1   The Concept of Strategy

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

OUTLINE

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. This framework comprises two 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). We shall then examine what strategy is, how it has developed over time, how to describe the strategy of a business enterprise, and how organizations go about making strategy.

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

◆ Appreciate the contribution that strategy can make to successful performance and recognize the essential components 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 them 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 entered the music business with outstanding talents as a vocalist, musician, or songwriter.

Nor can their success be attributed either exclusively or primarily to luck. Both have experienced difficulties and setbacks at different stages of their careers. Central to their success, however, 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 upon clear goals and an ability to bend circumstances toward their desired outcomes.

Elizabeth Windsor's strategy as queen of the UK and the Commonwealth countries is apparent in the relationship she has created between herself and her people. As queen she is figurehead for the nation, an embodiment of its stability and continuity, a symbol of British family and cultural life, and an exemplar of service and professional dedication.

Lady Gaga's remarkable success during 2008–18 reflects a career strategy that uses music as a gateway to celebrity status, which she has built by combining the generic tools of star creation—shock value, fashion leadership, and media presence—with a uniquely differentiated image that has captured the attention and loyalty 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 Lady 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, and also building those resources—for the Queen, this has included her family, the royal household, and the recipients of royal patronage; for Lady Gaga, it comprises the creative talents of 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 coordinating and leading "ecosystems" of supportive individuals and organizations.

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 of a

STRATEGY CAPSULE 1.1

Queen Elizabeth II and the House of Windsor

By late 2018, Elizabeth Windsor had been queen for 66 years—longer than any of her predecessors.

At her birth on April 21, 1926, 45 other countries were hereditary monarchies. By 2018, 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 is about $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 so many challenges? These include wrenching social and political changes and the trials of leading such a famously dysfunctional family—including the failed marriages of most of her children 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. In cultivating her role as leader of her nation, she has preserved her political neutrality—even when she has disagreed with her prime ministers (notably with

purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on these four elements almost always play an influential role.

Look at the "high achievers" in any competitive area. Whether we review the world's political leaders, the CEOs of the Fortune 500, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively, typically by combining these four strategic factors. They are goal focused; their career goals have taken primacy over the multitude of life's other goals—friendship, love, leisure, knowledge, spiritual fulfillment—which the majority of us spend most of our lives juggling and reconciling. They know the environments within which they play and tend to be fast learners in terms of recognizing the paths to advancement. They know themselves well in terms of both strengths and weaknesses. Finally, they implement

Margaret Thatcher's "socially divisive" policies and Tony Blair's sending troops to Iraq and Afghanistan).

Through her outreach activities she promotes British influence, British culture, and British values within the wider world. She has made multiple visits to each of the 54 Commonwealth nations, including 27 to Canada and 16 to Australia.

The growing unacceptability of hereditary privilege and the traditional British class system has required her to reposition the royal family from being the leader of the ruling class to embodying the nation as a whole. To make her and her family more inclusive and less socially stereotyped she has cultivated involvement with popular culture, with ordinary people engaged in social service and charitable work, and she has endorsed the marriage of her grandsons William and Harry—the first members of the royal family to marry outside the ranks of the aristocracy.

Elizabeth has been adept at exploiting new media for communicating both with her subjects and with a wider global audience: initially through television, more recently using the web, Twitter, and Facebook. Her press and public relations staff comprises 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 mother and grandmother and her need to show leadership to a grieving nation. In responding to this crisis she recognized the need to depart from established traditions.

Elizabeth has made effective use of the resources available to her—especially 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 66-year reign is indicated by the popular support for her personally and for the institution of the monarchy. Outside of Northern Ireland and Quebec, republicanism is weak throughout the British Commonwealth.

their career strategies with commitment, consistency, and determination. As the management guru Peter Drucker observed: "we must learn how to be the CEO of our own career."[1]

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 Joseph Stalin in politics, Elvis Presley and Marilyn Monroe in entertainment, Tiger Woods and Boris Becker in sport, and Bobby Fischer in chess. For most of us, personal fulfillment is likely to require broad-based rather than narrowly focused goals.[2]

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.

