

Welcome to *Exploring Strategy*

Strategy is a crucial subject. It's about the development, success and failure of all kinds of organisations, from multinationals to entrepreneurial start-ups, from charities to government agencies, and many more. Strategy raises the big questions about these organisations – how they grow, how they innovate and how they change. As a manager or an entrepreneur, you will be involved in shaping, implementing or communicating these strategies.

Our primary aim with *Exploring Strategy* is to give you a comprehensive understanding of the issues and techniques of strategy. We can also help you get a great final result in your course. You can make the most of the text by:

- Exploring hot topics in cutting-edge issues such as business models, indigenous leadership theory, platform strategy, entrepreneurship and strategy practice.
- Drawing on our new 'Working with Strategy' chapter providing practical advice about how to think strategically and carry out case analyses and strategy assignments.
- Engaging with our 'Thinking Differently' sections to access novel and distinctive perspectives on core themes in strategy.
- Using the 'Strategy Lenses' to think critically and originally about key topics and to set you on your way to better grades in your assignments and exams.
- Pursuing some of the recommended readings at the end of each chapter. They're specially selected as accessible and valuable sources that will enhance your learning and give you an extra edge in your course work.

We want *Exploring Strategy* to give you what you need: a comprehensive view of the subject, an ambition to put that into practice, and – of course – success in your studies. We hope that you'll be as excited by the key issues of strategy as we are!

So, read on and good luck!

*Richard Whittington
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EXPLORING STRATEGY

TEXT AND CASES

THIRTEENTH EDITION

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Cross-cutting themes

Three important contemporary themes cut across the individual chapters of Exploring Strategy: non-profits, sustainability and digital transformation. They are introduced and defined in Chapter 1.3.4. Meanwhile, we summarise relevant materials as they appear in the chapters (see also the main index).

	Non-profit	Sustainability	Digital Transformation
Chapter 1 Pages	8-9, 11,17	17-18	18
Chapter 2 Pages	44-45	44-45	55-57
Chapter 3 Pages	72; 80-81; 97-89	73-75; 76	66
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Preface

We are delighted to offer this thirteenth edition of *Exploring Strategy*. With sales of previous editions now approaching one and a half million worldwide, and a ranking by the *Financial Times* (31 May 2021) as the most influential strategy textbook worldwide, we believe we have a tried and tested product. Yet the strategy field is constantly changing. For this edition, therefore, we have thoroughly refreshed all chapters, with new concepts, new cases and new examples throughout. Here we would like to highlight three principal changes, while recalling some of the classic features of the book.

As well as more detailed changes, the thirteenth edition has the following principal changes:

- **a strong focus on non-profits, sustainability and digital transformation:** this book features *three cross-cutting themes* reflecting contemporary strategic conditions and issues that are increasingly important and attractive to students
- **practical guidance on working with strategy:** a new Chapter 2 introduces students to the fundamental tools of strategic thinking, explains the use of frameworks in strategy and guides students in case study analysis and presentations
- **an appreciation of 'non-Western' approaches to strategic issues:** we introduce readers to concepts and approaches that come from outside the mainstream of strategic thinking, for example Jugaard innovation, the ubuntu view on stakeholders, hoshin kanri and indigenous leadership theories.

At the same time, *Exploring Strategy* retains its longstanding commitment to a comprehensive and real-world view of strategy. In particular, this entails a deep concern for:

- **Process:** we believe that the human processes of strategy, not only the economics of particular strategies, are central to achieving long-term organisational success. Throughout the book, we underline the importance of human processes, but in particular we devote Part III to processes of strategy formation, implementation and change.
- **Practice:** we conclude the book with a chapter on the Practice of Strategy (Chapter 17), focused on the practicalities of managing strategy. Throughout the book, we introduce concepts and techniques through practical illustrations and applications, rather than abstract descriptions.

Many people have helped us with the development of this new edition. Jason Evans and Clive Kerridge have led in coordinating the case collection. We have consulted carefully with reviewers and our Advisory Board, made up of experienced lecturers, many of whom are adopters of the book. Many other adopters of the book provide more informal advice and suggestions – many of whom we have had the pleasure of meeting at our annual teachers' workshops. This kind of feedback is invaluable and we hope you will keep the comments flowing. Also, our students and clients at Nottingham University, Oxford University, Stockholm School of Economics, Sheffield Hallam and the many other places where we teach are a constant source of ideas and stimulus. We also gain from our links across the world, particularly in Austria, Ireland, the Netherlands, Denmark, Sweden, France, Canada, China, Australia, New Zealand, Hong Kong, Malaysia, Morocco, Singapore and the USA. Many contribute directly by providing case studies and illustrations and these are acknowledged in the text.

Finally, we thank those organisations that have been generous enough to be written up as case studies. We hope that those using the book will respect the wishes of the case study organisations and *not* contact them directly for further information.

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We would like to thank the following academics who reviewed for this edition of *Exploring Strategy* or the first release of *Exploring Strategy Revel*:

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University of York

University of Portsmouth

Coventry University

Glasgow Caledonian University

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Exploring Strategy features

This thirteenth edition of *Exploring Strategy* builds on the established strengths of this best-selling textbook. A range of in-text features and supplementary features have been developed to enable you and your students to gain maximum added value from the teaching and learning of strategy.

- **Outstanding pedagogical features.** Each chapter has clear learning outcomes, practical questions associated with real-life illustrations and examples that students can easily apply to what they have learnt.
- **Flexibility of use.** You can choose to use either the Text and Cases version of the book, or – if you don't use longer cases (or have your own) – the Text-only version.

The two versions are complemented by a concise version of the text, *Fundamentals of Strategy*, and instructors also have the option of further customising the text. Speak to your local Pearson Sales Representative if you would like to explore customisation options.

- **Up-to-date materials.** We have fully revised all chapters, incorporating new research and updating references so that you can easily access the latest research.
- **Encouraging innovative and critical thinking.** The Strategy Lenses and commentaries are designed to encourage critical thinking, while each chapter ends with a 'Thinking Differently' section, introducing students to new and distinctive approaches to key issues of the chapter.
- **Our 'three circles' framework** – depicting the overlapping issues of strategic position, strategic choices and strategy-in-action – also challenges a simple linear, sequential view of the strategy process.
- **Case and examples.** A wide range of Illustrations, Case Examples and (in the Text and Cases version) longer Case Studies are fresh and engage with student interests and day-to-day experience. Many of these are entirely new to this edition; others have been extensively revised. We draw these examples from all over the world and use examples from the public and voluntary sectors as well as the private.
- **Teaching and learning support.** You and your students can access a wealth of resources detailed in the Exploring Strategy Online section that follows this.
- **Teachers' workshop.** We run an annual workshop to facilitate discussion of key challenges and solutions in the teaching of strategic management.

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Exploring Strategy Online

A wide range of supporting resources are available at: www.pearsoned.co.uk/exploringstrategy.

Resources for students

- **Multiple-choice questions** that test your understanding of key content
- **Key concept audio summaries** that you can download or listen to online
- **Video cases** that show managers talking about strategic issues in their own organisations
- **Revision flashcards** to help you prepare for your exams
- **A multilingual online glossary** to help explain key concepts
- Guidance on **how to analyse a case study**
- **Links** to relevant sites on the web so you can explore more about the organisations featured in the case studies
- **Classic cases** – over 30 case studies from previous editions of the book.

Resources for instructors

- **Instructor's manual** which provides a comprehensive set of teaching support, including guidance on the use of case studies and assignments, and advice on how to plan a programme using the text
- **PowerPoint slides** containing key information and figures from the book
- **Classic cases** from previous editions of the book.

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Digital Courseware

Revel is an interactive learning environment designed for how you want to teach – and how your students want to learn. Cleverly combining reading material with interactive videos, quizzes and writing activities, it enriches the learning experience and boosts student performance.

We have launched *Exploring Strategy* in Revel, which offers interactive media, including videos and writing activities, within the narrative content to reinforce key concepts and encourage exploration and application of a complex and diverse subject area. It caters to today's modern strategy students, who need a hands-on, applied and current exploration to the subject.

Unlike any existing resource, Revel for Strategy allows lecturers to bring strategy to life and drive engagement across large classes, increasing students' understanding of the key concepts, encouraging them to reflect on their actions, build confidence, and helping them to evaluate the impact of their decisions.

MyStrategyExperience is an engaging and rigorous simulation designed to bring together the theory and practice of strategy making in the realistic environment of a dynamic organisation and industry. The simulation puts students on the board of directors in a global advertising agency and allows them to make a strategic analysis of the business, put together a business plan and then make a number of challenging decisions on the future strategy of the company.

As students set and implement strategy, they will see the impact of their decisions on financial and non-financial measures of performance within the simulated company. Your students will need to balance strategic opportunities with inherent risk, thus gaining knowledge and insights relevant to their strategic studies.

The simulation draws on the content of *Exploring Strategy* and the two can be used to complement each other on a strategy course.

For more information about Revel or MyStrategyExperience, contact your local Pearson Sales Representative or visit <https://www.pearson.com/uk/educators/higher-education-educators/products-and-services/course-resources-and-content.html>.

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Chapter 1

Introducing strategy

Key terms

business-level strategy 12
corporate-level strategy 12
digital transformation 18
exploring strategy framework 13
functional-level strategy 12
mission statement 9
non-profit organisations 17
purpose 8
strategy definition 6
strategy statements 9
sustainable development 18
three-horizons framework 6
vision statement 9

Learning outcomes

After reading this chapter, you should be able to:

- Recognise *the purpose* of an organisation.
- Summarise the strategy of an organisation in a '*strategy statement*'.
- Distinguish between *corporate*, *business* and *functional* strategies.
- Identify key issues for an organisation's strategy using the *Exploring Strategy Framework*.
- Understand different people's roles in *strategy work*.
- Appreciate the importance of different *organisational contexts*, *academic disciplines* and *theoretical lenses* to practical strategy analysis.

	Non-profit	Sustainability	Digital Transformation
Pages	8-9, 11, 17	17-18	18

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1.1 Introduction

The Chief Executive Officer (CEO) of a medium-sized manufacturing business knew they had problems. Home-market demand was falling for their products just as new aggressive competitors were introducing highly innovative ones of their own. The company was also facing interruptions in its overseas supply chain. The CEO wondered what to do: find new international markets for growth; invest more in product innovation to match competitors; use more local suppliers. A consulting company was hired to provide strategy advice and Claudia, a junior in the consulting team, knew she would have to carry out a systematic strategic analysis to understand the company's business model, assess the challenges posed by competition and shifting market demand, and identify broader opportunities and threats from the wider environment. She would need to base her recommendations on data and analysis. Claudia would also have to propose an implementation plan for the strategy.

The problems presented by the CEO to the consultants are ones of strategy. Strategy is concerned with key issues for the future of the organisation. For instance, how should the company compete in the future with aggressive new entrants? What growth options are there for the company? If internationalisation is a good strategy, what would be the optimal method to achieve this and what might be the resourcing implications? All of these strategy questions are vital to the future survival of the organisation.

Strategy questions naturally concern entrepreneurs and senior managers at the top of their organisations. But these questions matter more widely. Outside of the organisation, stakeholders such as investors, including shareholders and banks, influence the strategy. Inside the organisation, middle managers also have to understand the strategic direction, both to know how to get top management support for their initiatives and to explain it to the people they are responsible for. Anybody looking for a management-track job needs to be ready to discuss strategy with their potential employer. Indeed, anybody taking a job should first be confident that their new employer's strategy is actually viable. There are even specialist career opportunities in strategy, for example like Claudia, as a strategy consultant or as an in-house strategic planner, often key roles for fast-track young managers.

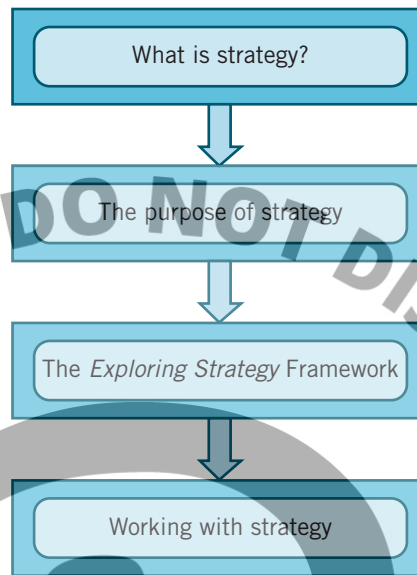
This book is relevant to any kind of organisation responsible for its own direction into the future. Thus, the book refers to large private-sector multinationals and small entrepreneurial start-ups; to family businesses, both large and small; to public-sector organisations such as schools and hospitals; and to non-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.

In this chapter you will begin with examining the main definitions of strategy, build your understanding of strategy's purpose, be introduced to the *Exploring Strategy* Framework for analysing an organisation's strategy and increase your awareness of working with strategy in different contexts (see Figure 1.1). But first, why is the book entitled *Exploring Strategy*?

1.1.1 Why 'Exploring Strategy'?

There are a large number of strategy textbooks available on the market so it is important to realise why readers choose *Exploring Strategy*. As strategists, we believe that one of strategy's distinctive features is that it draws upon many other perspectives, including economics, finance, marketing, operational management, organisational behaviour and psychology, to name a few. However, many strategy textbooks adopt a single disciplinary focus, such as an

Figure 1.1 Strategy: its definition, purpose, analysis and work



economics perspective, that ignores these other critical issues. Others focus much more on the behavioural side of strategy and largely overlook the importance of finance and economics. *Exploring Strategy* is distinctive in emphasising a comprehensive view of strategy, and this will enable you to explore the insights of many disciplinary perspectives including both the economics of strategy and the people side of managing strategy in practice.

A further reason for the word 'Exploring' in the title is rooted in the practical world of strategy work. Our focus on the practicalities of strategy reveals that there are rarely obvious answers. Indeed, many strategy problems are highly complex and managers should beware of over-simplified 'solutions'. Therefore, in strategy, it is important both to recognise the real scope of problems and to explore several options. Through exploration you will widen your awareness of practical issues relevant to strategy, recognise how many issues interconnect, and be able to probe each option carefully before making informed choices. We therefore believe that the major strengths of *Exploring Strategy* – its comprehensiveness and focus upon practice – will help reduce your risk of myopia to enable you to produce well-informed, grounded solutions to complex strategic problems.

We also believe that 'Exploring' in the title is appropriate as this is a research-led book, drawing upon world-class research and including the latest thinking on key strategic topics. These feature throughout *Exploring Strategy* and particularly pioneering work is found in the 'Thinking Differently' sections at the ends of chapters. The 'Strategy Lens' sections at the end of the main parts of the book also introduce novel and distinctive themes. These will ensure that you are at the cutting edge of strategy.

Exploring Strategy also explores a wide range of organisational and geographic contexts. Through a diverse and substantial selection of illustrations and case studies, we include large multinationals as well as medium-sized and entrepreneurial start-up firms. We give weight not only to 'for-profit' companies but also family businesses that may also be social, public-sector and other non-profit organisations. We examine these not only in developed economies but also in a wide range of emerging markets. This broad base of organisations and contexts will give you a wider knowledge base than is common in other strategy texts.

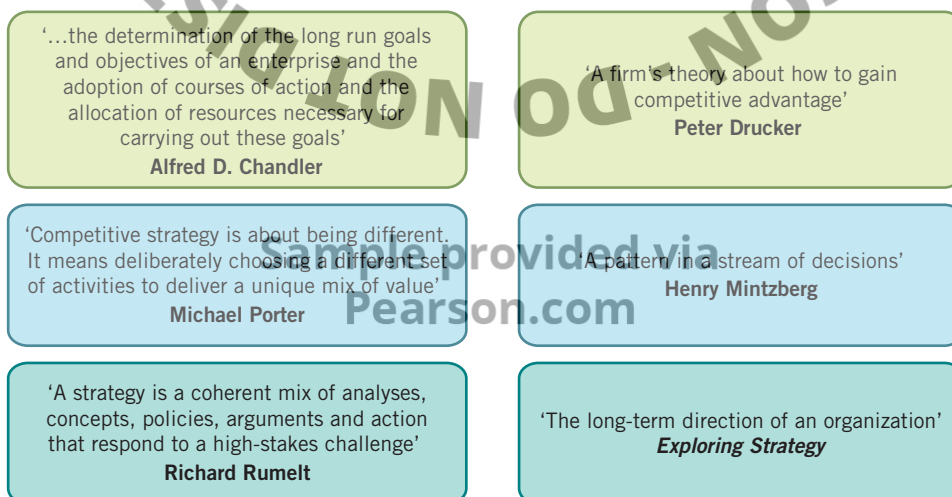
1.2 What is strategy?¹

The term strategy has been traced back to sixth century BC Greece and combined the words *stratos* (army spread out over the ground), and *agein* (to lead).² To this practical consideration of managing and directing a large complex force, the importance of strategy was highlighted by the Chinese military philosopher Sun Tzu, who defined strategy as ‘the great work of the organization. In situations of life or death, it is the Tao (path) of survival or extinction’. Since that time, there have been many new definitions of the word strategy, particularly by the military but, in the 1960s, Alfred Chandler, strategy’s founding theorist, brought strategy formally into a business context.³ Subsequent definitions of strategy have continued to refine our understanding of the term and several prominent ones are examined below.

1.2.1 Defining strategy

Figure 1.2 shows the strategy definitions of several leading strategy theorists: Alfred Chandler and Michael Porter, both from the Harvard Business School, Peter Drucker from Claremont University, California, Henry Mintzberg, from McGill University, Canada, and Richard Rumelt from the University of California. Each points to important elements of strategy. Chandler emphasises a logical flow from the determination of goals and objectives to the allocation of resources. Porter focuses on deliberate choices, difference and competition. Rumelt argues for coherence in policies and action to address high-stakes challenges. Drucker suggests that it is a theory about how a firm will win.⁴ A critical perspective on strategy is by Henry Mintzberg, who takes the view that strategy is less certain than assumed in the definitions above. He uses the word ‘pattern’ to allow for the fact that strategies do not always follow a deliberately chosen and logical plan, but can emerge in more ad hoc ways. Sometimes, strategies reflect a series of incremental decisions that only cohere into a recognisable pattern – or ‘strategy’ – after some time.

