also lead to fundamental changes in strategic initiatives or even call into question the organisation's strategic goals and the strategic direction that lies behind them. Once sufficient testing has been carried out, the initiative can be abandoned or moved towards implementation in the real world. The addition of the inner loop to the strategic development process creates an opportunity for 'double-loop learning', since the strategic rehearsal of initiatives prior to implementation facilitates the modification of the direction and goals that lie behind them. The outer loop involves learning from current performance, a routine management role, which may lead directly to adjusting implemented strategies or may lead to further strategy creation and rehearsal. The direct links from learning to implementation may also involve testing in the real world through the use of small-scale or pilot projects. This approach is adopted in the public sector in the UK, where funding is made available on a short-term basis to improve services to citizens. The pilots are developed for their plausibility and if successful the intention is that they are incorporated into the mainstream delivery of the service.

The outer and inner learning loops combine to address a core organisational learning dilemma identified by Senge (1990): 'We learn best from experience but we never directly experience the consequences of many of our most important decisions. The most critical decisions made in organisations have system-wide consequences that stretch over years or decades. These are exactly the types of decisions where there is the least opportunity for trial and error learning.' The strategic development process resolves this dilemma by allowing fast experimentation around the inner loop that also sharpens management's ability to recognise vital early clues for corrective action from current performance.

A key message from the original control model was that all the elements of the system need to be in place and effective for the entire process to operate effectively.

From Figure 1.7 we can see that the equivalent essential elements for strategic development are:

- Setting strategic direction – encompassing a vision, mission, strategic objectives and goals.
- Designing a performance measurement system aligned to the strategic direction.
- Sense-making – exploring the internal and external environments and assessing the uncertainties.
- Creating strategic initiatives informed by strategic direction, strategic goals, the internal and external environments and learning from virtual performance.
- Evaluating strategic options using models of the organisation, taking account of future uncertainties.
- Rehearsing strategy in a virtual feedback process that incorporates learning from virtual performance.
- Selecting and enacting strategy in a real feedback process that incorporates learning from virtual and/or current performance.

These elements can be broadly categorised to cover direction, creation, rehearsal, evaluation and choice. **Direction** encompasses setting the vision/mission, strategic objectives, performance measures and targets. **Creation** may encompass sense-making, visioning and strategic initiative/option development. **Rehearsal, evaluation and choice** would cover exploring, testing, revising and selection leading to the enacting of strategy.

The feedback paths in strategic development can be viewed as learning processes. Whenever the outcome of an initiative does not work out as intended, it suggests that there was something faulty about people's original expectations. To discover such inconsistency from real-world experience usually requires timely performance measurement for two reasons. Firstly, performance measures provide a signal that something is wrong and corrective action is needed. Secondly, they provide information that facilitates a review of the very process or strategy that produced the inconsistency in the first place (Tapinos, 2005). In other words, performance measurement is an important component of the feedback path that enables people to learn about the actual success or failure of their initiatives when compared with the desired organisational direction they want to head towards. Even so, this real-world feedback cannot easily challenge people's strategic misconceptions because the relevant performance information is not available until implementation is well underway, and for one-off strategic decisions that is often too late. Virtual feedback overcomes this learning deficiency by allowing timely, repeated experiments in a representation of the real world where the fear of consequences is removed.

STRATEGIC DEVELOPMENT AT THE UNIVERSITY OF WARWICK

The strategic development of an organisation and its strategic development process can be illustrated by the case of the University of Warwick (UW), a UK university founded in 1965 on a green-field site in central England on the boundaries of the

City of Coventry and the County of Warwickshire, some six miles from the town of Warwick. The University had a difficult period in the late 1960s but then developed strongly to become the largest and arguably the leading UK university of those founded in the 1960s and a rival to the longer-standing universities, being recognised for its quality and entrepreneurship (see, for example, the Lambert Review; HM Treasury, 2003).

The campus developed from a green-field site in 1965 to a comprehensive university campus of some 16 000 students and a turnover approaching £300 m 30 years later. Figures 1.8 and 1.9 show the physical development achieved between 1968 and 2005.

The successful development of the University stems from the initial support of the local communities and businesses of Coventry and Warwickshire, the entrepreneurial stance of its first vice-chancellor and his senior officers, the commitment to quality research and teaching of the founding academics, and the adherence to these principles by their successors. But it is the subsequent management of the strategic development process that is of greatest interest here, for we argue that this has contributed significantly to the present outcome.

A good example of the way that strategic development has been managed at UW is the handling of the reduction in government support to universities in the early 1980s [which included the removal of funding for non-European Union (EU) students] and the continuing reduction in the funding per student through the 1980s and 1990s. This is illustrated in Figure 1.10.