STRATEGY CAPSULE 1.2
Lady Gaga and the Haus of Gaga

Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is one of the most successful popular entertainers of the 21st century. Since her first album, *The Fame*, in 2008, all four of her albums have topped the Billboard charts; she has also topped *Forbes Celebrity 100* list, and generated $560 million in ticket sales from her five concert tours between 2009 and 2017.

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.

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 vocals, 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 she has created a multimedia, multifaceted offering that comprises multiple 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 are promoted by visually stunning music videos that have won Grammy awards and broken records for numbers of YouTube downloads. 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 hair-dos, extravagant hats, and extreme footwear—are as well-known as her hit songs. The range of visual images she projects means that her every appearance creates a buzz of anticipation.

Lady Gaga has developed a business model adapted to 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. By 2012, her YouTube views, Facebook likes, and Twitter followers had made her the "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 takes account of the means through which media popularity 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 positioning 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: Gaga's images are social statements of non-conformity rather than fashion statements. In communicating her experiences of alienation and bullying at school and her values of individuality, sexual freedom, and acceptance of differences, she has built a global fan base of unusual 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 showmanship and theatricality are supported by The Haus of Gaga, a creative workshop modeled on Andy Warhol's "Factory." It comprises a creative director who coordinates a team of choreographers, fashion designers, hair stylists, photographers, set designers, songwriters, musicians, and marketing professionals.

Sources: M. Sala, "The Strategy of Lady Gaga," BSc thesis Bocconi University, Milan, June 2011; http://www.biography.com/people/lady-gaga-481598, accessed August 24, 2017.

FIGURE 1.1   Common elements in successful strategies
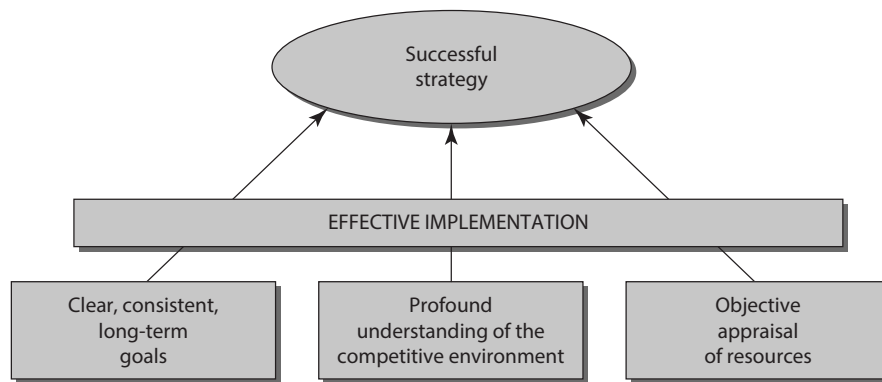
The Basic Framework for Strategy Analysis

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.

FIGURE 1.2   The basic framework: Strategy as a link between the firm and its environment

STRATEGY CAPSULE 1.3
What's Wrong with SWOT?

Distinguishing between the external and the internal environment of the firm is common to most approaches to strategy analysis. The best-known and most widely used of these is the "SWOT" framework, which classifies the various influences on a firm's strategy into four categories: Strengths, Weaknesses, Opportunities, and Threats. The first two—strengths and weaknesses—relate to the internal environment of the firm, primarily its resources and capabilities; the last two—opportunities and threats—relate to the external environment.

Which is better, a two-way distinction between internal and external influences or the four-way SWOT taxonomy? The key issue is whether it is sensible and worthwhile to classify internal factors into strengths and weaknesses and external factors into opportunities and threats. In practice, these distinctions are problematic.

Was Zlatan Ibrahimovic a strength or a weakness for Manchester United? As the team's top scorer during the 2016–17 season and ranking among the world's top-10 players, he was a strength. But as a player whose best days were behind him and whose dominant presence intimidated his younger team-mates, he was a weakness.

Is global warming a threat or an opportunity for the world's automobile producers? By encouraging higher taxes on motor fuels and restrictions on car use, it is a threat. By encouraging consumers to switch to fuel-efficient and electric cars, it offers an opportunity for new sales.