Figure 1.2 Definitions of strategy



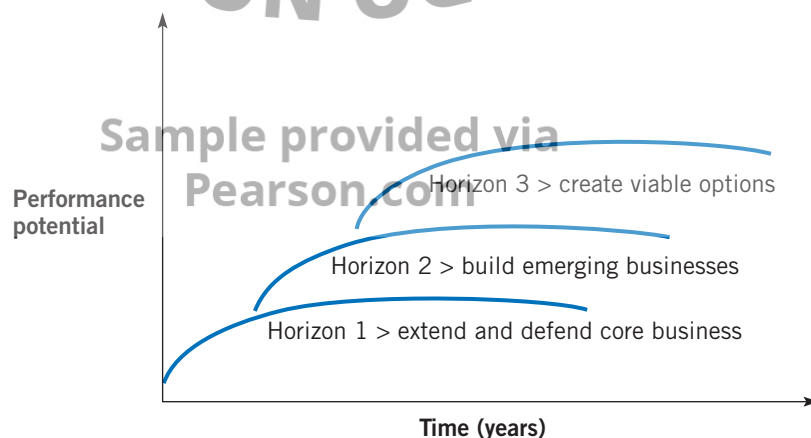
Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, ‘What is strategy?’, *Harvard Business Review*, November–December 1996, p. 60; P.F. Drucker, ‘The theory of business’, *Harvard Business Review*, September–October 1994, pp. 95–106; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

Our fundamental definition of strategy is: **strategy is the long-term direction of an organisation**. We shall add to this definition later in the chapter, but already this implies a more comprehensive view than some of those definitions above. Thus, for example, the long-term direction of Amazon is from book retailing to retailing more generally. For Disney, it is from cartoons to diversified entertainment. Our fundamental definition has advantages. First, the long-term direction of an organisation can include both deliberate, logical strategy and more incremental, emergent patterns of strategy. Second, long-term direction can include both strategies that emphasise difference and competition, and strategies that recognise the roles of cooperation and even imitation.

The three elements of this strategy definition – the long term, direction and organisation – can each be explored further. The strategy of Tesla Motors illustrates important points (see Illustration 1.1):

- *The long term.* Strategies are typically measured over years, for some organisations a decade or more. The importance of a long-term perspective on strategy is emphasised by the ‘three horizons’ framework shown in Figure 1.3. **The three-horizons framework suggests organisations should think of their businesses or activities in terms of different ‘horizons’, defined by time.** *Horizon 1* businesses are basically the current core activities. In the case of Tesla Motors, Horizon 1 includes the original Tesla Roadster car and subsequent models. Horizon 1 businesses need defending and extending but the expectation is that, in the long term, they risk becoming flat or declining in terms of profits (or whatever else the organisation values). *Horizon 2* businesses are emerging activities that should provide new sources of profit. For Tesla, that might include the new mega-battery business. Finally, there are *Horizon 3* possibilities, which are more open and for which outcomes are even more uncertain. These are typically risky research and development projects, start-up ventures, test-market pilots or similar: at Tesla, these might be further solar electric initiatives, and maybe other types of transportation. For a fast-moving organisation like Tesla, *Horizon 3* might generate profits a few years from the present time. In a pharmaceutical company, where the R&D and regulatory processes for a new drug take many years, *Horizon 3* might be a decade ahead. While timescales might differ, as industries and types of firm can move at different rates, the basic point about the ‘three horizons’ framework is that managers need to avoid focusing on the short-term issues of their existing activities.

Figure 1.3 Three horizons for strategy



Source: Adapted from M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

Illustration 1.1 Tesla Motors: the future is electric!



Are there enough Teslas in the world?

Source: Jim West/Alamy Stock Photo

Launched in 2008, the Tesla Roadster's staggering acceleration (Model S 0–60 mph in 2.1 seconds), shattered forever the image of electric cars as slow golf buggies or geriatric transport. By 2022, Tesla Motors was worth more than \$1trn, more valuable than the world's nine next largest car companies. Its charismatic chairman, visionary and main funder is PayPal cofounder, and SpaceX CEO, Elon Musk.

Tesla was originally the brainchild of three Silicon Valley engineers worried by global warming. Lithium-ion battery improvements meant Tesla could build a high-performance sports car with lower prices than competitors and with zero emissions. They recognised the opportunities raised by continuing advances in battery performance. Tesla provides zero emission electric power generation from its 'giga' battery factory and Tesla Energy now sells batteries for homes and business and aims to offer an energy system for the world. The company's mission is: 'The company aims to speed up the world's transition to sustainable energy sources by making electric vehicles and other energy products more affordable'.

Tesla's strategy has been to succeed in the high end of the market, where customers will pay a premium for innovative sports cars, and then go down market with higher volume and lower price models. All free cash flow is ploughed back into R&D to drive down costs and bring follow-on products to market as fast as possible. Customers buying the Roadster and Model S were actually paying for the development of cheaper cars: first the Model 3, a slower, low-cost family car launched in 2019, and then the Model Y mid-sized SUV launched in 2020.

New product introduction and scaling up have caused problems. Tesla accounted for 24 out of the 31 investigations by US safety regulators into advanced driver-assistance systems in 2016–2022. In 2020, the influential JD Power survey

of new car owners recorded the most complaints for Tesla of all brands in the USA. The final production of the Model 3 had come three years late. Elon Musk talked of 'production hell', with cars coming off the production line requiring extensive additional work (at one point, Tesla was producing cars without seats and asking dealers to bolt them on in the showrooms). Elon Musk is highly outspoken, sometimes causing outrage on Twitter and famously dismissing financial analysts in a formal meeting for their 'boring bonehead questions'. His groundless claims about taking the company private led financial regulators to charge him with securities fraud, forcing him to step down as Chairman for three years.

Competition looms from established competitors such as BMW, Volkswagen, Hyundai, Toyota and Nissan. These companies are pouring billions into hybrid and fully electric cars and have well-established manufacturing and supply-chain capabilities for large-scale production (Toyota's 2021 production volume was more than eight times that of Tesla). Some manufacturers, such as Volvo (owned by China's Geely), are aiming to cease petrol and diesel car production entirely in the next 10 years. New electric vehicle competitors are also springing up such as the Chinese Nio, which has lower-priced cars due to clever battery-switching technology, and American Formula E battery designer and manufacturer, Lucid, which now produces a car that outperforms Tesla on range and has better recharging systems. Toyota is among companies investing in hydrogen fuel cell cars which have a much longer range and much quicker charging times than electric cars.

Nonetheless, Tesla's new overseas factories in Germany and China plus the cheaper Model 3 and Model Y cars drove 2021 sales to 936,000 units, up 71 per cent on the previous year. The company produced a record profit of \$5.5bn and Tesla was forecasting a further 50 per cent growth in sales for 2022. With a mission to save the planet, maybe Elon Musk's outspokenness is not so inappropriate.

Sources: (1) D. Baer, 'The making of Tesla', *Business Insider*, 11 November 2014; (2) Sainato, 'How do they expect to run without us', *theguardian.com*, 30 January 2019; (3) 'Tesla expects 50% growth despite supply chain woes', *BBC News Business*, 27.01.22; (4) R. Water and P. Campbell, 'Tesla: Reality begins to collide with the Elon Musk's vision', *Financial Times*, 15 June 2018.

Questions

- 1 How does Tesla Motor's strategy fit with the various strategy definitions in Figure 1.2?
- 2 What seems to account both for Tesla's success and for its 2021–22 difficulties?

Strategy involves pushing out Horizon 1 as far as possible, at the same time as looking to Horizons 2 and 3.

- *Strategic direction.* Over the years, strategies follow some kind of long-term direction or trajectory. The strategic direction of Tesla Motors is from the disruptive competitive business model of the electric car to a diversified set of solar power offerings. Sometimes, a strategic direction only emerges as a coherent pattern over time. Typically, however, managers and entrepreneurs try to set the direction of their strategy according to long-term *objectives*. In private-sector businesses, the objective guiding strategic direction is usually maximising profits for shareholders. However, profits do not always set strategic direction. First, public-sector and charity organisations may set their strategic direction according to other objectives: for example, a sports club's objective may be to move up from one league to a higher one. Second, even in the private sector profit is not always the sole criterion for strategy. Thus, family businesses may sometimes sacrifice profits for family objectives, for example passing down the management of the business to the next generation. The objectives behind strategic direction always need close scrutiny.
- *Organisation.* In this book, organisations are not treated as discrete, unified entities. Organisations involve many relationships, both internally and externally. This is because organisations typically have many internal and external *stakeholders*, in other words people and groups that depend on the organisation and upon which the organisation itself depends (see Chapter 6). Internally, organisations are filled with people, typically with diverse, competing and more or less reasonable views of what should be done. For instance, the original co-founder and CEO of Tesla, Eberhard, was fired by new Chairman Elon Musk and their public disagreement has continued for 15 years. In strategy, therefore, it is always important to look *inside* organisations and to consider the people involved and their different views. Externally, organisations are surrounded by important relationships, for example with suppliers, customers, alliance partners, regulators and investors.

Because strategy typically involves managing people, relationships and resources, the subject is sometimes called 'strategic management'. This book takes the view that managing is always important in strategy. Good strategy is about the practicalities of managing as well as the analysis of strategising.

1.2.2 Purpose, vision, mission, objectives

What is a strategy for? Harvard University's Cynthia Montgomery⁵ answers by arguing that the core of strategy is defining and expressing a clear and motivating purpose for the organisation. Whether in the private or public sector, this purpose is generally loftier than just maximising profits: it could be to improve the environment or help the wider community for instance. Such a broader view of purpose is more likely to motivate employees and stakeholders than profits alone. Indeed, focusing exclusively on short-term profits can be detrimental to longer-term value creation.

- **Organisational Purpose is the reason why a company exists.** It stems from internal drivers, such as the founders' and subsequent organisational leaders' beliefs and commitments, and external drivers including stakeholder influences (see Chapter 6 for further elaboration). Purpose is also influenced by broader contextual pressures, such as environmental shocks from a pandemic or climate change, that may cause firms to revisit and adjust their purpose. If the stakeholders of an organisation can relate to such a purpose it can be highly motivating.⁶ According to Montgomery, the stated purpose of the

organisation should address two related questions: *how* does the organisation make a difference; and *for whom* does the organisation make that difference? These questions challenge strategists to move from the abstract concept of purpose towards concrete action. Chapter 6 examines purpose in more depth.

- A **vision statement** is concerned with the future the organisation seeks to create. The vision typically expresses an aspiration that will enthuse, gain commitment and stretch performance. So, here the question is: 'What do we want to achieve?' Porras and Collins suggest managers can identify this by asking: 'If we were sitting here in twenty years what do we want to have created or achieved?' They cite the example of Henry Ford's original vision in the very early days of automobile production that the ownership of a car should be within the reach of everyone. For the Swedish music site Spotify, the vision is to become 'the Operating System of music', a universal platform for listening just as Microsoft is for office software.
- A **mission statement** aims to provide clarity about what the organisation is fundamentally there to do on a daily basis, for employees and stakeholders. It can be thought of as a way of moving forwards towards the vision. This is often expressed in the apparently simple but challenging question: 'What business are we in?' Two linked questions that can clarify an organisation's 'business' are: 'What would be lost if the organisation did not exist?'; and 'How do we make a difference?' Though they do not use the exact term 'mission statement', Collins and Porras⁷ suggest that understanding the fundamental mission can be done by starting with a descriptive statement of what the organisation actually does, then repeatedly delving deeper into the organisation's mission by asking 'Why do we do this?' They use the example of managers in a gravel and asphalt company arriving at the conclusion that its mission is to make people's lives better by improving the quality of built structures. At the University of Utrecht in the Netherlands, the mission includes educating students, training the next generation of researchers and addressing social issues.
- *Objectives* are statements of specific outcomes that are to be achieved. In the for-profit sector, these are often expressed in precise financial terms, for instance, the level of sales, profits or share valuation in one, two or three years' time.⁸ In non-profit organisations, objectives will focus on providing services to target groups rather than financial objectives, although the organisation will need to generate sufficient income to cover their costs. Increasingly, organisations are also setting objectives referred to as 'the triple bottom line', by which is meant not only economic objectives such as those above, but also environmental and social objectives to do with their corporate responsibility to wider society (see Section 6.3).

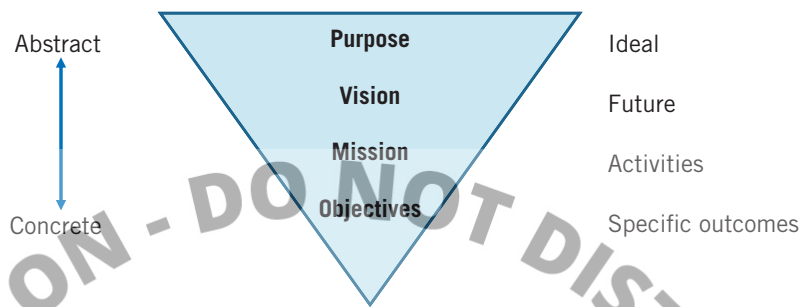
Figure 1.4 shows a four-step hierarchy that connects the broad, abstract concept of purpose to narrower, concrete objectives by way of the organisation's vision and mission.

Purpose, vision and mission statements can offer more enduring sources of direction and motivation than dry financial objectives. However, these statements should be authentic and meaningful. Purpose, vision and mission statements are sometimes ineffective because they are too bland and too wide-ranging,⁹

1.2.3 Strategy statements

David Collis and Michael Rukstad¹⁰ at the Harvard Business School argue that all entrepreneurs and managers should be able to summarise their organisation's strategy with a 'strategy statement'. **Strategy statements should have three main themes: the fundamental goals (purpose, vision, mission or objectives) that the organisation seeks; the scope or**

Figure 1.4 Strategic hierarchy



domain of the organisation's activities; and the particular *advantages* or capabilities it has to deliver all of these.

Purpose, vision, mission and objectives have been described above in 1.2.2 so here we concentrate on the other two main themes, scope and advantage, with examples of all three given in Illustration 1.2:

- *Scope*. An organisation's scope or domain refers to three dimensions: customers or clients; geographical location; and extent of internal activities ('vertical integration'). For a university, scope questions would be these: first, which academic departments to have (a business school, an engineering department, and so on); second, which activities to do internally themselves (vertically integrate) and which to externalise to subcontractors (for example, whether to manage campus restaurants in-house or to subcontract them); and third, whether to operate campuses outside the home country (for example, in Illustration 1.2, the University of Nottingham now has campuses in China and Malaysia as well as its home country of England).
- *Advantage*. This part of a strategy statement describes how the organisation will achieve the objectives it has set for itself in its chosen domain. In competitive environments, this refers to the *competitive advantage*: for example, how a particular company or sports club will achieve goals in the face of competition from other companies or clubs. The organisation needs to be better than others at achieving its particular goal. In the public sector, advantage might refer simply to the organisation's capability in general. But even public-sector organisations frequently need to show that their capabilities are not only adequate, but superior to other rival departments or, perhaps, to private-sector contractors.

Collis and Rukstad suggest that strategy statements covering goals, scope and advantage should be no more than 35 words long. The three themes are deliberately made highly concise. Brevity keeps such statements focused on the essentials and makes them easy to remember and communicate. Thus, for Tesla, a strategy statement might be: 'To accelerate the advent of a sustainable solar economy by developing and incorporating superior battery-based technologies into compelling mass-market electric products and bringing them to market as soon as possible.' Of course, such strategy statements are not always fulfilled. Circumstances may change in unexpected ways. In the meantime, however, they can provide a useful guide both to managers in their decision making and to employees and others who need to understand the direction in which the organisation is going. The ability to give a clear strategy statement is a good test of managerial competence in an organisation.

As such, strategy statements are relevant to a wide range of organisations. For example, a small entrepreneurial start-up can use a strategy statement to persuade investors and lenders of its viability. Public-sector organisations need strategy statements not only for themselves,

Illustration 1.2 Strategy statements

Both Samsung Electronics, the Korean telecommunications, computing and TV giant, and the University of Nottingham, a leading British university, publish a good deal about their strategies.

Samsung Electronics

At Samsung, we follow a simple business philosophy: to devote our talent and technology to creating superior products and services that contribute to a better global society.

Every day, our people bring this philosophy to life. Our leaders search for the brightest talent from around the world, and give them the resources they need to be the best at what they do. The result is creating superior products and services that contribute to a better global society. Samsung promises to perform responsibly as a leading global company and believes ethical management is not only a tool for responding to rapid changes in the global business environment but also a vehicle for building trust with various stakeholders.

According to Samsung's motto, it intends to give the world inspiration to create the future of electronics. This vision reflects Samsung Electronics' commitment to inspiring its communities by leveraging Samsung's three key strengths: 'New Technology', 'Innovative Products', and 'Creative Solutions'. As part of this vision, Samsung has mapped out a specific plan of investing \$250 billion in the next three years to enhance capabilities in artificial intelligence, biopharmaceuticals, semiconductors and robotics industries. The aim is to strengthen its global position in competitive industries, such as the chip market, as well as to provide new opportunities for growth in next-generation telecommunications and robotics. To this end, Samsung has also established three strategic approaches in its management: 'Creativity', 'Partnership', and 'Talent'.

University of Nottingham Strategy

A member of the prestigious Russell Group of Universities, the University of Nottingham is one of the UK's largest, with 48,000 students from 150 countries spread across campuses in Nottingham, China and Malaysia. Founder Jesse Boot's sentiments of discovery, enterprise and the advancement of the human condition, combined with commitment to improving health and well-being, are embedded in the University's culture.

In a recently announced new strategy, the University is to become one without borders, engaging with the opportunities presented by a changing world and creating an ambitious and creative culture to enable it to change the

world for the better. This will allow the University to make an outstanding contribution to supporting the United Nations Sustainable Development Goals (SDGs).