The reduction in funding in 1980 caused many universities to close departments. The Warwick response was to adopt a make-half, save-half policy, and in particular



Figure 1.8. The Warwick Campus 1968
Source: Dales and Fletcher, Coventry, 1968.



Figure 1.9. The Warwick Campus 2005

Source: Warwick University 2005. Reproduced by permission of Warwick University.

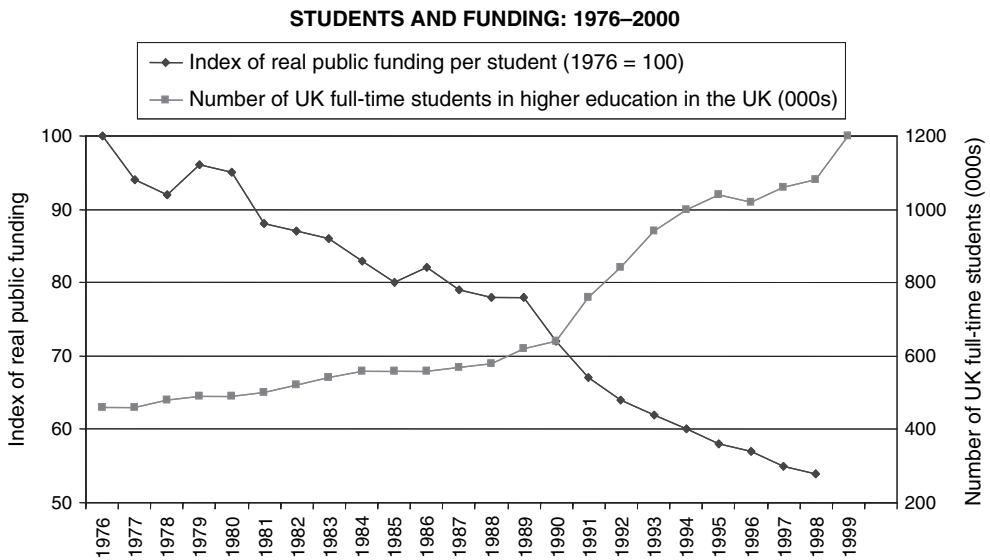


Figure 1.10. Students and Funding

to diversify its activities and its sources of income. This led to a strong period of development from the early 1980s, which continued at least until the time of writing. This diversification and development is illustrated in Figure 1.11. In particular, the graph shows the change in balance of funding from government-based [Higher Education Funding Council for England (HEFCE) grants and Home & EU fees] to business turnover, which includes research grants.