The lesson here is that classifying external factors into opportunities and threats, and internal factors into strengths and weaknesses, is arbitrary. What is important is to carefully identify the external and internal forces that impact the firm, and then analyze their implications.

In this book, I will follow a simple two-way classification of internal and external factors and avoid any premature categorization into strengths or weaknesses, and opportunities or threats.

Note: For more on SWOT see: T. Hill and R. Westbrook, "SWOT Analysis: It's Time for a Product Recall," *Long Range Planning*, 30 (February 1997): 46–52; and M. Venzin, "SWOT Analysis: Such a Waste of Time?" (February 2015) http://ideas.sdabocconi.it/strategy/archives/3405.

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 companies' decline and failure is a strategy that lacks consistency with either the internal or the external environment. The woes of the Italian airline, Alitalia, may be attributed to a strategy that failed to respond to competition from budget airlines such as Ryanair and EasyJet. 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. An effective strategy is one in which all the decisions and actions that make up the strategy 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

FIGURE 1.3   Ryanair's activity system
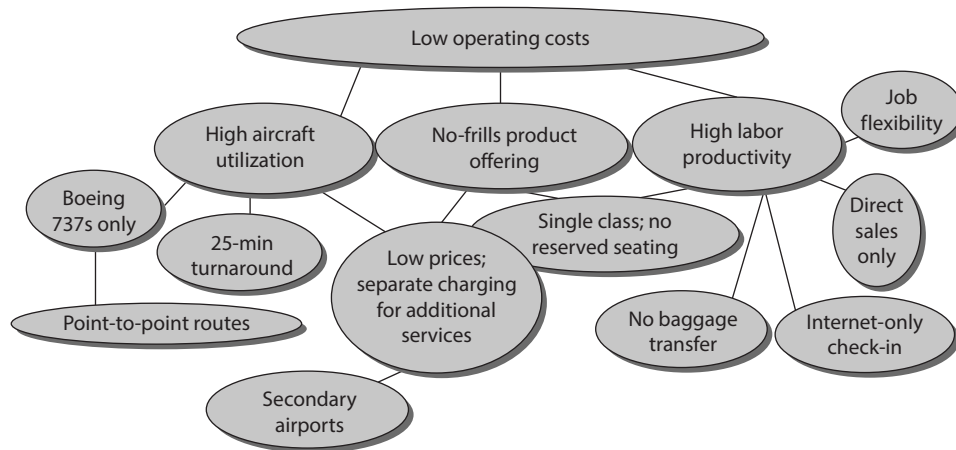
states that "Strategy is the creation of a unique and differentiated position involving a different set of activities."[3] The key is how these activities fit together to form a consistent, mutually reinforcing system. Ryanair's strategic position is as Europe's lowest-cost airline providing no-frills flights to budget-conscious travelers. This is achieved by a set of activities that 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 predates 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 benefits of 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.

Despite parallels between military and business strategy, we lack 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. Since then, **game theory** has revolutionized the study of competitive interaction, not just in business but in politics, military studies, 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 new techniques of corporate planning proved particularly useful for guiding the diversification strategies that many large companies pursued during the 1960s.[8] 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.

By the early 1980s, confidence in corporate planning had been 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 Western companies came under increasing pressure from Japanese, Korean, and Southeast Asian competitors. Companies could no longer plan their investments and actions five years ahead—they couldn't forecast that far.

The result was a shift in emphasis from planning a company's growth path to positioning the company so that it could best exploit available opportunities 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. At the end of the 1970s, Michael Porter pioneered the application of industrial organization economics to analyzing the profit potential of different

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.