Through its excellent campuses, the University is energised to engage locally and globally and to reach out to a wide range of stakeholders. It will continue to develop its campuses to meet contemporary needs of staff and students for new kinds of space, to enable secure and inclusive environments that support community well-being, and to foster an education that is more than a degree but includes a rich and stimulating social, cultural and sporting life open to all. The aim is to further evolve into one university with campuses in three countries and, to facilitate this, a global mindset is being cultivated among staff and students to enrich and deepen international engagement in teaching and research.

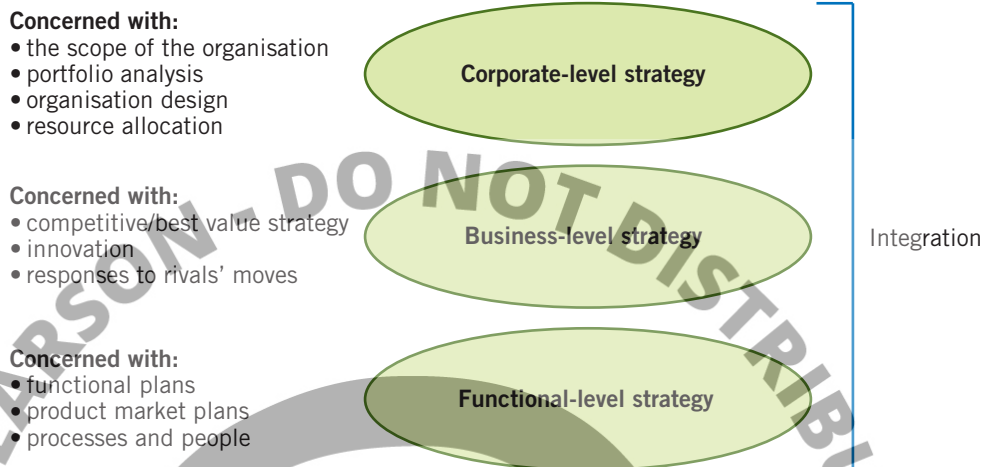
Through an inclusive and entrepreneurial environment that supports mental and physical well-being, the University will solve problems and improve lives through education, research and knowledge exchange and help prepare students to lead rich and fulfilling lives. The University will focus on recruiting students and staff with the highest potential and desire to succeed and will put in place measures to eliminate the attainment gaps between students from diverse backgrounds. Equality will be embedded in decisions about staff recruitment, reward and progression. While the intention is not to grow the University population much further, it will reach out to new potential students across the world, attracting those who wish to access online resources, continuing professional development and lifelong learning.

Sources: Edited extracts from www.samsung.com and the University of Nottingham Strategy, www.nottingham.ac.uk.

Questions

- 1 Construct short strategy statements covering the goals, scope and advantage of Samsung and the University of Nottingham. How much do the different private and public sector contexts matter?
- 2 Construct a strategy statement for your own organisation (university, sports club or employer). What implications might this statement have for your particular course or department?

Figure 1.5 Levels of strategy



but to reassure clients, funders and regulators that their priorities are the right ones. Voluntary organisations need persuasive strategy statements in order to inspire volunteers and donors. Thus, organisations of all kinds frequently publish materials relevant to such strategy statements on their websites or annual reports. Illustration 1.2 provides published materials on the strategies of two very different organisations: the technology giant Samsung from the private sector and the University of Nottingham in the UK from the public sector.

1.2.4 Levels of strategy

So far, we have considered an organisation as a whole but, inside an organisation, strategies can exist at three main levels (see Figure 1.5).

- **Corporate-level strategy** is concerned with the overall scope of an organisation and how value is added to the constituent businesses of the organisational whole. Corporate-level strategy issues include geographical scope, diversity of products or services, acquisitions of new businesses, and how resources are allocated between the different elements of the organisation. For Tesla, moving from car manufacture to battery production for homes and businesses is a corporate-level strategy. Being clear about corporate-level strategy is important: determining the range of businesses to include is the basis of other strategic decisions, such as acquisitions and alliances.
- **Business-level strategy** is about how the individual businesses (or operating units) should compete in their particular markets (this is often called 'competitive strategy'). These might be stand-alone businesses, for instance entrepreneurial start-ups, or 'business units' within a larger corporation. Business-level strategy typically concerns issues such as innovation, appropriate scale and response to rivals' moves. For Tesla this means rolling out a lower cost electric car to build volume and capture market share in advance of potential competitor entry. In the public sector, the equivalent of business-level strategy is decisions about how units (such as individual hospitals or schools) should provide best-value services. Where the businesses are units within a larger organisation, business-level strategies should clearly fit with corporate-level strategy.
- **Functional-level strategies** are concerned with how the components of an organisation deliver effectively the corporate- and business-level strategies in terms of resources,

processes and people. For example, in 2021 Tesla organised an 'AI Day', showing off its artificial intelligence initiatives and plans in order to accelerate the recruitment of more AI engineers required to support its strategy of growth and innovation. In most businesses, successful business strategies depend, to a large extent, on decisions that are taken, or activities that occur, at the functional level. Functional decisions need, therefore, to be closely linked to business-level strategy. They are vital to successful strategy implementation.

This need to link the corporate, business and functional levels underlines the importance of *integration* in strategy. Each level needs to be aligned with the others. The demands of integrating levels define an important characteristic of strategy: strategy is typically *complex*, requiring careful and sensitive management. Strategy is rarely simple.

1.3 The Exploring Strategy Framework

In order to help you to evaluate an organisation's strategy, this book provides a framework that emphasises the interconnected nature of strategic issues. The *Exploring Strategy* Framework includes *analysing the strategic position* of an organisation; *assessing strategic choices* for the future; and *managing strategy in action*. These three elements provide the structure for the three Parts of the book. They are represented by the three circles of Figure 1.6. A complete strategy analysis should always include all three major areas; together they provide you with a practical template for studying strategic situations. The following sections of this chapter will introduce the strategic issues that arise under each of these elements of the

Figure 1.6 The Exploring Strategy Framework



Exploring Strategy Framework. But, first, it is important to understand why the framework is drawn in this particular way.

Figure 1.6 could have shown *strategic analysis*, *strategic choice* and *strategy in action* in a linear sequence – first understanding the strategic position, then making strategic choices and finally turning strategy into action. Indeed, this logical sequence is implicit in the definition of strategy given by Alfred Chandler (Figure 1.2) and many other textbooks on strategy. However, as Henry Mintzberg recognises, in practice, the elements of strategy do not always follow this linear sequence. Choices often have to be made before the position is fully understood. Sometimes, too, a proper understanding of the strategic position can only be built from the experience of trying out a strategy in action. The real-world feedback from launching a new product is often far better at uncovering the true strategic position than remote analysis carried out in a strategic planning department at head office.

The interconnected circles of Figure 1.6 are designed to emphasise this potentially non-linear nature of strategy. Position, choices and action should be seen as closely related and, in practice, none has priority over another. Although the book divides its subject matter into three Parts in sequence, this does not mean that the process of strategy must follow a logical series of distinct steps. The circles are overlapping and interdependent. The evidence provided in later chapters will suggest that strategy rarely occurs in tidy ways and that it is better not to expect it to do so.

However, the *Exploring Strategy* Framework does provide you with a comprehensive and integrated framework with important insights in how to work effectively with strategy. First, Chapter 2 introduces some basic frameworks for working with strategy, underlining the distinctive characteristics of strategic thinking. Thinking slow (system 2 thinking), anticipating others' needs and reactions (allocentricism) and seeing the interconnections of the big picture (systems thinking) are all important elements of working with strategy. Then the following three Parts of the book (Chapters 3 to 17) explore, in turn, how to analyse an organisation's *position*, consider the *choices* it has and how strategies might be put into *action*. You can use each of these chapters to help you ask fundamental strategy questions and to select essential concepts and techniques that will help you answer them. Working systematically through questions and answers will provide you with the basis for persuasive strategy recommendations.

1.3.1 Strategic position

The strategic position is concerned with the impact on strategy of the external environment, the organisation's strategic resources and capabilities, the organisation's purpose and stakeholders and the organisation's culture. Understanding these factors is central for evaluating future strategy. These issues, and the fundamental questions associated with them, are covered in Part I of this book:

- *Macro-environment*. Organisations operate in complex multi-level environments. At the macro level, organisations are influenced by political, economic, social, technological, ecological and legal forces. Chapter 3 poses the question: what are the key macro drivers of change that are shaping the future of organisations and their sectors?
- *Industry and sector*. At the more immediate level within the industry or sector, competitors, customers and suppliers also present challenges. The key issues in Chapter 4, therefore, are: how attractive is this immediate industry or sector and what can be done to improve it?
- *Resources and capabilities*. Each organisation has its own strategic *resources* (e.g., machines and buildings) and *capabilities* (e.g., technical and managerial skills) that support its

position in a market. Chapter 5 asks whether the organisation's resources and capabilities are adequate to the challenges of its environment and the level of its goals.

- *Purpose and stakeholders.* Purpose has already been introduced, but Chapter 6 investigates how the values of key stakeholders define the purpose of an organisation. Tying stakeholder values together into a coherent organisational purpose is the role of *corporate governance* which is the structures and systems by which organisations are held accountable for their actions. The key questions here are: is the purpose of an organisation an appropriate one and are managers sticking to it?
- *Culture and strategy.* Chapter 7 explores how organisational cultures can also influence strategy. These cultures are typically a product of an organisation's history, industry or geography. The consequence of culture can be *strategic drift*; a failure to create necessary change. A fundamental question here, therefore, is: how does culture fit with the required strategy?

Using the Exploring Strategy Framework in conjunction with Illustration 1.1, points to the following positioning issues for Tesla Motors. What is the future of the company given the macro social, economic and political demands for the business both to be environmentally sustainable and conform to regulatory standards? Are its distinctive capabilities really valued sufficiently by consumers to provide a financial return to investors and to allow sustained investment in further innovative products? How will Tesla cope with rising competition from car industry giants that are now selling electric and hybrid cars?

1.3.2 Strategic choices

Strategic choices involve the options for strategy in terms of both the *directions* in which strategy might move and the *methods* by which strategy might be pursued. For instance, an organisation might have a range of strategic directions open to it: the organisation could diversify into new products; it could enter new international markets; or it could transform its existing products and markets through radical innovation. These various directions could be pursued by different methods: the organisation could acquire a business already active in the product or market area; it could form alliances with relevant organisations that might help its new strategy; or it could try to pursue its strategies on its own. Typical strategic choices, and the related fundamental questions, are covered in the five chapters that make up Part II of this book, as follows:

- *Business strategy and models.* There are strategic choices in terms of how the organisation seeks to compete at the individual business level. For example, a business unit could choose to be the lowest cost competitor in a market, or the highest quality. The fundamental question in Chapter 8, then, is what strategy, and what business model, should a company use to compete?
- *Corporate strategy and diversification.* The highest level of an organisation is typically concerned with issues of corporate scope; in other words, which businesses to include in the portfolio. This relates to the appropriate degree of *diversification*, with regard to products offered and markets served. Corporate-level strategy is also concerned with internal relationships, both between business units and with the corporate head office. Chapter 9 addresses the fundamental questions of which businesses you should be in and how you should manage them.
- *International strategy.* Internationalisation is a form of diversification, but into new geographical markets. Chapter 10 addresses the fundamental question: where internationally should the organisation compete?

- *Entrepreneurship and innovation.* Most existing organisations have to innovate constantly simply to survive. Entrepreneurship, the creation of a new enterprise, is an act of innovation too. A fundamental question in Chapter 11, therefore, is whether the organisation is innovating appropriately.
- *Mergers, acquisitions and alliances.* Organisations have to make choices about methods for pursuing their strategies. Many organisations prefer to build new businesses with their own resources. Other organisations develop by acquiring other businesses or forming alliances with complementary partners. The fundamental question in Chapter 12, therefore, is whether to buy another company, ally or to go it alone.

Again, issues of strategic choice are relevant to the case of Tesla Motors (Illustration 1.1). The *Exploring Strategy* Framework asks the following kinds of questions here. Should Tesla continue to produce new higher volume cheaper cars or stick to its previous specialised sports car products? How far should it widen the scope of its businesses: is producing batteries for homes really helping or detracting from car production? Where should Tesla innovate next?

1.3.3 Strategy in action

Managing strategy in action is about how strategies are formed and how they are implemented. The emphasis is on the practicalities of managing. These issues are covered in the five chapters of Part III, and include the following, each with their own fundamental questions:

- *Evaluating strategies.* Managers have to decide whether existing and forecast performance is satisfactory and then choose between options that might improve it. The fundamental evaluation questions in Chapter 13 are as follows: are the options *suitable* in terms of matching opportunities and threats; are they *acceptable* in the eyes of significant stakeholders; and are they *feasible* given the capabilities available?
- *Strategy development processes.* Strategies are often developed through formal *planning* processes. But sometimes the strategies an organisation actually pursues are *emergent* – in other words, accumulated patterns of ad-hoc decisions, bottom-up initiatives and rapid responses to the unanticipated. Given the scope for emergence, the fundamental question in Chapter 14 is: what kind of strategy process should an organisation have?
- *Implementing strategy.* Once a strategy is developed, the organisation needs to organise for successful implementation. Chapter 15 addresses both the ‘hard’ issues of implementation, for example structure and systems and the ‘softer’ ones of culture and procedural justice. The fundamental question, therefore, is: what kinds of hard and soft elements are required for the chosen strategy?
- *Leadership and strategic change.* In a dynamic world, strategy inevitably involves change. Managing change involves *leadership*, both at the top of the organisation and lower down. There is not just one way of leading change, however: there are different *styles* and different *levers* for change. So, the fundamental question in Chapter 16 is: how should the organisation manage necessary changes entailed by the strategy?
- *The practice of strategy.* Inside the broad processes of strategy development and change is a lot of hard, detailed work. The fundamental questions in Chapter 17 are: *who* should do this strategy work, the *activities* involved in the work, and the *methods* they can use to do it.

With regard to strategy in action, the *Exploring Strategy* Framework raises the following kinds of questions for Tesla. How will Tesla return value to shareholders going forwards? Should Tesla move towards a more disciplined strategy development process rather than depend on the vision of Elon Musk? Does Tesla need more structure and systems? Are the right people and methods being used in Tesla’s strategy-making activities?

Thus, the *Exploring Strategy* Framework offers you a comprehensive methodology for analysing an organisation's position, considering alternative choices, and selecting and acting on strategies. This review of the main elements of the framework now allows us to refine and extend our earlier broad definition of strategy in Section 1.2.1 to state that **'Strategy is the long-term direction of an organisation, formed by choices and actions about its resources and scope to create advantageous positions relative to competitors and peers within changing environmental and stakeholder contexts.'**

1.3.4 Cross-cutting themes: non-profits, sustainability and digital transformation

Running through the elements of the *Exploring Strategy* framework are many major themes including non-profit organisations, sustainability and digital transformation.

Non-profit organisations

These organisations are operated for a collective, public or social benefit, unlike for-profit businesses that aim to generate profit for their owners. **Non-profit organisations are self-governing, non-profit distributing and involve some degree of voluntary participation.**¹¹ Any revenues that a non-profit organisation generates in excess of its costs are to be reinvested in the purpose of the organisation and not paid out for private gain. Although non-profits are not driven by profit, they must bring in sufficient funds to allow the organisation to deliver on its purpose. Non-profits gain their funding from sponsors such as government, donors and sponsorships, as well as from what they can generate from the sale of products or services. These various funds enable non-profits to deliver on their purpose for social benefit. The end user of the service, therefore, is often not the prime source of funds for the non-profit organisation. For example, hospitals may not charge patients but instead receive funds from governments or donors, and even generate some revenues from on-site retail facilities. Non-profits include a wide range of organisations including schools and universities, hospitals, charities, theatres, social clubs, religious associations, cooperatives and social enterprises. Chapter 6 provides more detail on non-profits and discusses hybrid organisational forms.

Strategy tools and techniques are relevant to non-profits as well as for-profit organisations. Strategy can help non-profit organisations make better decisions, improve coordination and achieve sustainable outcomes. For example, strategy tools can help with organisational purpose, vision, mission, goals (Chapter 1), identify major environmental threats and opportunities (Chapter 3), identify key capabilities (Chapter 5), manage organisational governance (Chapter 6), link goals to resource allocation decisions (Chapter 14) and inform organisational design and change (Chapters 15 and 16). Non-profits that charge users for their services, such as museums or sports clubs, often operate in competition with for-profit companies. While their aim is not to generate a profit, their need to meet budgets to sustain the enterprise means their strategic calculations are not much different to their for-profit competitors. Where non-profits do not charge their users for services, they still compete with other non-profits for funding from sponsors, such as governments and philanthropic foundations. Non-profit concepts and examples occur throughout *Exploring Strategy* therefore: refer to *non-profit* in the index for detail of relevant sections.

Sustainability

Widespread awareness of climate change in particular is changing stakeholder perceptions of the role of organisations in society. Customers, employees, communities and even investors are now pressing organisations to be fully accountable for their impact upon the natural

environment and the wider society. The 2022 United Nations Global Compact launched the world's largest sustainability initiative, with over 14,000 companies in 162 countries, which aims to align companies' strategies and operations with principles relating to the environment, human rights, labour and anti-corruption. Through 'Agenda 2030', 17 Sustainable Development Goals (SDGs) are identified that aim to help businesses act responsibly and to address global challenges such as climate, water, food, poverty, conflict and inequality (see Chapters 3 and 6).