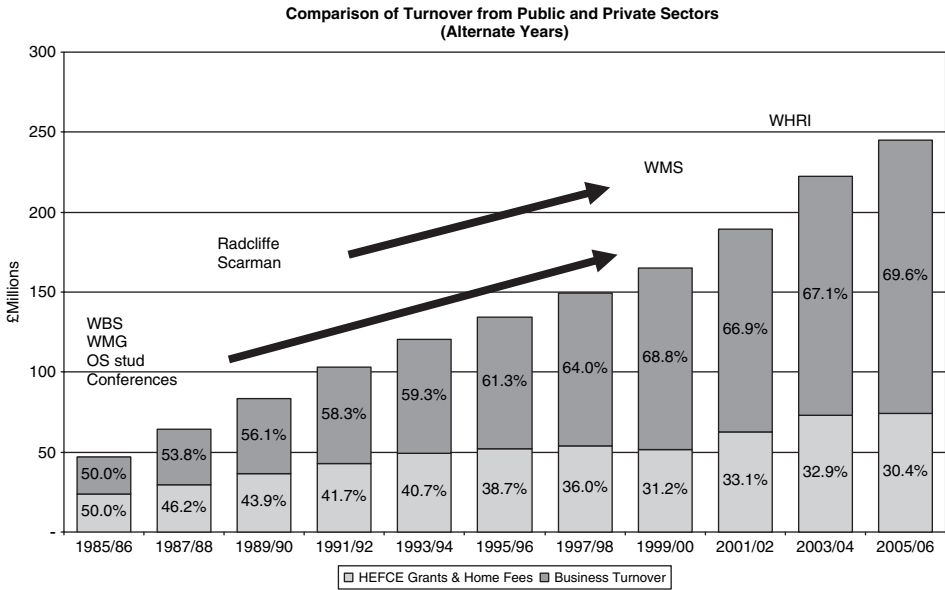


Figure 1.11. Diversification and Development at the University of Warwick

UW had a conference activity using its mainstream teaching and residential accommodation more or less from its founding; the diversification involved a development of this business. The Warwick Manufacturing Group (WMG) was founded in 1980 and developed strongly, initially with residential modular masters programmes for people in industry, with residential accommodation in a converted hall of residence (Arden House). The Warwick Business School (WBS) started a period of strong growth, particularly with the expansion of the Warwick MBA from just a full-time course to a programme with evening, residential modular and distance learning versions. The University built two residential teaching centres (Radcliffe and Scarman Houses) for use by both internal and external users, which provided both a valuable facility and an additional source of income. A strong and successful recruitment drive for overseas students (OS) was launched. In the late 1990s the Warwick Medical School (WMS) was founded, initially as a joint school with Leicester University but later the joint school became a collaborative arrangement giving autonomy to WMS. In the early 2000s the University took over a government research establishment, which became the Warwick Horticultural Research Institute (WHRI).

Direction setting at UW is largely the responsibility of the governing body, the University Council, which includes senior members of the University and lay (external) members. This is supported by the Strategy Committee, a subcommittee of Council, and the Steering Committee, the senior management committee of the University. It is in these bodies that debates take place about the general direction of the University, formalised in the University's corporate plan which includes a mission statement and a set of strategic objectives that change relatively slowly over time. Strategic initiatives can be top down with the Strategy Committee at the hub, such as the decision to secure a medical school, or bottom up such as

the development of courses for business in WMG and WBS. Away-days and workshops have been used intermittently at both corporate and departmental levels to stimulate the search for new initiatives. Strategy rehearsal is enacted through the use of a 5-year financial planning model to test the financial viability of proposals, with non-financial aspects being considered qualitatively. A rolling financial plan is constructed annually but is also used during the year and updated appropriately if a new strategy is adopted or circumstances change significantly (e.g. under- or over-recruitment of students). Uncertainty is accounted for in strategy rehearsal mainly by including safety factors in forecast income streams – perhaps an appropriately risk-adverse approach for a university. In a recent evaluation of a large-scale project (a campus in Singapore), risk analysis was also used. The various strategic bodies also review current performance using academic and financial databases on a continuous basis so that learning does take place. The elements of Figure 1.7 are thus in place with varying degrees of sophistication and effectiveness.

FRAMEWORKS, METHODS AND MODELS FOR STRATEGIC DEVELOPMENT

Faced with the genuine complexity of strategic development, it is not unsurprising that studies show (Isenberg, 1984) that many managers retreat into a ‘hunch and hope’ approach, perhaps accompanied by a search for corroborating (sometimes retrospective) evidence for their decisions. They certainly tend to bypass rigorous, analytical planning and when they do use analysis it is always in conjunction with intuition. As Isenberg says, ‘being “rational” does not best describe what the manager presiding over the decision-making process thinks about nor *how* he or she thinks’. But neither is ‘intuition’ the opposite of rationality: it may best be thought of as the use of well-tryed scripts based upon experience, and so is neither arbitrary nor irrational. In practice, executives seem to work on issues from both sides, seeking a match between ‘gut’ and ‘head’ and so using accumulated experience to ‘act thinkingly’ (as Weick, 1979 so cogently puts it) in the hurly-burly of organisational life.

What support does mainstream strategic management offer to the beleaguered executive? A review of the academic literature and the popular ‘trade press’ quickly reveals the prevalence of short-lived fads, usually stressing the need to focus on one or other facet of the arena of strategy. Almost universally these provide strictly generic advice, often as mantras – ‘be agile and responsive’, ‘promote organisational learning’, ‘achieve transformational leadership’ – and balk at sullyng their pristine concepts with the grit of data, opinion and belief. Yet understanding and working with the particularity of situations is a distinctive skill of high-performing managers, and is a key requirement if feelings of surprise are to be taken seriously in novel situations rather than ignored in the manner of an indifferent executive.

Bringing these requirements together – for coping with variety, for managing complexity, for respecting intuition and for taking notice of specificity – shapes the form of the strategic development process in Figure 1.7 that we contend is needed to enhance managerial performance. At its heart lies explicit representations, or models, of the experienced world-to-be-managed that can be used to develop and rehearse strategy. These representations are not a direct, feature-by-feature replica of the

organisation in its strategic context, but a deliberate simplification that nevertheless aims to capture the essence of what the strategist feels is going on; or rather, what the strategist feels is important in what is going on. And this latter statement points to a rather different prerequisite for creating a model: we need some guidance on which aspects of a 'situation' should, or may most profitably, be attended to. Following Goffmann (1986) we use the term 'framing' to refer to the process of deliberately and systematically isolating certain features from the slices of organisational activity that characterise strategic development.