Source: H. W. Henry, *Long Range Planning Processes in 45 Industrial Companies* (Englewood Cliffs, NJ: Prentice-Hall, 1967): 65.
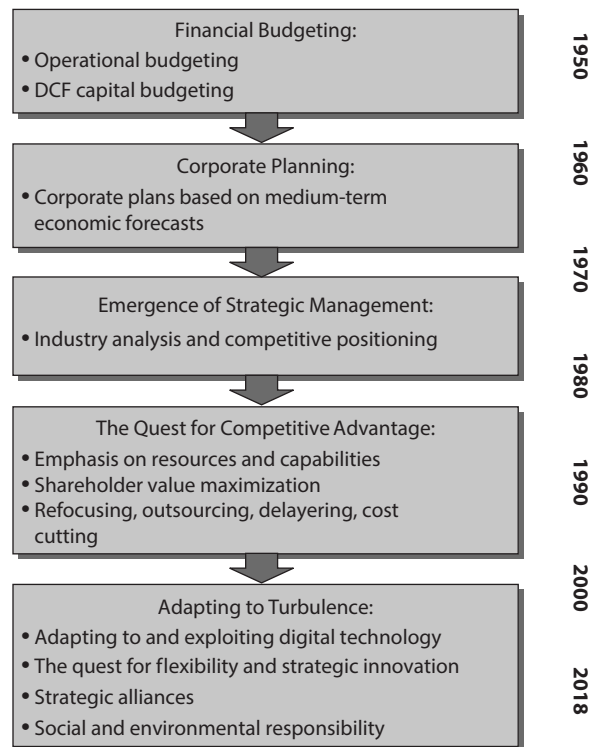
industries and markets.[9] Other studies examined how strategic variables—notably market share—determined how profits were distributed between the firms within an industry.[10]

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. The **resource-based view of the firm** identified the resources and capabilities of the firm as its main source of competitive advantage and the primary basis for formulating strategy.[11] This emphasis on internal resources and capabilities has encouraged firms to identify how they are *different* from their competitors and to 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.[12] Disruptive technologies[13] and accelerating rates of change have meant that strategy has become less and less about plans and more about creating options of the future,[14] fostering strategic innovation,[15] and seeking the "blue oceans" of uncontested market space.[16] The complexity of these challenges has 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 closer scrutiny of purpose of business. Disillusion with the excesses and unfairness of market capitalism has renewed interest in corporate social responsibility, ethics, sustainability, and the legitimacy of profit as the dominant goal of business.[17]

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

FIGURE 1.4 Evolution of strategic management

Financial Budgeting:
• Operational budgeting
• DCF capital budgeting

1950

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

1960

1970

Emergence of Strategic Management:
• Industry analysis and competitive positioning

1980

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

1990

2000

Adapting to Turbulence:
• Adapting to and exploiting digital technology
• The quest for flexibility and strategic innovation
• Strategic alliances
• Social and environmental responsibility

2018

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 involves setting goals, allocating resources, and establishing consistency and coherence among 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 introductory examples to 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 strategy must embrace flexibility and responsiveness. But it is precisely under these conditions that strategy becomes more, rather than less, important. When the firm is buffeted by unforeseen threats and where new opportunities are constantly appearing, then strategy becomes the compass that can navigate the firm through stormy seas.

TABLE 1.1   Some definitions of strategy

- Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect.
  —*Wordsmyth Dictionary* (www.wordsmyth.net)

- The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
  —Alfred Chandler, *Strategy and Structure*
  (Cambridge, MA: MIT Press, 1962)

- Strategy: "a cohesive response to an important challenge."
  —Richard Rumelt, *Good Strategy/Bad Strategy*
  (New York: Crown Business, 2011): 6.

- Lost Boy: "Injuns! Let's go get 'em!"
  John Darling: "Hold on a minute. First we must have a strategy."
  Lost Boy: "Uhh? What's a strategy?"
  John Darling: "It's, er … it's a plan of attack."

  —Walt Disney's *Peter Pan*

Why Do Firms Need Strategy?

This transition from strategy as plan to strategy as direction raises the question of why firms (or other types 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.[18] 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.[19] 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 acting 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.

Strategy as a Coordinating Device   The central challenge of management is coordinating the actions of multiple 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 provides 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 forward-looking strategy establishes direction for the firm's development and sets 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."[20] The implication is that strategy should embrace stretch and resource leverage and not be overly constrained by considerations of strategic fit.[21] Jim Collins and Jerry Porras make a similar point: US companies that have been sector leaders for 50 years or more have all generated commitment and drive through setting "Big, Hairy, Ambitious Goals."[22] 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, goals on their own do not constitute a strategy. Unless an organization's goals are backed by guidelines for their attainment, they are likely to be either meaningless or delusional.[23]

Where Do We Find Strategy?