Sustainable development strategies involve managing positive relationships with organisations' natural and social environments at the same time as meeting their economic needs.¹² Organisations therefore need to meet three major interacting goals for creating positive impact: 1) economic, 2) natural and 3) social. Following sustainability principles can be beneficial to organisations through reducing resource costs (more efficient processes and minimising waste), reducing regulatory costs (for example, penalties for non-compliance with pollution or health and safety standards), protecting and building company reputation, differentiating products and services, attracting and retaining environmentally and socially conscious employees and discovering new and exciting opportunities.¹³

For strategists, taking sustainability seriously will affect the goals and targets of the company (see Chapter 1), requires attention to the wider business environment (Chapter 3), understanding how sustainability affects the industry (Chapter 4), how the organisation's resources and capabilities may be sourced and deployed (Chapter 5), affects the generation of sustainable strategic options and the sources and magnitudes of risk (Chapter 13), influences organisation and wider change (Chapter 16) and affects stakeholders (Chapter 6). Refer to *Sustainability* in the index for detail of particularly relevant sections.

Digital transformation

The twenty-first-century organisational landscape is being challenged by **digital transformation**, the **pervasive and discontinuous change triggered and shaped by the widespread use of digital technologies.**¹⁴ The rise of the Internet of Things (IoT), cloud based computing, 3-D printing, big data analytics, machine learning, blockchain and digital product service integration (also known as servitisation) are leading to the transformations of key business operations and processes and they also affect products, organisation structures and management concepts in profound ways. For instance, Germany's largest company, Siemens, focused until fairly recently upon heavy engineering in power generation systems, trains and infrastructure, but has now undergone a transformation with the acquisition of many digital technology companies and the disposal of many engineering interests. Siemens has thus changed fundamentally from a manufacturing giant into a digital services provider. Digital transformation is not just limited to businesses but is also relevant for public sector and non-profit organisations. For example, city authorities are increasingly using smart technologies to deal with air pollution, traffic congestion, cyber security and fresh food supply, necessitating new alliances between public and private sector partners.¹⁵

Digital transformation can affect all aspects of an organisation and relates to many sections in *Exploring Strategy*. For instance, digital transformation relates to the technology element of PESTEL analysis in Chapter 3, ecosystems in Chapter 4, business models and platforms in Chapter 8 and innovation in Chapter 11. Digital transformation is an important element of the leadership and strategic change issues considered in Chapter 16 and digital tools are now playing an increasing role in the practice of strategy, as discussed in Chapter 17. Refer to *Digital transformation* in the index for detail of particularly relevant sections.

1.4 Strategy careers

Strategy work, defined as the effort needed to make strategy happen, exists at almost all levels of management and among external powerful stakeholders, often being co-evolved with investors, regulators and advisers, and even media. Within organisations, strategy work is not just the preserve of top decision makers but middle and lower-level managers also have to understand and contribute to their organisation's strategic objectives. Managers have to communicate strategy to their teams,¹⁶ and will achieve greater performance from them the more convincing they are. Indeed, as responsibility is increasingly decentralised in many organisations, middle and lower-level managers play a growing part in shaping strategy themselves. Because they are closer to the daily realities of the business, lower-level managers can be a crucial source of ideas and feedback for senior management teams. Being able to participate in an organisation's 'strategic conversation' – engaging with senior managers on the big issues facing them – is therefore often part of what it takes to win promotion.

For many managers, then, strategy is part of the job. However, there are also careers focused upon strategy, for instance, strategy specialists in both private and public sectors. Many large organisations have in-house strategic planning or analyst roles.¹⁷ Typically requiring a formal business education of some sort, strategic planning is a potential career route for many readers of this book, especially after some functional experience, and may lead to a board-level position. Strategy consulting has been a growth industry in the last decades, with the original leading firms such as McKinsey & Co., the Boston Consulting Group and Bain joined now by more generalist consultants such as Accenture, IBM Consulting, and PwC, each with its own strategy consulting arm.¹⁸ While strategy consultants may aspire to becoming partners of consultancy firms, it is not unusual for them to move into board-level positions in other organisations. Business graduates are in demand for strategy consulting roles, such as that of Claudia in the opening example.¹⁹

The interviews in Illustration 1.3 give some insights into the different kinds of strategy work that managers and strategy specialists can do. Galina, the manager of an international subsidiary, Chantal, a strategy consultant, and Harminder, heading a strategy office in a non-profit organisation all have different experiences of strategy, but there are some common themes also. All find strategy work stimulating and rewarding. The two specialists, Chantal and Harminder, talk more than Galina of analytical tools such as scenario analysis, sensitivity analysis and hypothesis testing. Galina discovered directly the practical challenges of real-world strategic planning, having to adapt the plan during the first few years in the United Kingdom. She emphasises the importance of flexibility in strategy and the value of getting her managers to see the 'whole picture' through involving them in strategy making. But Chantal and Harminder too are concerned with much more than just analysis. Chantal emphasises the importance of gaining 'traction' with clients, building consensus in order to ensure implementation. Harminder also realises that delivering recommendations is just the beginning of the strategy process and getting buy-in from key stakeholders is critical for implementation. He sees strategy and delivery as intimately connected, with people involved in delivery needing an understanding of strategy to be effective, and strategists needing to understand delivery.

Strategy therefore pervades a wide variety of jobs and can also be the specific focus of a career. It covers a wide territory from formulation to implementation, requiring a broad set of technical and social skills²⁰ and, while individual strategists may focus on a particular aspect of strategy, effective outcomes mean it is crucial to link analysis with implementation on the ground. It is complex work that real people do. An important aim of this book is to equip readers to do this work better.

Illustration 1.3 Strategists

For Galina, Chantal and Harminder, strategy is a large part of their jobs.

Galina

At the age of 33, after a start in marketing, Galina became managing director of a Russian-owned British IT company. As well as developing the strategy for her local business, she has to interact regularly with headquarters: 'Moscow is interested in the big picture, not just the details. They are interested in the future of the business.'

She had to adapt substantially the subsidiary's strategic plans:

'When we first came here, we had some ideas about strategy, but soon found the reality was very different to the plans. The strategy was not completely wrong, but in the second stage we had to change it a lot: we had to change techniques and adapt to the market. Now we are in the third stage, where we have the basics and need to focus on trends, to get ahead and be in the right place at the right time.'

Galina works closely with her management team on strategy, taking them on an annual 'strategy away-day' (see Chapter 17): 'Getting people together helps them see the whole picture, rather than just the bits they are responsible for. It is good to put all their separate realities together.'

Galina is enthusiastic about working on strategy:

'I like strategy work, definitely. The most exciting thing is to think about where we have come from and where we might be going. We started in a pub five years ago and we have somehow implemented what we were hoping for then. Strategy gives you a measure of success. It tells you how well you have done.'

Her advice is: 'Always have a strategy – have an ultimate idea in mind. But take feedback from the market and from your colleagues. Be ready to adjust the strategy: the adjustment is the most important.'

Chantal

Chantal is in her early thirties and has worked in Paris for one of the top three international strategy consultancies since graduating in business. Consulting was attractive to her originally because she liked the idea of helping organisations improve. She enjoys strategy consulting because: 'I like solving problems. It's a bit like working on a mystery case: you have a problem and then you have to find a solution to fit the company, and help it grow and to be better.'

The work is intellectually challenging:

'Time horizons are short. You have to solve your case in two to three months. There's lots of pressure. It pushes you and helps you to learn yourself. There are just three to four in a team, so you will make a significant contribution to the project even as a junior. You have a lot of autonomy and you're making a contribution right from the start, and at quite a high level.'

Consulting work can involve financial and market modelling (see Chapters 4 and 13), interviewing clients and customers, and working closely with the client's own teams. Chantal explains:

'As a consultant, you spend a lot of time in building solid fact-based arguments that will help clients make business decisions. But as well as the facts, you have to have the ability to get traction. People have to agree, so you have to build consensus, to make sure that recommendations are supported and acted on.'

Chantal summarises the appeal of strategy consulting: 'I enjoy the learning, at a very high speed. There's the opportunity to increase your skills. One year in consulting is like two years in a normal business.'

Harminder

In his early forties, Harminder is a UK citizen working overseas in Saudi Arabia, heading up a key part of the Strategy and Planning Office in a large hospital with a multi-million-pound investment responsibility.

'Rational linear analysis is very important here. We have an abundance of data from all the major consultancies and a number of high-profile US academic advisors and need to assemble it for forecasting and trend analysis purposes. A great deal of time is taken crafting documents for key stakeholders. Informally, we use a range of strategy tools and techniques including statistical analysis, scenario analysis (see Chapter 3), sensitivity analysis (see Chapter 13), hypothesis testing (see Chapter 17) and also carry out many internal surveys to monitor implementation progress.'

Harminder has been surprised by the sheer amount of time and effort needed to consult key internal and external stakeholders personally: 'I have to consult every project manager and director and, more importantly, politically powerful and rich external stakeholders, regardless of their knowledge – and they have to be flattered to get buy-in.'

What Harminder likes about the job is making a difference by: 'changing people's perceptions, getting powerful individuals to make decisions and understand the reasons – rather than hiding behind endless committees (see Chapter 17).'

Source: interviews (interviewees anonymised).

Questions

- 1 Which of these strategy roles appeals to you most – manager of a business unit in a multinational, strategy consultant or in-house strategy specialist? Why?
- 2 What would you have to do to get such a role?

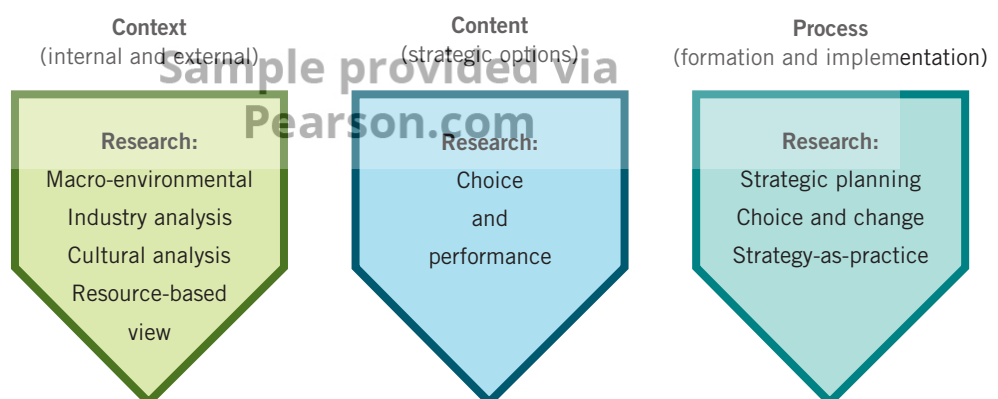
1.5 Studying strategy

This book is both comprehensive and serious about strategy. To understand the full range of strategy issues – from analysis to action – it is important to be open to the perspectives and insights of key disciplines such as economics, finance, marketing, sociology and psychology. To be serious about strategy means to draw as far as possible on rigorous research about these issues. This book aims for an evidence-based approach to strategy, hence the articles and books referenced at the end of each chapter.²¹

This book therefore covers equally the three main branches of strategy research: conventionally, these are known as *strategy context*, *strategy content* and *strategy process*. In terms of the *Exploring Strategy* Framework (Figure 1.6), *content* broadly relates to positioning, *content* to choice and *process* to action. Each of these branches contains various research streams whose lessons can be readily applied to practical questions of strategy issues. Figure 1.7 shows the three branches and their respective research streams: these are listed in the approximate historical order of their emergence as strong research streams, the arrows representing the continuously developing nature of each. In more detail, the three branches and the characteristic analytical approaches of their main research streams are as follows:

- *Strategy context* refers to multiple layers of environment, internal and external to organisations. All organisations need to take into account the opportunities and threats of their external environments. *Macro-environmental analysis* has been an enduring theme in strategy with early recognition of the influence of political, economic, social, technological, environmental (green) and legal trends since the 1960s. Subsequently, researchers have focused upon various additional themes including institutional pressures establishing the ‘rules of the game’ within which companies operate. *Industry analysis* took off as a research tradition in the early 1980s, when Michael Porter showed how the tools of economics could be applied to understanding what makes industries attractive (or unattractive) to operate in.²² From the 1980s too, *cultural analysts* have used sociological insights into human behaviour to point to the importance of shared cultural understandings about appropriate ways of acting. In the internal context, cultural analysts show that strategies are often influenced by the organisation’s specific culture. In the external context, they show how strategies often have to fit with the surrounding industry or national cultures. *Resource-based view* researchers focus on internal context, looking for the unique characteristics of each organisation.²³ According to the resource-based view, the economic analysis of market imperfections, the psychological analysis of perceptual

Figure 1.7 Strategy’s three branches



or emotional biases, and the sociological analysis of organisational cultures should reveal the particular characteristics (resources) that contribute to an organisation's specific competitive advantages and disadvantages.

- *Strategy content* concerns the content (or nature) of different strategies and their probability of success. Here the focus is on the merits of different strategic options. *Strategy and performance* researchers started by using economic analysis to understand the success of different types of diversification strategies. This research continues as the enduring central core of the strategy discipline, with an ever-growing list of issues addressed. For example, contemporary strategy and performance researchers examine various new innovation strategies, different kinds of internationalisation and all the complex kinds of alliance and networking strategies organisations adopt today. These researchers typically bring a tough economic scrutiny to strategy options. Their aim is to establish which types of strategies pay best and under what conditions. They refuse to take for granted broad generalisations about what makes a good strategy.
- *Strategy process* examines how strategies are formed and implemented. Research here provides a range of insights to help managers in the practical processes of managing strategy.²⁴ From the 1960s, researchers in the *strategic planning* tradition have drawn from economics and management science in order to design rational and analytical systems for the planning and implementing of strategy. However, strategy involves people: since the 1980s, *choice and change* researchers have been pointing to how the psychology of human perception and emotions, and the sociology of group politics and interests, tend to undermine rational analysis.²⁵ The advice of these researchers is to accept the irrational, messy realities of organisations, and to work with them, rather than to try to impose textbook rationality. Finally, since the early 2000s, *strategy-as-practice* researchers have been using micro-sociological approaches to closely examine the human realities of formal and informal strategy processes.²⁶ This tradition focuses attention on how people do strategy work, and the importance of having the right tools and skills.

From the above, it should be clear that studying strategy involves perspectives and insights from a range of academic disciplines. Issues need to be 'explored' from different points of view. A strategy chosen purely on economic grounds can easily be undermined by psychological and sociological factors. On the other hand, a strategy that is chosen on the psychological grounds of emotional enthusiasm, or for sociological reasons of cultural acceptability, is liable to fail if not supported by favourable economics. As underlined by the four strategy lenses to be introduced later, one perspective is rarely enough for good strategy. A complete analysis will typically need the insights of economics, psychology and sociology.

1.6 Exploring strategy further

Sample provided via

So far, we have stressed that strategic issues are typically complex, best explored from a number of points of view. There is no simple, universal rule for good strategy. This section introduces two further ways of exploring strategy: one depending on context, the other depending on perspective.

1.6.1 Exploring strategy in different organisational types

Although the basic elements of the *Exploring Strategy* Framework are relevant in most circumstances, how they play out precisely is likely to differ according to different organisational types. Non-profit and for-profit organisations have been discussed earlier in the

chapter and applying the *Exploring Strategy* Framework can also help surface key issues in other organisational types:

- *Start-ups and small businesses.* With regard to positioning, small businesses will certainly need to attend closely to the environment, because they are so vulnerable to change. But, especially in small businesses, strategic purpose will be a determining issue: for instance, this may not necessarily just be profit, but might include objectives such as remaining independent and maybe even a pleasant lifestyle. The range of strategic choices is likely to be narrower than for larger businesses: for a small business, acquisitions may not be affordable, though they may have to decide whether to allow themselves to be acquired. Some issues of strategy in action will be different; for example, strategic change processes will not involve the same challenges as for large, complex organisations.
- *Multinational corporations.* In this context, positioning in a complex global marketplace will be very important. Each significant geographical market may call for a separate analysis of the business environment. Likewise, operating in many different countries will raise positioning issues of culture: variations in national culture imply different demands in the marketplace and different managerial styles internally. Strategic choices are likely to be dominated by international strategy questions about which geographical markets to serve. The scale and geographical reach of most multinationals point to significant issues for strategy in action, particularly those of organisational structure and strategic change.
- *Family businesses.* These firms vary widely in size and scope so their positioning issues will range widely depending upon competitive strength in their industry. However, this may not be the most important positioning issue as strategic purpose may be a defining issue. For instance, profit may not be of foremost consideration as objectives such as family control, handing over to the next generation and maybe even a pleasant lifestyle may be regarded as of greater importance. Depending on the size of the family business, resource constraints may or may not be a limiting issue in terms of strategic options but for large initiatives such as making an acquisition, or being acquired, family concerns will probably be uppermost in decision makers' minds. In terms of strategy in action, family businesses are likely to need to deal with particular complexities around strategic change and leadership.

In short, while drawing on the same basic principles, strategy analysis is likely to vary in focus across by different organisational types. As the next section will indicate, it is often helpful therefore to apply different lenses to strategy problems.

1.6.2 Exploring strategy through different 'strategy lenses'

Exploring is a distinctive feature of this book and it means being critical of existing approaches as well as looking for new and different things. In particular, exploring strategy involves searching for new angles on strategic problems as we believe a comprehensive assessment of an organisation's strategy needs more than one perspective. In order to help you build your awareness of different perspectives on strategy, we introduce 'four strategy lenses'. These lenses present distinct, theoretically informed perspectives on strategy that enable you to perceive different ways of perceiving strategy. The **four strategy lenses** cover ways of looking at strategy issues differently in order to generate additional insights. These different perspectives will help you criticise prevailing approaches and raise new issues or solutions. Thus, although drawn from academic theory, the lenses should also be highly practical in the job of doing strategy.

The four strategy lenses consist of:

- *Strategy as design*, which might be likened to an architect's approach that is systematic, analytical and logical.
- *Strategy as experience*, which recognises that taken-for-granted assumptions and ways of doing things, biases and routines, will influence strategy.
- *Strategy as variety*, which focuses on new ideas and innovation bubbling up in unpredictable ways in an organisation.
- *Strategy as discourse*, which focuses upon the ways that managers use language to influence strategy making – that strategy talk matters.