Models, methods and frameworks appear throughout the book. In Part II the focus is on direction setting, and visioning techniques are covered in Chapter 2. Drama theory and stakeholder analysis is the concern of Chapter 3, with the focus on the actors involved in strategic development. The ubiquitous problem structuring methods are considered in Chapter 4. The latter methods, including cognitive mapping, strategic framing and soft systems methodology, are particularly valuable for direction setting and strategy creation but also have been used for qualitative evaluation.

In Part III the focus moves from direction setting to the overlapping activity of creating strategic initiatives. Here the resourced-based view (RBV) of strategy creation is developed (Chapter 5), and in Chapter 6 a range of methods and models, including five forces, product portfolio matrices and scenarios, are discussed with the long-standing SWOT framework used to connect internal (RBV) and external (scenarios, five forces) perspectives.

The creation of alternative strategic initiatives leads naturally to methods for rehearsing strategy, which is the focus of Part IV. A key modelling approach for rehearsal is system dynamics as described in Chapter 7, which is a valuable tool for understanding the development of strategy through time. In Chapter 8 agent-based models are introduced, which can give insights into issues of complexity and their resolution. Finally, scenario planning appears here (Chapter 9) as its primary rationale is to capture the uncertainty of the future to enable strategies to be tested against alternative futures. However, the scenario development process also provides an external perspective for strategy creation.

Rehearsing strategies leads into the requirement for choice (Part V) as a creative organisation will generate more alternatives than it can move to implementation. Scenarios can assist in the choice process as indicated in the previous section, but if a quantitative representation of uncertainty is required then decision and risk analysis can be applied (Chapter 10). Although the qualitative and quantitative approaches to incorporating uncertainty appear to be alternatives, they are in fact complementary with scenarios being valuable in evaluating broad strategies and decision and risk analysis being applied to specific strategic projects. Chapter 11 considers the design of the performance measurement systems, for both public and private sectors, necessary for evaluation (but also important in articulating the direction of the organisation) and the most popular framework, the balanced scorecard, is reviewed. Chapter 12 covers the important financial aspects of strategic investments. Finally, the issue of flexibility in strategic development is raised (Chapter 13) and the approaches of robustness analysis and real options are introduced. Again, they appear to be alternative approaches to evaluating the flexibility of strategic options but it is argued that they can be seen as complementary.

	Direction	Creation	Rehearsal	Evaluation	Choice
Visioning	X	X			
Stakeholder analysis	X	X			
Drama theory	X	X			
Problem structuring methods	X	X		X	X
Resource-based view		X			
SWOT analysis		X			
Five forces		X			
Product portfolio matrices		X			
PIMS		X	X	X	
System dynamics			X	X	
Agent-based models			X	X	
Scenario planning		X		X	X
Decision/risk analysis				X	X
Balanced scorecard		X	X	X	X
Financial summary measures				X	X
Robustness analysis		X		X	X
Real options		X		X	X

Figure 1.12. The Methods/Process Matrix

Throughout the book the use of multiple methods to support strategic development is either implicit or explicit, and Part VI (Chapter 14) presents a case demonstrating how drama theory, system dynamics and scenario planning can be combined to generate complementary insights. It has also been indicated that there is no simple one-to-one relationship between methods and process parts or elements; some methods can support multiple parts of the process, as Figure 1.12 shows.

THE STRATEGIC DEVELOPMENT PROCESS MODEL AS A DIAGNOSTIC TOOL

The key concept of the process model proposed here is that if organisations wish to be successful in the long term then they need an effective process in place as in general it is too late to see if untested actions lead to successful outcomes. The process model explored in this chapter consists of a number of essential activities or process elements, which together contribute to effective organisational strategic development. The concept of a set of essential process elements was previously

explored by Dyson and Foster (1980, 1983), where they developed a set of attributes of effectiveness for successful strategic planning. An early version of the process model appeared in Tomlinson and Dyson (1983), and a later development appeared in Dyson (2000). Dyson and Foster (1980) proposed that the process orientation and their set of attributes of effectiveness lead naturally to the concept of a diagnostic tool for assessing the strategic development process (or strategic planning process in their case). Carrying this concept over to the strategic development process of Figure 1.7 leads to the diagnostic tool shown in Figure 1.13.