Strategy has its origins in the thought processes of organizational leaders. For the entrepreneur, the starting point of strategy is the idea for a new business. Until the new business needs to raise finance, there is little need for any explicit statement of strategy. At that point, the entrepreneur articulates the strategy in a business plan. In large companies, strategy formulation is an explicit management process and 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 describes objectives, business scope, and advantage.[24]

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. Strategy Capsule 1.5 shows statements of strategy by McDonalds and Twitter.

STRATEGY CAPSULE 1.5

Statements of Company Strategy: McDonald's and Twitter

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.

Source: www.mcdonalds.com.

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]ncrease 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.

All these are intentions and, as we shall see, strategic intent is not necessarily realized. Ultimately, strategy is realized as action. Hence, strategy is observable in where and how a firm chooses to compete. For example, 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.

Checking a company's pronouncements about strategy against its 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 a firm 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 matches 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.

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. To survive and prosper over the long term,

FIGURE 1.5 The sources of superior profitability
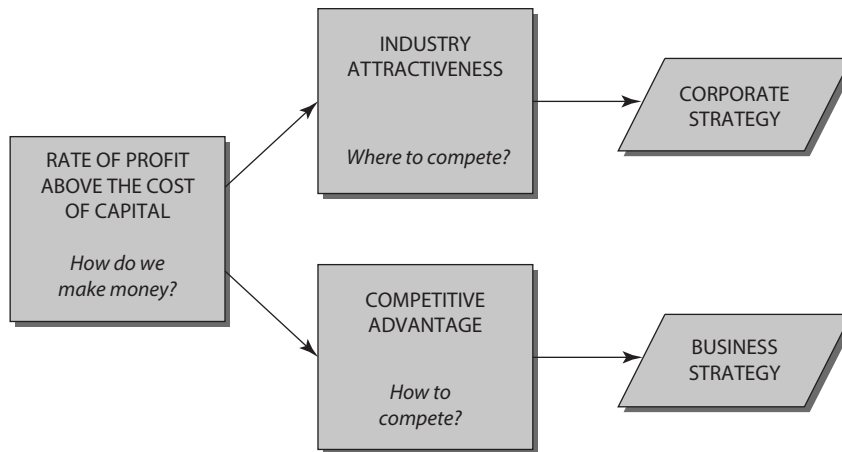
a firm must earn a rate of return on its capital that exceeds its cost of capital. There are two possible ways of achieving this. First, by locating within industries that offer attractive rates of profit (corporate strategy). Second, by establishing a competitive advantage over rivals within an industry (Figure 1.5). This distinction may be expressed even more simply. The basic question facing the firm is "How do we make money?" This prompts the two basic strategic choices we identified above: "Where to compete?" and "How to compete?"

As an integrated approach to firm strategy, this book deals with both business and corporate strategy. However, our 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.
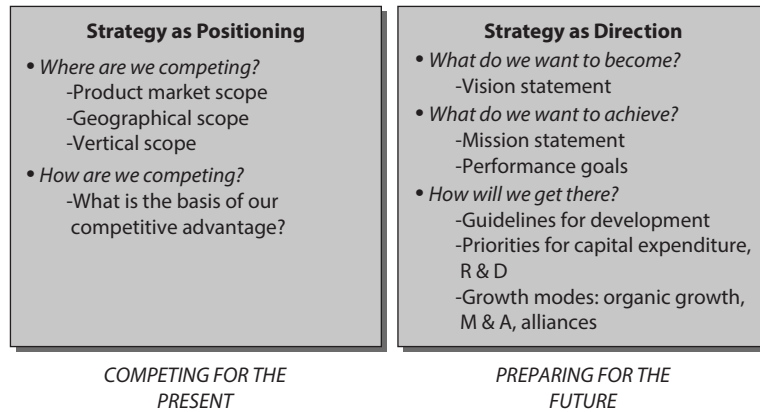
Describing Strategy

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. The *how* question relates to the nature of the firm's competitive advantage: Is it seeking a cost advantage or a differentiation advantage? How is the firm using its distinctive resources and capabilities to establish a competitive advantage?