None of these lenses is likely to offer a complete view of a strategic situation. The point of the lenses is to encourage the exploration of different perspectives: first from one point of view and then from another. This might help in recognising how otherwise logical strategic initiatives might be held back by cultural experience, unexpected ideas and self-interested strategy discourse.

To appreciate the full value that the four strategy lenses framework brings to your understanding of strategy, see the Commentary at the end of Part I, coming after you have had a chance to work with some key strategy frameworks relevant to strategic position. The four lenses are revisited after each succeeding Part of the book so that you can develop deeper insights into those Parts.

Key takeaways

- In addressing organisational strategy, you should recognise the comprehensive nature of the strategy, including both deliberate and emergent strategy and implementation as well as formulation. This is reflected in the following definition: '*Strategy is the long-term direction of an organisation, formed by choices and actions about its resources and scope to create advantageous positions relative to competitors and peers in changing environmental and stakeholder contexts.*'
- You can summarise a strategy with a *strategy statement*, which should include an organisation's *goals*, *scope* of activities and the *advantages* or *capabilities* it brings to these goals and activities.
- You should address strategy at appropriate levels: for example, *corporate-level strategy* is concerned with an organisation's overall scope; *business-level strategy* is concerned with how to compete; and *functional strategy* is concerned with how corporate and business-level strategies are actually delivered. These levels need integrating.
- The *Exploring Strategy* Framework can be used as a basic template for strategy. This points to three major elements in any strategy: understanding the *strategic position*, making *strategic choices* for the future and managing *strategy in action*.
- You can get involved in strategy work as a *manager* in an organisation, or in a specialist role such as *strategic planner* or *strategy consultant*.
- When thinking about strategy, address issues of strategy *context*, *content* and *process*, drawing insights not just from one disciplinary source but all three of economics, sociology and psychology.
- Although the fundamentals of strategy may be similar, you should recognise the distinctive issues raised by different *organisational contexts*, for example small businesses, multinationals or the public sector.
- Use the four strategy lenses of *design*, *experience*, *variety* and *discourse* to critically evaluate strategic issues from a variety of perspectives.

Work assignments

* Denotes more advanced work assignments.

* Refers to a case study in the *Text and Cases* edition.

- 1.1 Write a strategy statement for an organisation of your choice (for example, the Airbnb end of chapter case, or your university), drawing on strategy materials in the organisation's annual report or website.
- 1.2 Using the *Exploring Strategy* Framework of Figure 1.6, map key issues relating to strategic position, strategic choices and strategy into action for the Glastonbury* case, or an organisation with which you are familiar (for example, your university, or your own organisation).
- 1.3 Go to the website of one of the major strategy consultants such as Bain, the Boston Consulting Group or McKinsey & Co. What does the website tell you about the nature of strategy consulting work? Would you enjoy that work?
- 1.4* Using Figure 1.6 as a guide, show how the elements of strategic management differ in:
 - (a) a small or family business (e.g., Marmor Magda*, HomeCo*, Glastonbury*)
 - (b) a large multinational business (e.g., Siemens*, Megabrew*, Unilever)
 - (c) a non-profit organisation (e.g., Vaasa City*, EMMAUS*).

Recommended key readings

It is always useful to read around a topic. As well as the specific references below, we particularly highlight:

- For a review of the recent evolution of strategy, read R. Whittington, *Opening Strategy: Professional Strategists and Practice Change 1960 to today*, Oxford University Press, 2019.
- Two stimulating overviews of strategic thinking in general, aimed particularly at practising managers, are C. Montgomery, *The Strategist: Be the Leader your Business Needs*, Harper Business, 2012; and R. Rumelt, *Good Strategy/Bad Strategy: the Difference and Why it Matters*, Crown Business, 2011.
- Two accessible articles on what strategy is, and might not be, are M. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, pp. 61–78; and F. Fréry, 'The fundamental dimensions of strategy', *MIT Sloan Management Review*, vol. 48, no. 1 (2006), pp. 71–75.
- For contemporary developments in strategy practice, see business newspapers such as the *Caixin* and *China Daily* (China), *Financial Times* (UK), *Handelsblatt* (Germany), *Les Echos* (France), *The Economic Times* (India) and the *Wall Street Journal* (USA), and business magazines such as *Business Week*, *The Economist*, *L'Expansion* and *Manager-Magazin*. Several of these have well-informed Asian editions. See also the websites of the leading strategy consulting firms: www.mckinsey.com; www.bcg.com; www.bain.com.

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Pearson.com

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Case Example

A viable unicorn? Airbnb

Duncan Angwin



Source: AlesiaKan/Shutterstock

The effect of the COVID-19 pandemic on Airbnb – the online accommodation platform – was nothing short of an apocalypse. The previous forecasts for 2020 were for revenues of \$10bn and net income of \$3.3bn, and yet Airbnb generated just \$3.4bn in revenue and made a loss of \$4.6bn for the year. However, Airbnb went public in December 2020 in a successful IPO (Initial Public Offering) that raised \$3.5bn from investors whilst, during 2021, bookings rebounded as recreational travel and rural destinations became popular. While some commentators had thought the pandemic would see the demise of Airbnb, others concluded that Airbnb had proven it could be a viable Unicorn.

Origins

In the US venture capital industry, a Unicorn is that rare animal, a start-up company whose valuation exceeds \$1bn dollars. These Unicorn valuations are no guarantee of long-term viability: notable Unicorn flops include the note-taking company Evernote, games company Zynga and health tech company Theranos. However, since its launch in 2007, Airbnb has reached a 2021 valuation of \$113bn. The company was founded by Joe Gebbia and Brian Chesky as a simple website with pictures of their loft-turned-lodging space – complete with three air mattresses on the floor and the promise of a home-cooked breakfast in the morning. Gebbia and Chesky realised there was often demand at conferences and festivals where hotels would fill up quickly. After adding a payment facility to their website, which allowed them to charge up to 15 per

cent of the booking (host pays 3 per cent; traveller 6–12 per cent), by April 2009, they were breaking even.¹

Growth

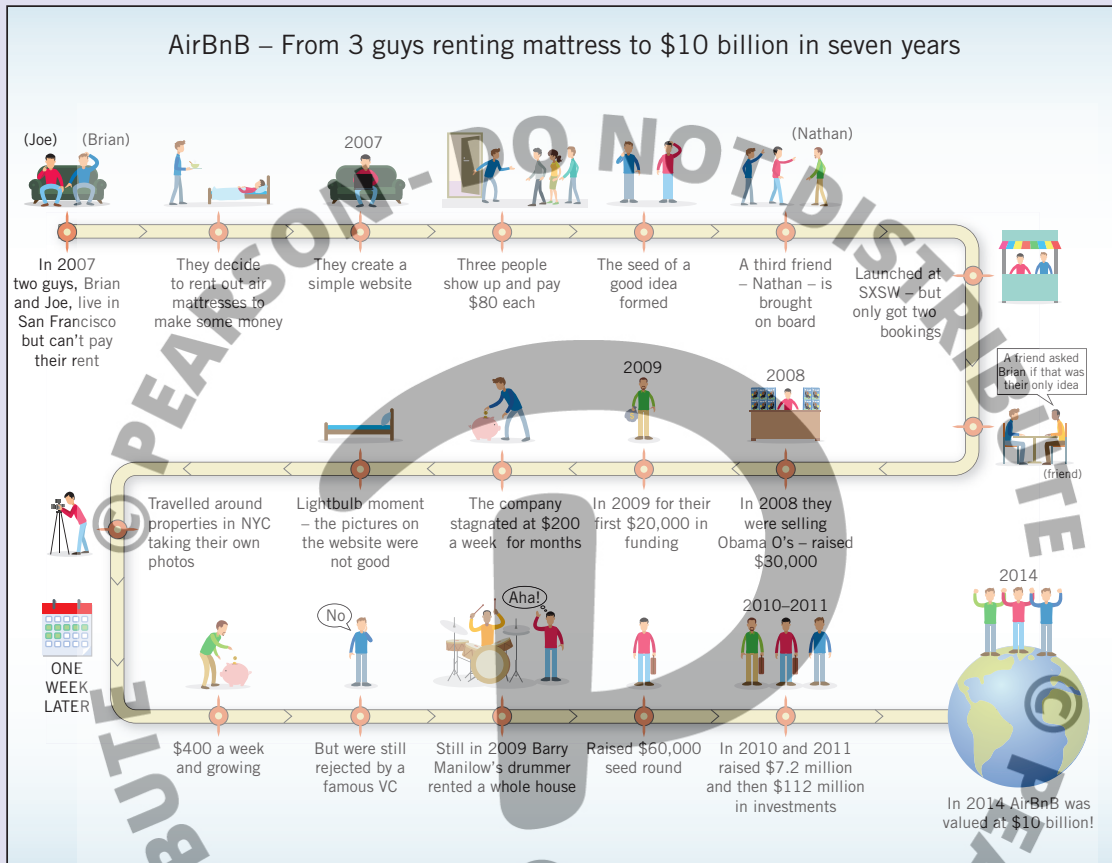
Gaining angel investor funding from Harminder Graham, co-founder of Y Combinator (a start-up mentoring programme) the company provided an app and website that connects people seeking lodging with renters who have listed their personal houses, apartments, or guest rooms on either platform. Quickly, the company expanded to 8,000 cities worldwide, increased the number of employees to 500 and moved to offices in the design district of San Francisco.

In 2010, Airbnb was experiencing sluggish listings due to poor presentation of properties. Through using professional photographers, which are now automatically available to hosts, properties began to be presented more professionally and this rapidly increased guest demand, as it helped to build trust. In addition, Airbnb Social Connections was introduced, which leverages users' social graphs via Facebook Connect. This shows whether friends have stayed, or are friends, with the host and allows guests to search for hosts based on other characteristics, like alma mater. Again, this reassures potential guests.

With further venture funding in 2011, Airbnb expanded through acquisitions acquiring their largest UK-based competitor Crashpadder just before the 2012 Summer Olympics in London. Offices were opened in Paris, Barcelona and Milan. Airbnb's growth was explosive with a higher valuation than the Hyatt and Wyndham hotel groups by 2014 and more guest nights booked than Hilton Hotels. By 2016, Airbnb was valued at \$25bn – more than any other hotel group.²

Airbnb proved attractive to guests and hosts as its listings were far superior to others available at the time, such as Craigslist. Listings were more personal, with better descriptions and nicer photos. The rooms were cheaper than equivalent ones at hotels and had more of a personal flavour. For instance, in a recent stay in Paris, a user noted the host had left a selection of food in the refrigerator, a bottle of wine on the counter for her guests and a welcoming note suggesting good places nearby to eat out and convenience shops. Staying in another person's apartment makes the visitor feel far more at home than an anonymous hotel room. For many young guests and hosts, Airbnb fitted into the contemporary sharing culture

Figure 1 Airbnb early growth story/AirBnB – From 3 guys renting mattress to \$10 billion in seven years



exemplified by easyCar Club, where users can rent their car to others, and Girl Meets Dress, that allows girls to borrow and lend their dresses for special occasions. For hosts, rents provide a source of income to help pay for soaring accommodation costs in many major cities.

Managing growth

CEO Brian Chesky penned a memo in 2013 to his top management team, as follows:³

Hey team,

Our next team meeting is dedicated to Core Values, which are essential to building our culture. It occurred to me that, before this meeting, I should write you a short letter on why culture is so important to [co-founders] Joe, Nate, and me.

... In 2012, we invited Peter Thiel [a major investor] to our office. This was late last year, and we were in the Berlin room showing him various metrics. Midway through the conversation, I asked him

what was the single most important piece of advice he had for us.

He replied, 'Don't f* up the culture.'**

This wasn't what we were expecting from someone who just gave us \$150mn. I asked him to elaborate on this. He said one of the reasons he invested in us was our culture. But he had a somewhat cynical view that it was practically inevitable once a company gets to a certain size to 'f* it up'.**

Sample provided via

Source: Founder and CEO Brian Chesky penned a memo in 2013

Accordingly, the company began to manage its culture more deliberately. For example, Joe had become concerned that, as the company grew, it had become less open to dialogue. To encourage more discussion, he invented the notion of 'elephants, dead fish and vomit'. As he explains: 'Elephants are the big things in the room that nobody is talking about, dead fish are the things that happened a few years ago that people can't get over, and vomit is that sometimes people just need to get something

off their mind and you need someone to just sit there and listen.⁴ All three need to be aired. Airbnb also established a series of annual meetings called One Airbnb, bringing together employees (called 'Airfam') from all around the world to the San Francisco base for four-day conferences at which everyone can meet the founders, discuss strategy and also talk about both their work roles and their hobbies. The company has 'ground control' staff in every office in the world dedicated to making the company culture 'come alive', organising pop-up birthday celebrations, anniversary parties or baby showers. The company is rigorous in its recruitment policy, committed to hiring 'missionaries, not mercenaries'.

At the same time, the founders had begun to ask themselves again: 'What is our mission? What is the big idea that truly defines Airbnb?' As they recalled in their own words: 'It turns out the answer was right in front of us. For so long, people thought Airbnb was about renting houses. But really, we're about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first time, you can belong anywhere. That is the idea at the core of our company.'⁵

Airbnb in 2021

Anyone anywhere in the world can list spare space from a room to a tree house, from a castle to an island in Fiji, with prices ranging from \$50 to \$2,000 per night. The headquarters' walls are covered with world maps dotted with hundreds of coloured pins, charting world domination. Pre-pandemic, Airbnb was so popular that one of their rooms was booked every two seconds.

The company is now focused on the whole travel trip with an emphasis on delivering local experiences. This focus on hospitality is not just about where you stay, but what you do – and who you do it with – whilst you're there. Airbnb has introduced Neighbourhoods and local lounges, partnering with local coffee shops that can offer free wifi, a comfortable setting and local guidebooks. They have also acquired a small start-up that connects guests with locals who can answer their questions and Airbnb also offers cleaning services. The Airbnb website and apps now have subtle animations and flashier imagery to convince customers that it is more than a hotel service and more of a lifestyle brand. The focus is firmly on 'belonging'.

With over one billion cumulative guest arrivals as more people began travelling after the easing of the pandemic, Airbnb posted record host earnings of \$12.8bn during 2021. In the face of rising inflation, increasing numbers of families were applying to become hosts to supplement their incomes. Company profits were also up, but this was

credited to the loss of a quarter of Airbnb's workforce during the pandemic. Long stays now made up around 20 per cent of all bookings and were the fastest growing segment. Airbnb had an estimated 6 million listings (more than the top 10 hotel chains combined) in over 100,000 cities in over 220 countries.

Prior to the pandemic, Airbnb had been providing a strong challenge to hotels with prices 30–80 per cent lower than local operators. However, this was provoking a reaction. Hotels fought back by arguing Airbnb rooms were dangerous and unsafe as they were unregulated. For example, in San Francisco, although one must have a permit to rent for under 30 days, residents were still illegally listing personal homes and apartments. Similar problems were being experienced in New York where an 'illegal hotel law' was passed preventing people from subletting apartments for less than 29 days. Other cities across the world were imposing stringent regulations as local residents were crowded out of attractive city centres by short-term rental properties. In Paris, at one point the largest market in the world for Airbnb with over 60,000 apartments on offer, the mayor complained the city was being turned into an 'open-air museum'. The city responded by tightening up on the registration and advertising of accommodation, as well as placing a 120 days per year limit on rentals. The European Union also gave Airbnb an ultimatum about the lack of price transparency, while governments were widely raising concerns over hosts not paying tax on rental earnings.

During the pandemic, Airbnb's business model had been more resilient than its rivals, with revenues down less than for travel-aggregator Expedia and Booking.com. However, coming out of the pandemic in 2022, growth rates were lower than for the major hotel groups as well as Expedia and Booking.com.⁶ This weakness was concealed somewhat by the high profitability achieved by Airbnb's sharp cost-cutting on product development, marketing and staffing.

The future

Some critics have forecast a fundamental change in Airbnb's fortunes, arguing the company's shares are over-priced, with competitors such as Homestay (hosts are present), Home Exchange, Vrbo, Kid & Coe (family friendly), onefinestay (luxury accommodation) and others chipping away at its business model. Hotel chains such as Marriot International are also adding home-rentals to their offerings. Cities and regulators continue to show negative reactions towards short-term rental.⁷ So-called 'professional hosts' (typically with multiple listings or properties) have been very damaged by the pandemic, leading to a shortage of accommodation as demand

risers. However, other commentators focus on Airbnb's achievement of creating a new way to holiday, through massive expansion of the accommodation base and destination possibilities while providing a convenient way for hosts to monetise their accommodation. For these commentators, Airbnb's game-changing model still has a long way to run. As CEO Brian Chesky says, 'the trick is to be optimistic'.⁸

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4. J. Temperton (2020) 'Is this the end of Airbnb?' *Wired*, available at: <https://www.wired.co.uk/article/airbnb-coronavirus-losses> [accessed May 2022].
5. D. Lee, 'Airbnb's Brian Chesky: "The trick is to be optimistic"', *Financial Times*, 2 May 2021, available at: <https://www.ft.com/content/d42ae8b5-4723-4327-8dd9-13d4b699dbd9> [accessed May 2022].