	Setting strategic direction	
Implicit from current situation only	Set explicitly but projection only	Exploration of desirable directions leading to aspirational, clearly articulated futures
	Designing the performance measurement system	
Financial measures only	Broader set of measures developed	Aligned and balanced set of measures developed with appropriate communication mechanisms
	Sense-making	
Minimal internal and external exploration	Some environmental scanning and internal appraisal	Rich exploration of internal and external environments
	Creating strategic initiatives	
Incremental proposals only	Wider search for alternatives	Creative direction-driven search for initiatives
	Evaluating strategic options	
Simple financial evaluation only	Assessment on a limited set of measures	Multi-dimensional assessment incorporating risk and uncertainty
	Rehearsing strategy	
Limited reflection on initiatives – hunch and hope	Wider impact of initiatives assessed	Search for appropriate overall strategy
	Selecting and enacting strategy	
Initiative choice made in isolation	Impact on organisation considered	Search for coherent, flexible and robust strategy with action plan
	Feedback, learning and communication	
Process elements developed in isolation	Some connectedness recognised	Feedback of real and virtual performance connecting process elements leading to organisational learning
	Participation of stakeholders	
Senior management team only	Wider internal participation	Broad internal and appropriate external involvement



Increasing effectiveness

Figure 1.13. Strategic Development Process Diagnostic

The diagnostic tool consists of nine dimensions, seven of which directly correspond to the activities that we believe are essential to effective strategic development; the remaining two relate to the process as a whole. Each dimension consists of a range of evaluative comments indicating the extent to which the activity is undertaken; at one end the suggestion is that superficial attention is paid to the activity, whilst the other end describes how effective engagement in the activity should appear. The middle ground on the evaluative range indicates partial engagement with the activity. It should be noted that the descriptors used in the evaluative range focus on the quality of the activity rather than on the use of specific frameworks, methods and models; this is in keeping with the notion that various frameworks, methods and models can be used to support different activities.

The diagnostic tool serves a number of purposes – first it can be used descriptively to provide an overview of the state of the current strategic development process. Such a description may be a useful activity in its own right. Alternatively, the diagnostic tool can be used prescriptively to explore, benchmark and revise the various dimensions of the tool which directly correspond to particular aspects and components of the process. In this way, the strategic development process can be evaluated on each of the dimensions and where the process is found to be inadequate, consideration can be given to employing appropriate frameworks, methods or models. Let us consider the example of setting direction. If this activity was evaluated as being ‘implicit from current situation only’, then the organisation could consider the use of visioning approaches to improve this dimension. Similarly, scenario development could be deployed if the process was deemed not to capture uncertainty adequately. Although the book covers a wide range of methods, there is no suggestion that all should be used in all contexts. Rather, they should be used selectively following an assessment of the efficacy of the process.

In summary, the diagnostic tool proposed here may be used descriptively to capture the current state of strategic development within an organisation, or prescriptively to facilitate the design of an effective strategic development process.

CONCLUDING REMARKS

A major theme developed throughout this chapter is that the long-term success of an organisation and the existence of an effective strategic development process are inextricably linked. In this chapter we have identified the key elements or activities that together form such a process; we have also highlighted the important role that rehearsing strategy contributes in making this process an effective one. A key contribution of this book is the collection of frameworks, methods and models, which used individually or in combination, support the different elements of the strategic development process.

To position the contribution that this book makes to the wider body of knowledge, it is worth saying a little about the management context in which we see frameworks, methods and models being developed and used. Our approach here is in line with Isenberg’s (1984) finding that ‘the primary focus of on-line managerial thinking is on organisational and interpersonal processes’. Our approach is also consistent with de Geus’ (1997) view that planning and strategic decision-making

are essentially learning processes. We also note that our approach spans a number of the 10 schools that form Mintzberg, Ahlstrand and Lampel's (1998) strategy safari, something which is in keeping with their notion that strategy formation combines various aspects of their different schools. In the concluding section of their book they note: 'Strategy formation is judgemental designing, intuitive visioning, and emergent learning; it is about transformation as well as perpetuation; it must involve individual cognition and social interaction, cooperation as well as conflict; it has to include analyzing before and programming after as well as negotiating during; and all of this must be in response to what can be a demanding environment. Just try to leave any of this out and watch what happens.'

This book sets out some productive, effective and rounded frameworks of enquiry, each of which is best used to fuel a debate within an organisation about its strategic direction, its strategic potential, its strategic options or its strategic achievement. So, when models are generated – and each framework contributes to shaping a model (or at least some organised evidence) of what is happening or could happen or did happen – they are intended to be treated as simulators (or playthings or toys, to use Eden's, 1993 simile). Our frameworks and models are therefore created specifically to help managers to *develop and rehearse* their ideas: to test them out both in the structured context of the model and in the unstructured and possibly combative debate about appropriate strategy that goes on in and across any organisation.

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