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. As we shall see in Chapter 8, reconciling these two dimensions of

FIGURE 1.6   Describing firm strategy: Competing in the present, preparing for the future

Strategy as Positioning	Strategy as Direction

• *Where are we competing?*
  -Product market scope
  -Geographical scope
  -Vertical scope
• *How are we competing?*
  -What is the basis of our
   competitive advantage?
	• *What do we want to become?*
	  -Vision statement
	• *What do we want to achieve?*
	  -Mission statement
	  -Performance goals
	• *How will we get there?*
	  -Guidelines for development
	  -Priorities for capital expenditure,
	   R & D
	  -Growth modes: organic growth,
	   M & A, alliances

COMPETING FOR THE PRESENT	*PREPARING FOR THE FUTURE*

strategy—what Derek Abell calls "competing with dual strategies"—is one of the central dilemmas of strategic management.[25]

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, successful companies are seldom the 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 design aesthetics to create electronic products that offered a unique consumer experience. Yet, there is little evidence that Apple's incredible success since 2004 was the result of an explicit strategy. Apple's huge success with its iPod, iPhone, and iPad was the outcome of a set of strategic decisions that combined Steve Job's penetrating insight into consumer preferences and technological trends with Apple's capabilities in design, marketing, the integration of hardware and software, and the management of an ecosystem of partners.

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 with opportunism and creativity?

Design versus Emergence

Henry Mintzberg is a leading critic of rational, analytical 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 inspiration, negotiation, bargaining, and compromise among those 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 it to changing circumstances.[26]

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."[27] 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 *process* or *learning school* of strategy) has centered on the case of Honda's successful entry into the US motorcycle market during the early 1960s.[28] 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.[29] 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.[30] 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."[31]

In practice, strategy-making involves both thought and action: "Strategy exists in the cognition of managers but also is reified in what companies do."[32] Top-down rational design is combined with decentralized adaptation:

- The design aspect of strategy comprises organizational processes through which strategy is deliberated, discussed, and decided. These include board meetings, a strategic planning process, and informal participative events, such as strategy workshops. I will discuss processes of strategic planning more fully in Chapter 6.
- The enactment of strategy through decisions and actions being taken throughout the organization is a decentralized process where middle managers play a central role. These emergent processes are typically viewed as occurring when formal strategic plans are being implemented. However, these emergent processes may come first. Intel's historic decision to abandon memory chips and concentrate on microprocessors was initiated in the operational decisions of business unit and plant managers and subsequently adopted as strategy by top management.[33]

I refer to this process of strategy-making that combines design and emergence as "planned emergence."[34] 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, the Somali Telecom Group, and Islamic State, 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.[35] 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 reduced to 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?"[36]

Applying Strategy Analysis

Despite the criticisms leveled at rational, analytical approaches to strategy formulation, the emphasis of this book will be the application of analytical tools to strategy issues. 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, deliberate or emergent, systematic analysis leads to better decisions and helps protect strategic decision-making from power battles, whims, fads, and wishful thinking. Concepts, theories, and analytic tools are complements to, and not substitutes for, intuition and creativity, and they provide a framework for organizing discussion, processing information, and developing consensus.

We must also recognize limitations of strategy analysis. Unlike many of the analytical techniques in accounting, finance, market research, or production management, strategy analysis does not offer algorithms or formulae that tell us the optimal strategy to adopt. The purpose of strategy analysis is not to provide answers but to help us to probe the relevant issues. By providing a framework that allows us to examine the factors that influence a strategic situation and organize relevant information, strategy analysis places us in a superior position to a manager who relies exclusively on experience and intuition. Finally, to the extent that our analytic tools are not specific to individual businesses or situations, they 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.

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? Developing a strategy for a business typically involves four main stages. These are shown in Figure 1.7.[37]

1. *Setting the strategic agenda*. Any strategy-making exercise must begin by identifying the important issues that the strategy must address. For an existing company, this involves assessing whether the current strategy is working, which requires that we:

   - *Identify the current strategy.* A vital preliminary step is to establish consensus around what the current strategy is. The above sections on *Where Do We Find Strategy?* and *Describing Strategy* offer guidance in this.

- *Appraise performance.* How well is the current strategy performing? In the next chapter, we shall how to apply financial analysis to assess firm performance.