Questions

- 1 Sticking to the 35-word limit suggested by Collis and Rukstad in Section 1.2.3, what strategy statement would you propose for Airbnb?
 - 2 Carry out a 'three-horizons' analysis (Section 1.2.1) of Airbnb, in terms of both existing activities and possible future ones. How might this analysis affect its future strategic direction?
 - 3 Using the headings of environment, industry, resources and capabilities, purposeful strategy and culture, seen in Section 1.3.1, identify key positioning issues for Airbnb and consider their relative importance.
 - 4 Following on from the previous questions and making use of Section 1.3.2, what alternative strategies do you see for Airbnb?
 - 5 Converting good strategic thinking into action can be a challenge: examine how Airbnb has achieved this by considering the elements seen in Section 1.3.3.
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Chapter 2

Working with strategy

Key terms

- allocentricism 41
- issue trees 42
- SWOT analysis 36
- strategic plan 49
- system maps 43
- thinking slow 34

Learning outcomes

After reading this chapter, you should be able to:

- Recognise the value of *thinking slow* in strategy
- Understand how to apply analytical frameworks in strategy, including *SWOT*
- Appreciate *the role of theory* in strategic frameworks
- Grasp key strategic thinking techniques including *allocentricism*, *system mapping* and *issue trees*
- Recognise the components of an effective *strategic plan*
- *Prepare strategy cases* and make persuasive *presentations* of strategic analyses

	Non-profit	Sustainability	Digital Transformation
Pages	44-45	44-45	55-57

Sample provided via
Pearson.com

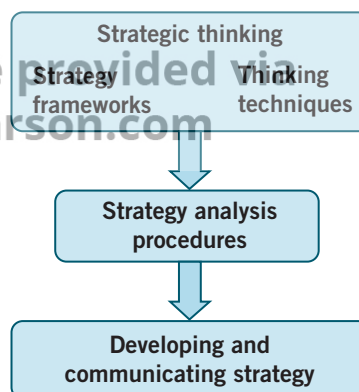
2.1 Introduction

As outlined in the previous chapter, the practical aspects of working with strategy are central to this book. For students and practitioners, strategy involves a good deal of work. An entrepreneur may quickly come up with an idea for a business, but there is a lot more to do in turning the idea into the strategy of a real enterprise. This work will involve careful strategic thinking, analysis using various strategy frameworks, formulating strategic plans, and communicating and presenting them to multiple stakeholders including potential employees and potential partners and investors. In similar fashion, a strategy case study for a student will require several readings, application of appropriate strategic frameworks, perhaps discussion in a small group and, possibly, some kind of final presentation.

This chapter addresses fundamental issues in strategy work important not only for entrepreneurs and managers, but for you as a student. The focus here therefore is on how both practitioners and students can best address strategic issues that will often seem very complex and uncertain. In your practice and in your studies, you will find that good strategy work involves careful and holistic strategic thinking, various forms of strategy analysis, the savvy use of strategy frameworks and tools, skill in sizing up an organisation's overall situation, good judgement, plans for implementation and, finally, understanding of how to communicate your strategy analyses and recommendations. Strategy is typically about the future of the whole organisation, not just one function, so it's not surprising that it can take a good deal of work.

Figure 2.1 summarises the structure of this chapter and key issues. Section 2.2 introduces strategic thinking, in particular the notion of *thinking slow*. Section 2.3 then goes on to consider the role of strategy frameworks in strategic thinking, using SWOT analysis as an initial example. Various thinking techniques, such as *allocentricism*, *issue trees* and *system mapping* are introduced in Section 2.4 as underlying ways of approaching strategic problems. Section 2.5 then considers strategy analysis procedures, including the analysis of published *case studies* and the investigation of real organisations. Section 2.6 finally addresses developing strategy in the form of *strategic plans*, criteria for a 'good strategy', and communicating strategy through *presentations*.

Figure 2.1 Key issues in strategy work



2.2 Strategic thinking

Strategic thinking is not like everyday thinking. This section introduces *slow thinking*, *convergent* and *divergent* thinking and the role of *checklists*.

2.2.1 Thinking slow

Strategy involves a different way of thinking from what we use in most of our lives. Nobel prize-winner Daniel Kahneman describes two fundamental thought processes: *thinking fast* and *thinking slow*.¹ Thinking fast is intuitive, quick and decisive: Kahneman calls this System 1 thinking. **Thinking slow is deliberative, analytical and thorough.** Kahneman calls this System 2 thinking. In biological evolution, thinking fast helped early humans act quickly when hunting prey or escaping predators. Today, thinking fast is still good for most everyday situations, where it is a waste of time to 'overthink' things: for example, when deciding which lunchtime sandwich to buy or whether to run for a bus. But strategy requires thinking slow – and our biology makes that surprisingly hard to do.

Kahneman warns that thinking slow is required in complex situations where the stakes are high and there is time to collect more information. These situations describe most strategic problems. Getting decisions wrong in strategy could cost an organisation its survival. But since humans' evolutionary origins, thinking fast is our natural reaction to most problems, even strategic ones. We have a tendency to jump to conclusions and be over-confident in our first impressions. Thinking slow is about making the time to consider all the angles, gather more information and challenge initial opinions.

What does thinking slow mean in practice? It means that a full strategy analysis, both for practitioners and students, consists of many steps. It requires various frameworks, a great deal of quantitative and qualitative data, multiple iterations, and finally presenting in a way that clearly identifies key issues and makes persuasive recommendations. The eventual strategy presentation may look simple, but this simplicity typically conceals a great deal of hard and complex work. When entrepreneurs make their initial 'elevator pitches' describing their strategies to investors, they may only take the 60 seconds equivalent to a brief ride in an elevator. However, behind that 60-second pitch will typically be many long days and nights of thought. Thinking slow about strategy means not rushing to conclusions, both as a practitioner and as a student.

In this book, we offer a variety of strategy frameworks and tools to help you 'think slow' about strategy. In particular, the Thinking Differently perspectives, at the end of each chapter, will help you pause and reflect on alternative ways of seeing the strategic issues you have in hand. In a similar way, the four strategy lenses presented at the end of each of the three main Parts – Design, Emergence, Variety and Discourse – offer you contrasting ways of understanding what is going on. Take the time to apply different thinking and diverse lenses to the strategic issues that follow throughout the book.

2.2.2 Two brains

Thinking slow in strategy is important, but that does not mean everything is resolved just by analysis. The Canadian management theorist Henry Mintzberg captures the need for holistic judgement in strategy by using the metaphor of two sides of the human brain – the right hemisphere of the brain and the left.² The left brain is commonly associated with rational, linear and explicit thinking, while the right brain is more intuitive, holistic and implicit. The left-brain analyses – breaks problems down into parts. The right-brain synthesises – integrates

things into an overall picture. Just as for humans in general, Henry Mintzberg concludes that both right and left-brain approaches are necessary for strategy. Of course, we need left-brain analysis. But strategy often involves taking a position in situations of complexity, ambiguity and incomplete information. In those kinds of situations, analysis cannot do everything. Right-brain integration and judgement are required as well.

The metaphor of two brains is reflected in the distinction between two kinds of thinking often used in strategy: 'convergent' and 'divergent'.³ Convergent thinking is like the left-brain: analytical and focused. Divergent thinking is closer to the right-brain: creative and receptive to a wide range of ideas and information. There are certain strategic planning activities that benefit from convergent thinking: precise numbers and clear targets are often central in strategic plans. But for designing the imaginative, breakthrough strategies that may underly these plans, managers, entrepreneurs and students need divergent thinking as well. The implication is that creativity techniques such as brainstorming and bringing in diverse points of view have an important part to play in strategy, especially at the beginning of the process. Thorough analysis can then test in detail the divergent strategic options that result.

In sum, strategy requires a broad range of skills. Thinking slow, as in Section 2.2.1, is not just a matter of analysis. It is also a matter of allowing space for more right-brain or divergent thinking. Creativity, synthesis and judgement are important as well as rigour, analysis and calculation. Strategy analysis will rarely produce an answer on its own; you need judgement as well. The point of analysis at the final uncertain moment of decision is to give you and your audiences confidence that you have good reasons for coming down on one side of the argument or another.

2.2.3 Checklists

The techniques in *Exploring Strategy* are designed to help you think slower – in other words, be strategic and consider all the angles before making recommendations. Many of these techniques take the form of checklists. Checklists help ensure that you are comprehensive in your thinking, covering the qualitative issues amenable to the right-brain as well as the quantitative issues favoured by the left.

Checklists are a key thinking tool in many professions. Surgeons before the first cut, airline pilots before take-off and structural engineers before completing their designs all use checklists.⁴ They precede any significant action by carefully checking that all necessary items have been considered first. For example, surgeons check blood types, airline pilots check aircraft doors and structural engineers check material strengths. None of the items on their own take very much expertise. But, in complex conditions, it is very easy to forget quite simple things and think too fast. Where the stakes are high, as in surgery, passenger aircraft and bridges or dams, it is wise to slow the thinking down before taking action.

Strategy is the same: it is hard for strategists to remember everything that might be relevant on their own, but the consequences of forgetting something can be huge. That is why many strategy frameworks involve checklists. In this chapter, we shall use SWOT analysis, an initial checklist helping you to think about the overall strategic position of an organisation. In Chapter 3, we shall use PESTEL as a list of factors (political, economic, social, technological, ecological and legal) that are important in the macro-environment. In Chapter 4, Porter's Five Forces reminds you that the attractiveness of industries relies on all five factors of rivals, buyers, suppliers, new entrants and substitutes. These checklists should not be under-estimated. As we shall see with even one of the simplest ones, SWOT, these checklists often lead on to additional analyses and are underpinned by research.

2.3 Strategic frameworks

This book introduces many strategic frameworks for thinking about strategic issues. As an illustration of these frameworks, this section introduces SWOT analysis, underlines the value of using multiple frameworks and shows how theory can provide useful guidelines for applying frameworks in practice.

2.3.1 SWOT analysis

SWOT analysis involves the systematic analysis of an organisation's strengths, weaknesses, opportunities and threats. SWOT is the most widely used strategy framework in the world and, as it is so familiar, it will be used here as an example of how classic strategy frameworks can be used and, sometimes, misused.⁵ SWOT's own strength is that it is simple conceptually, easy to remember and reasonably comprehensive. SWOT can also be used to evaluate existing and possible future strategies and as a basis for generating strategic options. The components are as follows:

- *Strengths* are those internal factors that make an organisation superior and more competitive than its peers. They constitute an organisation's distinct advantages and include resources or capabilities that the organisation holds that can be used effectively to achieve its objectives. Strengths might include a skilled workforce, a unique technology or a valuable brand.
- *Weaknesses* are limitations, faults, or defects within the organisation that will keep it from achieving its objectives. It is what an organisation does poorly or where it has inferior capabilities or resources compared to its peers and the competition. Weaknesses might include poor information technology systems, a negative or cynical organisational culture or a bad reputation with customers.
- *Opportunities* include any favourable current or prospective situation in the organisation's environment, such as a trend, change, or overlooked need. It is something that supports the demand for a product or service (new or existing) and permits the organisation to enhance its position relative to its peers. An opportunity might include the rapid growth of a relevant market segment or the emergence of a new technology that the organisation is well-placed to exploit.
- *Threats* include any unfavourable situation, trend or impending change in an organisation's environment that is currently or potentially damaging to its ability to achieve its

Figure 2.2 SWOT matrix

	Positive	Negative
Internal forces	Strengths	Weaknesses
External forces	Opportunities	Threats

objectives. It may be an external barrier, constraint, or risk that might inflict problems or harm on the organisation. For example, a threat could be a downturn in demand, powerful suppliers, or the arrival of a new competitor in the market.

Typically, an organisation's strengths and weaknesses are made up of factors over which it has some control, for example the organisation's technologies, workforce, brands, mission, and so on. An organisation usually has less control over its opportunities and threats, for example macro-economic conditions, climate change or government regulations. However, it is easy to over-estimate the ease with which internal factors can be managed (organisational cultures are very hard to change) and sometimes organisations can exert some control on external factors (for example, they might be able to influence regulatory standards). With regard to all SWOT factors, it is important to consider necessary actions. The point of strategy is to develop strengths, reduce weaknesses, seize opportunities and guard against threats.

The *TOWS matrix*, sometimes termed a collision matrix, is a useful way of transforming SWOT analysis into strategic actions (see Figure 2.3).⁶ The matrix builds directly on the information in a SWOT exercise. Each box of the TOWS matrix can be used to identify options that address a different combination of the internal factors (strengths and weaknesses) and the external factors (opportunities and threats). For example, the top left-hand box prompts a consideration of options that use the strengths of the organisation to take advantage of opportunities in the environment. A company may use its technology strengths to reduce CO2 emissions and thus exploit opportunities for low climate-impact products, for example. The bottom right-hand box prompts options that minimise weaknesses and also minimise threats. For example, this might include the need to develop an information technology system to better service clients or partnerships with other organisations to deal with threats from new competitors.

On the face of it, SWOT seems to be an attractively simple form of analysis, but the result can fall short. The most frequent failings in SWOT analyses are the following:

- *Confusing the internal and the external.* It is important to recognise that opportunities and threats are external to the organisation being analysed, whereas strengths and weaknesses are internal. The whole purpose of the framework is to contrast external opportunities and threats with internal strengths and weaknesses in order to understand the *degree of fit* between the organisation and its context. Figure 2.2 makes the distinction between the internal and the external very clear. Without recognising this distinction, the value of SWOT is severely reduced. The aim of the analysis is to identify the extent to which

Figure 2.3 The TOWS matrix

		Internal factors	
		Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	SO Strategic options Generate options here that use strengths to take advantage of opportunities	WO Strategic options Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	ST Strategic options Generate options here that use strengths to avoid threats	WT Strategic options Generate options here that minimise weaknesses and avoid threats

strengths and weaknesses are relevant to the changes taking place in the environment (as in TOWS analysis). In responding strategically to the environment, the goal is to reduce identified threats and take advantage of the best opportunities.

- *Long lists.* Compiling long lists of items in each box is not the same as doing a SWOT analysis. What matters is to be clear about what is most significant and what is less so, based on a rigorous and systematic analysis of all items. Managers and entrepreneurs need focus. Prioritising the issues that really matter implies keeping the SWOT brief. Three rules can be helpful here. First, focus on strengths and weaknesses that differ in *relative* terms compared to competitors or comparable organisations and leave out areas where the organisation is equal with others (think 'better'/'worse', not just 'strength'/'weakness'). What you do better is why customers, employees and funders choose your organisation rather than somebody else's. What you do worse is where rivals will steal the advantage. Second, only focus on opportunities and threats that are directly *relevant* for the specific organisation and industry and leave out any general and broad factors outside the focal organisation's existing or potential domains: an international or technological opportunity for which your organisation has no relevant strengths is not worth listing. Third, summarise the results and draw concrete *conclusions* based on the analysis (the TOWS matrix below can help here). SWOT analysis should finish with clear implications.
- *Stopping at SWOT.* A final danger is substituting the SWOT for a comprehensive and deeper strategy analysis. SWOT analysis is an engaging and fairly simple tool to be used either as an introductory overview or as an effective summary of more detailed analysis (the approach *Exploring Strategy* generally advocates). It can also be a useful vehicle to communicate strategy. However, it is not a substitute for in-depth strategy analysis. There are two main dangers if it is used on its own. First, without more thorough analysis (typically using more frameworks), managers tend to fall back on preconceived and biased views, while students rely on first impressions. Thorough analysis helps to challenge entrenched or superficial views. Second, without further analysis, SWOT can lack specificity or depth. Identifying very general strengths, for example, does not explain the underlying reasons for those strengths or to what degree those strengths are distinctive advantages relative to rivals. The rest of this book will provide many concepts and techniques by which each of the elements of SWOT – strengths, weaknesses, opportunities and threats – can be more deeply analysed. SWOT is rarely the only analytical tool you will need.

2.3.2 Using multiple frameworks

While SWOT concerns both external and internal factors in strategy, it is usually just a start. Strategy problems are typically multilevel and complex, so that they can rarely be approached just by a single framework. Instead, they often require multiple frameworks and specific ones for different levels of analysis and for different aspects of the organisation. The frameworks used to analyse the macro-environment (Chapter 3) are not adequate to analysing the industry level of the environment (Chapter 4). Similarly, frameworks used for business-level strategy (Chapter 8) are not appropriate for the corporate-level strategy issues of the organisation as a whole (Chapter 9). If the strategic problem is internal, then the frameworks required are likely to relate to specific aspects such as organisational resources and capabilities (Chapter 5), organisational culture (Chapter 7), or organisational structure (Chapter 15).

It is thus necessary to sort out what type of strategy frameworks to apply. For students, some guidance will come where a case study question invites the use of a specific framework, either through the language of the question, such as 'identify the strengths

Illustration 2.1 What makes a good SWOT?

Refer back to Illustration 1.1 Tesla Motors: the future is electric. In response to the instruction: 'Analyse Tesla Motors' competitive position in the motoring industry', the following SWOT analysis was carried out.

<p>Strengths</p> <ul style="list-style-type: none"> • Disruptive innovation skills • Massive \$1trn capitalisation • Strong vision of save the planet • Large-scale battery production • Customers willing to pay a premium price for performance 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Little car making experience • Cars have limited range • CEO Elon Musk • Now making cheaper, slower cars
<p>Opportunities</p> <ul style="list-style-type: none"> • Manufacturing hybrid petrol/electric cars to extend range and access larger car market • Applying technology to electric vertical takeoff and landing (eVTOL) vehicles 	<p>Threats</p> <ul style="list-style-type: none"> • Rising competition from existing car manufacturers



The conclusion to the analysis was that Tesla Motors has many strengths and few weaknesses. The strengths are such that they allow Tesla to seize the opportunities presented and also overcome the weaknesses and threats identified, due to huge capitalisation and innovative strengths. Tesla is strongly positioned in the car industry.

- (ii) barely adequate
 - (iii) reasonable
 - (iv) good
 - (v) outstanding
- and explain your judgement.

- 2 In what ways do you think the SWOT analysis above, could be improved or extended to assess the competitive position of Tesla Motors?

Questions

Review Illustration 1.1 Tesla Motors and the SWOT analysis above. Answer the following questions:

- 1 Examine the SWOT analysis above and indicate whether you believe it to be:
- (i) inadequate

and weaknesses of the organisation', or by specifically asking for a particular framework such as SWOT. However, for most real-world strategy problems, for student assignments requiring investigations of a particular organisation and for many case study exercises, the right frameworks are not obvious. You will need to carefully choose what frameworks to use for what levels of analysis and for which aspects of the strategic problem. One of the most common mistakes in strategy analysis is to start analysing at one level, but unintentionally to move to another. For example, an industry analysis should not confuse an individual organisation's characteristics with those of the whole industry. An individual organisation may have strong brands, but those on their own would not create sufficient entry barriers to protect the industry as a whole from invasion by new competitors. If other industry players had weak brands, new competitors could enter and change the competitive dynamics of the whole industry, perhaps eventually challenging even the strong-branded player (see Chapter 4). It is thus important to figure out on what levels of analysis different parts of the strategy problem are located and then apply the appropriate frameworks to the right level.

At the same time, it is often insightful to apply more than one relevant framework to a particular problem. Frameworks 'frame' issues in particular ways: in other words, they point to some issues while neglecting others. The assumptions and focus of each framework can limit the view. Such limits can be best countered by using different frameworks to examine the same issue. Each framework potentially illuminates different aspects of the issue. The Thinking Differently sections at the end of each chapter particularly help in bringing different ways of framing issues. For example, the Thinking Differently section in Chapter 6 contrasts the calculative and individualistic approach of stakeholder analysis to the more cultural and communal approach of ubuntu philosophy. Similarly, the four lenses of Design, Emergence, Variety and Discourse offer alternative ways of framing issues.

When using several frameworks, it is generally important to try to link different pieces of analysis. Otherwise, the result is a set of disparate analyses that don't really inform one another and so don't add up to much insight. The real value of a strategic analysis is building up a cumulative and powerful strategic picture of the organisation as a whole. An overall view that integrates the important issues in a coherent way should be the eventual outcome of strategy analysis. All analysis needs a conclusion.

2.3.3 Frameworks and theories

So far, the chapter has hinted that frameworks are often much more than just their superficial appearances. Underlying frameworks are typically concepts, theories and research that give confidence in their validity, insight into their results and guidance to practical usage.

Even a checklist like SWOT has acquired some underlying theoretical underpinnings. SWOT emerged from the practical consulting activities of the Stanford Research Institute and Urwick Orr in the early 1960s, but it has since been reinforced by theoretical developments in academia.⁷ Thus, Jay Barney, the founder of the influential resource-based view of strategy (see Chapter 5), introduced his theory in terms of SWOT.⁸ For him, strengths and weaknesses are about competitive (or relative) advantage or disadvantage. According to the resource-based view, such competitive advantage is based on having valuable, rare, inimitable and non-substitutable resources and capabilities. This theoretical insight from the resource-based view provides an important reminder in using SWOT. Strengths and weaknesses are relative, assessed on the basis of what your rivals have or do not have. Claimed

strengths can be rigorously assessed against the criteria of value, rarity, inimitability and non-substitutability.

In the same way, Michael Porter has introduced a more specific and systematic way of analysing opportunities and threats in an industry. His Five Forces framework for analysing the attractiveness of industries (see Chapter 4) has strong roots in economics theory and research about the importance of market power for profitability.⁹ Michael Porter himself did some of this research in Harvard University's Economics Department. His choice of rivalry, buyer power, supplier power, substitutes and entry threat as the five forces is not arbitrary, therefore: the potential influence on profits of each force is confirmed by research. The resulting guideline for practice is not to short-cut your industry analysis by omitting any of the five forces.

This kind of underpinning in research is the reason why *Exploring Strategy* frequently refers to academic sources. Knowing that frameworks are backed by rigorous academic theory and research should give you confidence in their validity: they have been probed for intellectual coherence and tested against real-world data. This basis in research also reminds you to be careful about altering or short-changing frameworks: they are typically the way they are for very good reasons.

2.4 Strategic thinking techniques

This section introduces three general techniques for thinking strategically and that underpin many more specific strategy frameworks: *allocentricism*, which is about looking broadly; *issue trees*, which are about thinking deeply; and *system mapping*, which is about seeing links. All of these techniques are applicable to life's problems in general, but they have particular value in strategy.

2.4.1 Allocentricism

In our personal lives, we are often tempted to be egocentric, thinking first about ourselves. Morality tells us instead to be 'allocentric', to think about others.¹⁰ In strategy, allocentrism is not just a matter of morals; it is vital to strategic success. **Allocentricism involves thinking not only about your own organisation but about other actors, for example customers, suppliers, rivals, partners and governments.** Their concerns, strengths and reactions are likely to matter to your success. Allocentricism encourages you to think broadly rather than just about yourself.

Allocentricism is fundamental to many of the concepts and frameworks in this book. As discussed earlier in this chapter, SWOT analysis is not so much about your strengths and weaknesses, but about whether you are better or worse than your competitors. A strength is valuable if it gives you an advantage vis-à-vis others. It follows that you can only complete a SWOT analysis of your own organisation when you have analysed the strengths and weaknesses of your key competitors. Similarly, the concept of competitive advantage in Chapter 5 clearly relies on your position relative to competitors. The effectiveness of business strategies also depends on competitor counter-moves (see Chapter 8). For example, a strategy of price cutting depends on the capacity of your competitors to respond in kind: if they match your price cut, then you will not gain sales but you will depress profit margins. With regard to acquisitions (Chapter 12), you have got to take into account not only how the target company will respond, but also the reactions of rivals who might want to bid more for the target.

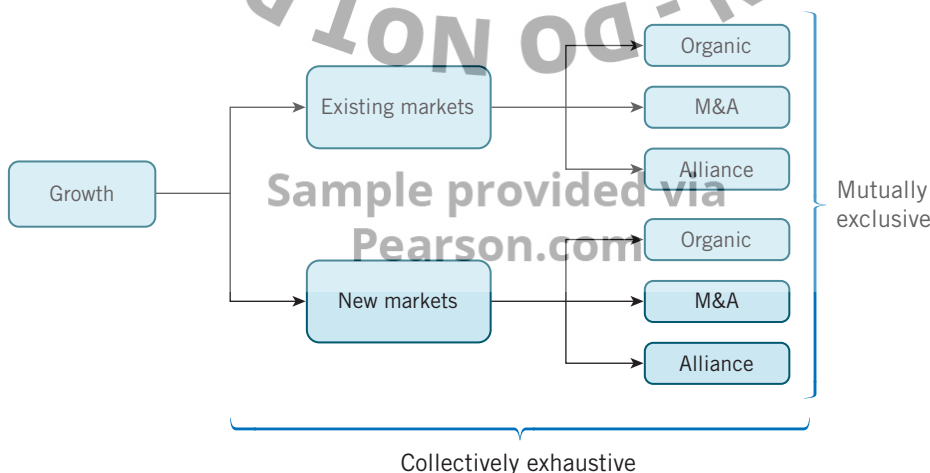
The concept of allocentrism therefore helps us avoid egocentrism in strategic analysis. It puts brakes on over-confident 'fast thinking' (Section 2.2.1) by challenging us to think hard about the strengths, weaknesses, motives and reactions of other organisations. Strategy is not all about you; it is about the others upon whom your success depends. In strategy, allocentric analysis puts others first.

2.4.2 Issue trees

Big issues are often like tree trunks, with branches reaching out to many subsidiary issues. For example, a big issue for you personally might be how to pay back your credit card debt. Subsidiary issues would include how to cut your expenditure and how to raise your income. Each of these subsidiary issues contains further subsidiary issues of their own: can you cut your expenditure by eating out less or by not taking a holiday; can you increase your income by getting a promotion or by changing your job altogether? Strategy typically involves big issues too, and issue trees can provide a structure to help you think deeply about these issues, drilling down several layers.¹¹ The branches of strategic issues can stretch very far.

Issue trees involve the systematic breaking-down of big issues into subsidiary issues for further analysis. Many of the strategic choices addressed in Part II of this book lend themselves to issue tree analysis. For example, your big strategic issue might be how to grow your organisation. Subsidiary issues would be whether you can get enough growth from your existing markets, or whether you will have to diversify into new markets (see Chapter 9, Corporate Strategy). Sub-issues to each of these alternatives are whether to grow by entering a new market on your own (organic), or to acquire or merge with another organisation already in that market (M&A), or to form an alliance with an organisation capable of helping you into the market. Figure 2.4 maps out an issue tree for the big issue of growth. You could, of course, use issue trees to address other big issues such as how to improve profitability or how to develop a more environmentally sustainable business. For profitability, the first two subsidiary issues would be whether to raise revenues or cut costs; further subsidiary issues would flow from there (do you raise revenues by increasing volumes or by increasing prices, and so on?).

Figure 2.4 Structure of an issue tree (MECE)



A goal in issue tree analysis is to construct a set of subsidiary issues that are mutually exclusive and collectively exhaustive (MECE).¹² Mutually exclusive means that issues (or options) are logically distinct, requiring separate analysis; collectively exhaustive means that you have covered all practical issues (or options). For example, for the growth issue in Figure 2.4, the MECE sub-issues of organic, M&A and alliance are each exclusive in the sense of being separate options for analysis (though options can be combined in the final strategy) and exhaustive in considering the whole range of possibilities. Issue trees help you think deeply by making sure that you cover issues and sub-issues (collectively exhaustive) and that you analyse each of them separately (mutually exclusive).

2.4.3 System mapping

Systems thinking is about not seeing issues in isolation.¹³ **System maps show the consequential links between the elements of a strategic problem.** In a system, all the parts are interconnected, so changing one part is liable to have knock-on effects ('feedback loops') on all the other parts. Often, a small change can set off a chain of events that is much bigger than the initial change. For example, in the interdependent ecosystems of nature, a pesticide that kills a particular pest impacts the small predators that feed on that pest and, in turn, impacts the larger predators that feed on the smaller ones. Mapping such consequential links is a good way of anticipating such impacts.

Many strategy situations are like the interdependent ecosystems of nature. One element of an organisation is connected closely to many other elements. For example, the strategic success of the Apple iPhone is dependent upon a system (often even called an ecosystem) of mutually reinforcing products: the Apple Store, iCloud, Apple Music, iPads, iPods, the Mac, and so on. iPhones work well because they smoothly connect to so many other products. Many of the concepts and frameworks in this book involve systems thinking. For example, Chapter 4 describes business ecosystems; Chapter 5 explores 'value systems' of interconnected customers and suppliers; Chapter 11 explores the role of business ecosystems like Apple's in innovation; Chapter 15 describes the importance of keeping all organisational elements aligned together ('configured') during strategy implementation, as in the McKinsey 7S framework. A system map can bring out the key interdependencies that strategists need to bear in mind.

Illustration 2.2 provides a partial system map of urban indigenous food insecurity in Canada, showing consequential links between and within six separate subsystems or sectors. Two key takeaways from this map are: first, indigenous food security is not only about nutrition, but also about culture and mental health; and second, strategic interventions must involve the environment and government as well as economics. Mapping systems in this kind of way makes clear that strategic problems cannot be addressed piecemeal. If you identify a strategic weakness, what else has to be fixed to resolve it properly? If you identify a strategic opportunity, what supporting actions are needed to make your strategy actually work? Going back to Section 2.2.1, system mapping helps you 'think slow' because it points to the links that are typically so important in strategy.

2.5 Strategy analysis procedures

As a student, you may be asked to analyse a published case study in preparation for a class discussion or as an assignment or an examination. Sometimes, you will be asked to treat a real organisation as a case, involving research through published and other sources and choice about which analytical frameworks to use. This too could be the task for an executive

Illustration 2.2 Mapping the urban indigenous food system in Canada

A student systems map shows the strategic challenge in addressing food insecurity for indigenous Canadians.

In 2021, three students from the University of British Columbia – Cathy Zhu, Emily Chau and Anika Cheng – came first among teams from 56 international institutions in the 'Map the System' competition run by the Skoll Centre for Entrepreneurship at the University of Oxford. Their project examined the system that underpinned food insecurity for urban indigenous people in British Columbia.

One in three indigenous households living in urban environments, such as Vancouver, suffer food-insecurity – constraints on access to sufficient, safe and nutritious food. Indigenous peoples have traditionally harvested foods such as salmon, game and shellfish for themselves. The movement to urban areas has deprived Indigenous peoples of these traditional food sources, making them reliant upon the economics of the market.

The team mapped the interconnected nature of the food system for Indigenous peoples. Figure 2.5 is a partial and stylised representation of their final map. The map is extensive, recognising the roles of the environment, food systems, the health sector, the economic sector, social systems and the government sector in determining food insecurity among indigenous peoples in Canadian cities. The red dashed arrows show just some of the consequential links within these systems and sectors and between them. For example, in the environmental sector, pollution has an impact on ecosystem diversity, which in turn leads to a lack of cultural foods, which then affects the cultural

determinants of health among indigenous urban people. Chronic disease in the health sector leads to low incomes in the economic sector and then to high demands on social welfare programmes in the social system.

The team drew two key insights from their map: 1) indigenous food insecurity is a complex and systemic issue where strategic interventions have failed to achieve sustainable success for decades; and 2) the current dominant Western worldview of food as a commodity ignores indigenous worldviews that food is connected to the land and that, consequently, food impacts not only physical well-being, but also mental, spiritual and emotional. Strategic interventions addressing indigenous food insecurity must, therefore, recognise the place food has not only in nutrition but also in health, social systems and the environment.

Questions

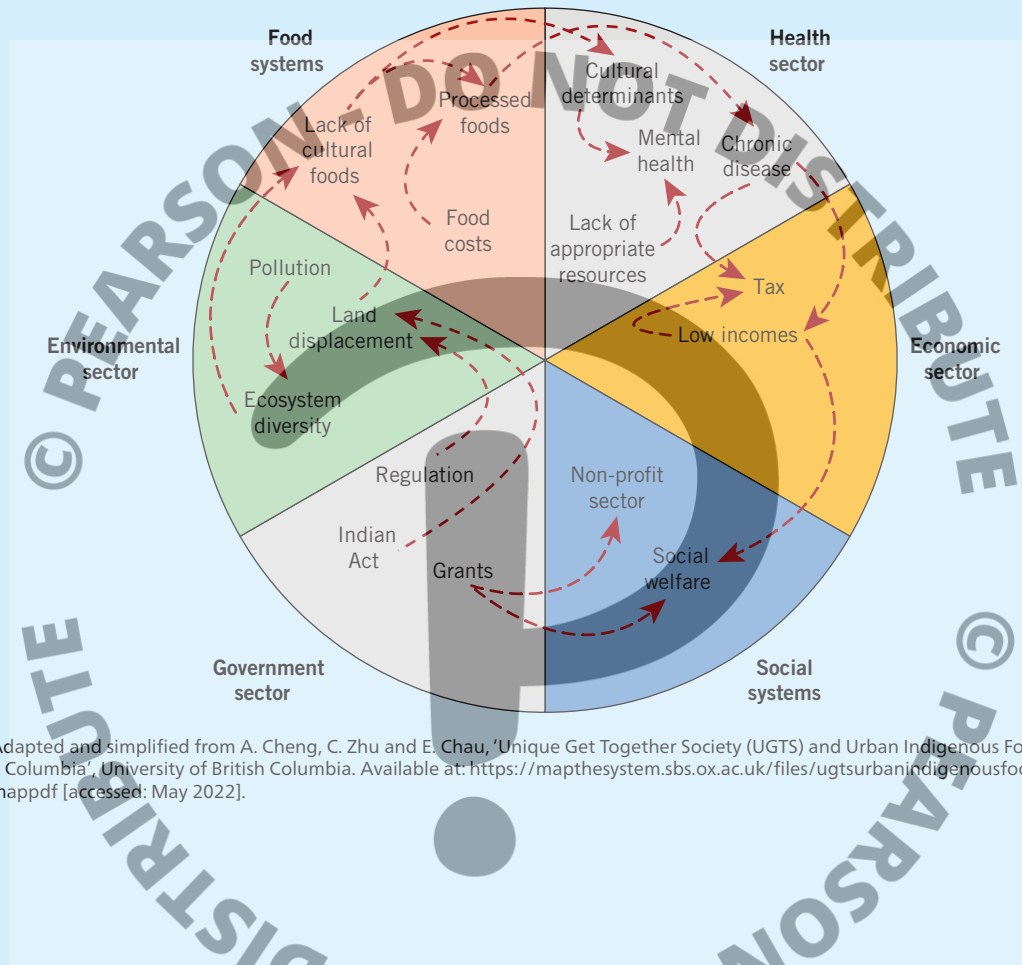
- 1 The figure provides just a partial map of the system elements and links underpinning urban indigenous food insecurity. What other elements and links could you expect to be important?
- 2 On the basis of this map and any other elements and links you could add, what strategic interventions would you prioritise and how would they be coordinated across the six subsystems and sectors?

or consultant working in the real world of practice. Job interviews also often ask candidates to analyse a short case. This section offers guidance on how to analyse both published case studies and real organisations.

2.5.1 Analysing strategy cases

Typically, a published case study is a description of a situation faced by entrepreneurs or managers in a real organisation. Cases come in many forms and often include complex problems on different levels of analysis. *Exploring Strategy* offers cases of a range of lengths, from the short cases at the end of each chapter to the longer ones available in the *Text and Cases* edition. Cases also come from diverse environments, industries and sectors, both profit and non-profit. *Exploring Strategy's* cases are drawn from all around the world, and include a

Figure 2.5 Partial systems map of urban indigenous food insecurity in Canada



Source: Adapted and simplified from A. Cheng, C. Zhu and E. Chau, 'Unique Get Together Society (UGTS) and Urban Indigenous Food Insecurity in British Columbia', University of British Columbia. Available at: <https://mapthesystem.sbs.ox.ac.uk/files/ugtsurbanindigenousfoodinsecurityvisualmappdf> [accessed: May 2022].

wide variety of organisations, from global tech companies to a regional arts festival. However, underneath this diversity, published cases are frequently characterised by the following:

- Descriptions of significant organisational problems, issues and decisions.
- Unstructured and multifaceted data and information on the environment and an organisation.
- Both qualitative and quantitative data, not all of which is necessarily relevant to the case problems.
- Various strategic levels of analysis (macro environment, industry/sector, organisation, etc.) that are not always explicitly separated.
- Problems and assumptions that are not clearly stated, and no obvious guidelines about how to address the issues or problems.