2. *Analyzing the situation*

- *Diagnose performance.* Having determined the level and trend of the firm's performance, the next challenge is *diagnosis*: In the case of poor performance, what are the sources of unsatisfactory performance? In the case of good performance, what are the factors driving this? Chapter 2 offers guidance on performance. Dick Rumelt puts it even more succinctly: the core question in most strategy situations is, "What's going on here?"[38]
- *Industry analysis.* To determine whether the current strategy needs to be changed, we need to look not just at how it is currently performing, but how it will perform in the future. This requires looking at the likely changes in the firm's industry and their implications. Chapters 3 and 4 address industry analysis.
- *Analysis of resources and capabilities.* Having established likely external changes, what do these mean for the firm's competitive position? This requires analysis of the firm's resources and capabilities—which we address in Chapter 5.

3. *Formulating strategy.* Performance diagnosis, industry analysis, and resource and capability analysis provide a basis for generating strategic options, the most promising of which can be developed into a recommended strategy. Recommended strategies tend to avoid precise specifications of what is to be done, they are more likely to articulate the primary basis for a firm's competitive advantage and what this means for how it will compete. Chapter 7 discusses how the intersection of internal strengths and external success factors create the basis for a firm's competitive advantage.

4. *Implement strategy.* Without action, a strategy is merely an idea expressed in words. Implementing strategy requires allocating resources and motivating people. As we shall see in Chapter 6, this requires putting in place the organizational structure and management systems within which action can take place.

FIGURE 1.7   Applying strategy analysis
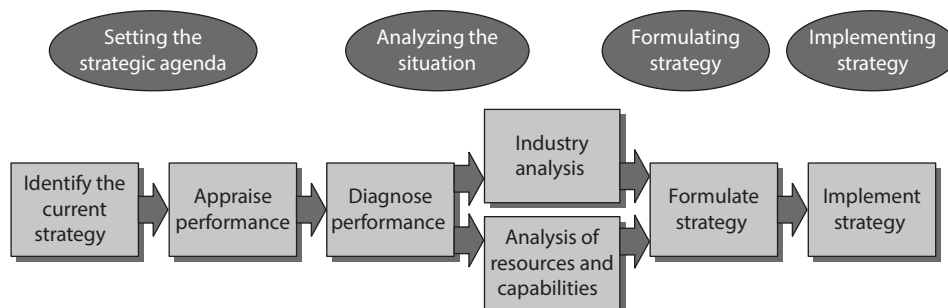
Strategic Management of Not-For-Profit Organizations

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 nonprofit 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 nongovernmental, nonprofit 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

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

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

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 (nongovernmental 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.

Among the tools of strategy analysis that are applicable to all types of not-for-profit organizations, those that 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

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STRATEGY CAPSULE 1.6

The Strategic Plan of the International Red Cross

The International Federation of Red Cross and Red Crescent Societies (IFRC) coordinates activities of 190 National Red Cross and Red Crescent Societies. "*Strategy* *2020* provides the basis for the strategic plans of National Societies." It included the following:

Fundamental Principles	Humanity, Impartiality, Neutrality, Independence, Voluntary service, Unity, Universality		
Vision	To inspire, encourage, facilitate and promote at all times all forms of humanitarian activities by National Societies, with a view to preventing and alleviating human suffering, and thereby contributing to the maintenance and promotion of human dignity and peace in the world.		
Strategic Aims	1. Save lives, protect livelihoods, and strengthen recovery from disasters and crises	2. Enable healthy and safe living	3. Promote social inclusion and a culture of non violence and peace
Enabling Actions	Build strong National Red Cross and Red Crescent Societies	Pursue humanitarian diplomacy to prevent and reduce vulnerability in a globalized world	Function effectively as the IFRC
Expected Impact	Expanded sustainable national and local capacities of National Societies A stronger culture of voluntary service and participation in National Societies. Scaled-up services for the most vulnerable people	Greater access to help people who are vulnerable and earlier attention to causes of vulnerability Deeper public, government, and partner support More resources to address vulnerabilities Stronger recognition of community perspectives	Stronger cooperation, coordination and support arrangements Improved accountability for IFRC activities Greater IFRC contribution to meeting vulnerability needs at global, national and local levels

Source: International Federation of Red Cross and Red Crescent Societies, *Strategy 2020* (Geneva, 2010).

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 10-year strategic planning framework for the International Red Cross.

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, hence, must deploy their resources and capabilities to establish a competitive advantage. However, even for those organizations that are monopolists—such as 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: determination of goals, industry analysis, analysis of resources and capabilities, and strategy implementation.

◆ Strategy is no longer concerned with using forecasts as the basis for detailed planning; 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

I. INTRODUCTION
Ch. 1 The Concept of Strategy

II. THE TOOLS OF STRATEGY ANALYSIS

Analysis of the Firm

Ch. 2 Goals, Values, and Performance

Ch. 5 Analyzing Resources and Capabilities

Ch. 6 Organization Structure and Management Systems:
    The Fundamentals of Strategy Implementation

Analysis of Industry and Competition

Ch. 3 Industry Analysis:
    The Fundamentals

Ch. 4 Further Topics in Industry and
    Competitive Analysis

III. BUSINESS STRATEGY AND THE QUEST FOR COMPETITIVE ADVANTAGE
Ch. 7 The Sources and Dimensions of Competitive Advantage
Ch. 8 Industry Evolution and Strategic Change
Ch. 9 Technology-based Industries and the Management of Innovation

IV. CORPORATE STRATEGY
Ch. 10 Vertical Integration and the Scope of the Firm
Ch. 11 Global Strategy and the Multinational Corporation
Ch. 12 Diversification Strategy
Ch. 13 Implementing Corporate Strategy: Managing the Multibusiness Firm
Ch. 14 External Growth Strategies: Mergers, Acquisitions, and Alliances
Ch. 15 Current Trends in Strategic Management

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 since the invasion of Iraq in 2003.

2. 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?

3. 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 Spotify SA, the Swedish-based music streaming service?

4. 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).

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

6. Your business school is considering appointing as dean someone whose entire career has been spent in business management. What challenges might the new dean face in applying her strategic management skills to a business school?

Notes

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4. See A. H. Van De Ven and R. Drazin, "The Concept of Fit in Contingency Theory," *Research in Organizational Behavior* 7 (1985): 333–365.
5. Sun Tzu, *The Art of Strategy: A New Translation of Sun Tzu's Classic "The Art of War,"* trans. R. L. Wing (New York: Doubleday, 1988).
6. W, Pietersen, "Von Clausewitz on War: Six Lessons for the Modern Strategist," *Columbia School of Business* (February 2016); and E. Clemons and J. Santamaria, "Maneuver Warfare," *Harvard Business Review* (April 2002): 46–53.
7. On the contribution of game theory to business strategy analysis, see F. M. Fisher, "Games Economists Play: A Noncooperative View," *RAND Journal of Economics* 20 (Spring 1989): 113–124; C. F. Camerer, "Does Strategy Research

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12. E. Lee, J. Lee, and J. Lee, "Reconsideration of the Winner-Take-All Hypothesis: Complex Networks and Local Bias," *Management Science* 52 (December 2006): 1838–1848; C. Shapiro and H. R. Varian, *Information Rules* (Boston: Harvard Business School Press, 1998).

13. C. Christensen, *The Innovator's Dilemma* (Boston: Harvard Business School Press, 1997).

14. P. J. Williamson, "Strategy as Options on the Future," *Sloan Management Review* 40 (March 1999): 117–126.

15. C. Markides, "Strategic Innovation in Established Companies," *Sloan Management Review* (June 1998): 31–42.

16. W. C. Kim and R. Mauborgne, "Creating New Market Space," *Harvard Business Review* (January/February 1999): 83–93.

17. See, for example, N. Koehn, "The Brain—and Soul—of Capitalism," *Harvard Business Review* (November 2013); and T. Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014).

18. "Strategic Intensity: A Conversation with Garry Kasparov," *Harvard Business Review* (April 2005): 105–113.

19. The concept of bounded rationality was developed by Herbert Simon ("A Behavioral Model of Rational Choice," *Quarterly Journal of Economics* 69 (1955): 99–118.

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