Just as in the real world, there is a lot of confusing and 'noisy' information. There will also be ambiguity and gaps in the information. It is your job to decide what is important, how to interpret the information you have and what you can reasonably assume. It is unlikely that the case has any unambiguously right or wrong 'answers'. Strategy does not involve the certainty of mathematics. Strategy looks into the future; it is about people; it involves the unpredictable reactions of other organisations. It is important, therefore, to accept a degree of uncertainty. What matters is reasoned recommendations based on thorough analysis.

For class discussions, there are two fundamental recommendations for preparing cases.¹⁴ These recommendations are simple but cannot be overstated:

- *Focus your preparation.* Check carefully the specific tasks set by your lecturer for the case. Prepare at least initial responses to any specific question before each case discussion. You are not expected to come to class with all the answers but, without prior preparation, a case discussion will have little value for you and is likely to be rather empty. Preparation means reading the case at least twice: the first reading may involve getting a quick overall view of what is going on; the second reading might be more detailed and involve taking notes. You will probably then have to focus on particular parts of the case more deeply. If advised by your lecturer, take the opportunity to discuss the case in groups beforehand. Unless advised otherwise, you should generally stick to the materials in the case itself, with no need to do further research on the case organisation or sector. Illustration 2.3 provides some suggestions about preparing for case discussions.
- *Be an active communicator,* both in presenting your own ideas and questions and as a listener. Being an active communicator does not imply that you present all the right solutions, but that you can suggest parts of answers, ask good questions or build on the contributions of other classroom participants. Contributing is a great way of crystallising your own understanding: communicating is how you learn. Of course, students who are constantly intervening in the discussion are not necessarily contributing or learning more. However, a good case discussion is one in which you join in. You will learn more and enjoy it more.

2.5.2 Analysing real organisations

In the previous section, we focused upon analysing a published case study where all the necessary information is provided in a limited number of pages. However, you may be asked as part of your course (perhaps the final assignment) to investigate a real organisation and its strategy. This is much closer to strategy in the real world where you will be given a strategy problem to solve (for instance, whether to enter a new market) and where you will have to gather the data yourself (for instance, on market and competitor trends). Often, these investigations are more engaging, because they involve contemporary situations and even your own choice of organisation. However, they can be more work because of the unstructured nature of problems and data. There are at least three things to consider:

- The *key problems, issues or dilemmas* for the organisation. A real organisation will give fewer clues about these than in a published case study which is associated with a specific part of the course or chapter of *Exploring Strategy*. You will have to decide for yourself what problems, issues or dilemmas have priority – in other words, which demand most urgent managerial attention. It will be important to explain your choice of priorities. A SWOT analysis can be a good place to start with deciding priorities, but more analysis is likely to be required. The organisation's own published reports and media or other observer commentary will also provide you with clues (but don't forget that organisations are often unwilling to acknowledge their own problems).

Illustration 2.3 Case preparation steps

There are multiple integrated steps in preparing for a case discussion.

These steps include the following:

1 Get a sense of the main case problems, issues, decisions and relevant facts.

The sooner you can define and structure the central problems of the case the better, as this will help you to determine how to analyse and 'solve' the case. Hence, start by considering the following questions:

- What appears to be the core case problem or issue, or critical decisions?
- If there are assigned questions and/or readings, do they give any hints of the main problems, issues and decisions?
- What level of analysis seems to be most important (macro environment, industry/sector and/or individual organisation)?
- What seem to be the key relevant facts and exhibits (don't neglect the appendices or any financial data)?

2 Identify what concepts, frameworks, and tools may help in analysing the case.

Once you have grasped the main problems and issues of the case, you can move to the next step and determine what methods are going to be most useful. You might ask:

- Where does the case appear to fit into your overall course structure (i.e., in relation to which parts of the course, or which *Exploring Strategy* chapters or which other readings)?
- What types of general problems and levels of analysis appear to be most relevant (e.g., business strategy or overall corporate strategy; diversification strategy or international strategy; strategy development or strategy implementation)?

3 Apply the relevant strategy theories, concepts, frameworks, tools, etc.

When you have a reasonably good idea of the case, you can start to apply the relevant theories, concepts and frameworks:

- How can the chosen frameworks and tools be applied and adapted to the specific case problems?

- How do the concepts and methods assist in finding solutions to the case problems?
- What are the most significant implications from each of the chosen strategy frameworks and tools?

4 Assess alternative solutions, answers and decisions.

The outcomes of your analyses and reflections should help you to determine possible solutions. Some of the questions to consider at this stage, therefore, include the following:

- What type of analysis proved most useful?
- What alternative solutions or options are there to the identified case problems?
- What data and facts in the case support your analysis and possible solutions?

5 Suggestions for formulating conclusions and decisions.

Finally, you need to prepare your conclusions and any proposals for decisions. Hence, some important considerations and questions here include the following:

- What are the main conclusions from the analysis?
- Which alternatives and options seem most useful and why?
- What decisions should managers or any other decision maker take and why?

Questions

- 1 Ignoring the specific questions set by *Exploring Strategy*, examine either the Case example for Chapter 1 (Airbnb) or the Case example for this chapter (Canal+) and go through step 1 above. What are the main issues or problems in this case, going beyond the specific questions?
- 2 What issues or problems are there in these cases that are not wholly covered by the frameworks or concepts that you have been specifically asked to apply to these cases?

- The *scope of comparison*. A published case study will provide you with data going over the period of time that the case study author regards as relevant and will describe the rival or peer organisations that are most salient. In a real-world investigation, you have to decide for yourself both which other organisations you should be comparing with and over what period of time that comparison should stretch. For example, how does your organisation's financial performance, revenue growth or service delivery compare with previous years; how do they compare with other similar or rival organisations? Remember that one or two years of data is rarely enough to suggest a trend. Equally, on the principle of allocentricism (Section 2.4.1 above), strengths are always relative and opportunities depend on other organisation's actions too.
- Available *data sources*. Published case studies provide you with data in a neat package. In an investigation of a real organisation, one of the most arduous tasks is obtaining all the data you need in a form that is amenable to analysis (especially comparing over time and across organisations). Some data will be easy to obtain as it will be freely available through Google or similar search engines. However, critical factors are the quality of the data: is it accurate, up to date, comprehensive and reliable? Garbage in is likely to lead to garbage out. Another important consideration is whether you have the right types of data. Here frameworks and techniques from *Exploring Strategy* can give you strong pointers in terms of the data you need for your analysis and prevent you from being too limited in your view. Remember that qualitative data (for example, a significant incident, a quote from a customer or a revealing image) can be as insightful as quantitative data. Table 2.1 provides a summary of key types of data valuable for investigating real organisations. Check with your institution's library about what sources and databases it has available. Sometimes, you may have to fill data gaps by making certain assumptions, but you should be clear about the reasons for these.

Once the data for your investigation has been collected, then the guidelines for case study analysis outlined in the previous section can be followed. Of course, the question that follows analysis is how to present the resulting recommendations.

Table 2.1 Types of data sources for investigating real organisations

<p>Company/Organisation sources</p> <ul style="list-style-type: none"> – Company websites – Annual reports – Public relations/ promotional material – Glassdoor and LinkedIn employee reports – Competitors' website – Theses, dissertations, etc. 	<p>Business press and media</p> <ul style="list-style-type: none"> – General publications (newspapers such as the <i>Financial Times</i>, <i>Les Echos</i> and <i>Nikkei Asia</i> and magazines such as <i>Business Week</i> and <i>WirtschaftsWoche</i>) – Specialised industry trade journals – Local newspapers
<p>Company directories (e.g. Kompass for products and services and FAME for accounting data)</p>	<p>Industry/Trade associations websites and directories</p>
<p>Consultancy sector or trend reports (Internet open access sometimes provided), for example:</p> <ul style="list-style-type: none"> – Deloitte – PwC – McKinsey – Boston Consulting Group 	<p>Industry studies</p> <ul style="list-style-type: none"> – Books (for perspective): e.g., company histories, leader biographies or industry studies – Business school cases (e.g., The Case Centre or Harvard Business School) – Market research (e.g., Mintel, Statista) – Investment analyses (available from data-bases such as Mergent)

2.6 Developing and communicating strategy

The output of both real-world strategy work and student assignments is often a strategic plan. This section addresses the key elements within a strategic plan, characteristics of a good (and bad) strategy, and issues to do with presenting strategic plans and other forms of strategy work.

2.6.1 Developing a strategic plan

A strategy assignment, or a real-organisation investigation, will often involve designing an overall strategic plan. For example, your lecturer might ask you as a final assignment to develop a strategic plan for a particular organisation. **A strategic plan is a roadmap for seizing the opportunities and minimising the threats facing an organisation.** The material for developing such a plan will be found throughout *Exploring Strategy* as a whole.¹⁵ It is important to remember that a strategic plan does not involve just an analysis of the strategic position (the subject of Part I of this book) or final strategic choices (the subject of Part II). An essential part of any strategic plan will be considering its implementation, the main theme of the final Part III Strategy in action. Implementation would involve issues like the management of change, the choice of organisational structure and the roles of organisational leaders. A strategic plan that is impossible to implement is not worth the paper it is written on.

Every strategic plan will have its own distinctive components but, as a rough initial guide, such plans might include the following:

- *Purpose, vision, mission and objectives statement.* What the organisation is trying to achieve is the point of the whole strategy, and the critical starting place. While this is the starting place, in practice, you might iterate back to this in the light of other elements of the strategic plan: original objectives might need to be changed in the light of what the analysis shows is actually achievable. It is worth checking back with earlier statements that the organisation may have made to ensure consistency. Both Sections 1.2.2 and 6.2 provide more guidance on purpose, vision, mission and objectives.
- *Environmental analysis.* This should cover the key issues identified in terms of the whole of the environment, both macro trends and more focused issues to do with customers, suppliers, competitors and ecosystem partners. You should not stop at the analysis but draw clear strategic implications (see Chapters 3 and 4).
- *Resource and capability analysis.* This should include a clear identification of the key strengths and weaknesses of the organisation, in terms of resources, capabilities and its products relative to its competitors and include a clear statement of competitive advantage (see Chapter 5).
- *Business model.* This should describe the value proposition for customers, the arrangement of resources and capabilities that produces this value and the associated revenue and cost structures (see Chapter 8).
- *Strategic options.* This will set out a number of possible strategic initiatives that might be pursued to improve the organisation's strategic position. These should be clearly related to the environmental and organisational analyses and support the various objectives of the organisation (see Chapters 6, 8 and 12).
- *Proposed strategy.* This should show clearly why this proposed strategy is superior to the foregoing options. It should show how it is suitable in terms of purpose, vision, mission and objectives; how it is acceptable to key stakeholders and feasible in terms of implementation. Some quantitative estimates of required financial investment and expected returns are likely to be important here (see Chapter 13).

- *Additional resources.* The team will need to provide a detailed analysis of the resources required, with options for acquiring them. Critical resources are typically financial, so the plan should show sources of funds. Other important resources might be human, particularly managers or people with particular skills. A clear and realistic timetable for implementation is also needed (see Chapter 16).
- *Key changes.* What does the plan envisage are the key changes required, for example in structures, systems and culture, and how are these to be managed? (See Chapters 14, 15 and 16.)

2.6.2 Good and bad strategy

The previous section covered standard elements of a strategic plan, but how can one determine whether you have a good or bad strategy? Richard Rumelt's book *Good Strategy/Bad Strategy* is designed to cut through to the essence of good strategy.¹⁶

Rumelt criticises strategy for being confused with success as strategies can be both successful and unsuccessful. He points out that, without action, or implementation, strategy is just blue-sky 'wheel spinning'. For Rumelt, a good strategy has an essential logical structure that contains three elements:

- *Diagnosis.* This defines the challenge facing the organisation. It answers the question of what is holding the organisation back from its goals. The diagnosis typically simplifies the complex reality by identifying particular factors as critical, often using a metaphor. In its early days, Tesla might have defined itself as a David taking on the Goliaths of the traditional car industry. That would suggest the problems and opportunities of scale as critical factors.
- *A guiding policy.* This refers to the basic parameters guiding strategy. It is not the strategy itself, but rather guardrails identifying the boundaries of appropriate action. For Tesla, that might have been electric vehicles, not hydrogen.
- *A set of coherent actions.* For Rumelt, actions are essential to good strategy. He points to the importance of coherence, however. Actions should be mutually reinforcing and not independent. For Tesla, investment in the giga battery factories reinforces the growth and innovation strategy.

These three elements of good strategy correspond broadly to the three Parts of this book, examining position, choice and action.

Bad strategy is more than just the absence of good strategy but has a logic of its own. For Rumelt, there are four main indicators of bad strategy:

- *Fluff.* Using esoteric or faddish words to give an illusion of high-level thinking.
- *Failure to face a challenge.* Inability to define the challenge, meaning a strategy cannot be evaluated or improved. Organisations may also actively avoid analysing obstacles as leadership does not like negative thoughts.
- *Mistaking goals for strategy.* Treating strategy as an exercise in goal setting and not problem solving; just focusing on statements of desire rather than making workable plans for overcoming obstacles
- *Bad strategic objectives.* These are bad when they fail to address critical issues or they are impracticable. A common sign of bad objectives is the 'dog's dinner' – a mess of organisational initiatives that try to cover all the bases and fail to focus resources and actions.

You can use Rumelt's criteria of good and bad strategy to check your own strategic recommendations, either in assignments or in practice.

2.6.3 Presenting strategy

It's all very well carrying out good quality strategy analysis and coming to well-reasoned conclusions, but you need to communicate these effectively. As a student, you might have to present your analysis and recommendations in a written examination or report, or as a classroom presentation, perhaps supported by slides. Similar principles apply to each.

There are two underlying principles for effective strategy communications of all sorts:

- *Focus.* Communications need to focus on the key issues and components of the strategy. If the presenter cannot show they are clear on these, then it cannot be expected that others will be. It is also helpful to avoid unnecessary detail or complex language. Like the widely used acronym KISS, 'Keep it simple, stupid', communications are generally improved through greater simplicity of language. CEO Jack Welch's famous statement that General Electric should be 'either Number One or Number Two' in all its markets is remembered because of this clear focus on the importance of being a dominant player wherever the company competed.
- *Impact.* Communications should be impactful. Analyses should be followed by clear statements of implications. Remember also that graphics – such as charts, diagrams, pictures and drawings – have much greater impact on recipients than text and bullet points, too often the mainstays of PowerPoint presentations.¹⁷ The use of charts and graphics greatly improve recipient recall and also improve recipient understanding of the multiple dimensions of a strategy. The term 'stratography' has been coined to underline the importance of good graphics for effective strategy communications.¹⁸

As part of a class assignment or examination, you may be asked to do a strategy presentation. Sometimes, this is also part of a job interview, for example presenting a brief strategy case analysis. The strategy presentation itself is often as important as the strategic thinking and analysis behind it. This may seem unfair, but even the best strategy can be undermined if not clearly communicated. A strategy analysis is often part of a broader strategy presentation, and it normally includes some basic and vital components that need to be considered carefully, motivation, purpose, methods, analytical frameworks, and conclusions, as follows:

- *Motivation and background.* This part explains why the presentation is needed and is of importance. It can be very brief and, for example, simply state that a strategy analysis of the business landscape is required to better understand new and fierce entrants and competition. Alternatively, if the background is more complex, it needs to be longer, for example, carefully explaining the need for a strategic shift, like discarding one product area and launching an entirely new one, and, thus, why a strategy analysis of this is presented.
- *Purpose.* A crystal-clear purpose helps the audience to understand the objective of the presentation and why they should attend to it and possibly act on it. It should be as clear, crisp and simple as possible. It assists not only the audience, but the presenter as well because it determines the central focus and helps ensure that the presentation is kept 'on message' and avoids any unnecessary digressions. In fact, one of the most significant challenges in a strategy presentation is to keep it focused and sufficiently brief. This is the true challenge in making any convincing strategy presentation. It is an easy mistake to add content that deviates from the main purpose and message.
- *Methods and approach.* This can range from more simple strategy reflections and analyses to more sophisticated methods including primary research and information collection and use of advanced strategy analysis frameworks and calculations. Research and information

collection approaches used should be mentioned in order to make clear any limitations to the work and strengthen the legitimacy of the conclusions (e.g., published sources, interviews, surveys, internet searches, literature reviews, etc.). Furthermore, if it is a detailed strategy analysis, it should be made explicit on what level it is conducted (see Section 2.3.2 above: macro, industry/sector, or organisation). Determining the level of analysis is of crucial importance and makes sure levels are not conflated. If multiple levels are included in full strategy analysis, this should be stated too.

- *Overviews, analytical frameworks, and tools.* This is the central part and can be more or less sophisticated, ranging from simple strategy overviews and analyses to inclusion of more complex and diverse frameworks on different levels of analysis. For example, it may include a simple description of the current strategy situation for an organisation or be more intricate and involve various in-depth analyses and strategy frameworks on the macro environment, industry and organisational resources and capabilities. This section thus makes up the body of a strategy analysis presentation and may include several elements, but make sure not to sacrifice the quality of analyses for the quantity of analytical frameworks: it is generally better to do a few crucial things well than many things superficially. An audience will be distracted from the main message if too many aspects are included. It is not a question of 'the more the merrier'.
- *Conclusion and main message.* It may seem obvious that the conclusion needs to be very clear but often strategy presentations include too much information that cannot be clearly concluded in a main message to the audience. Remember that the conclusion is a summary of the main message and argument, not a summary of all the supporting analyses and facts: a central message and idea beats any number of analyses made. Strategy analysis presentations frequently get entangled into a range of different complex analyses to the extent that overall results and conclusions become indistinct. Besides limiting the number of analytical tools, the best way to approach this is to make main points explicit along the way and bring those together at the end and provide an overall conclusion. In this way, a common thread is also kept throughout the presentation where each individual part builds on the others. Preferably, the conclusion is contained on one slide on which the whole argument is summarised. Remember that the conclusion and message should deliver on the purpose and thus tie the introduction and end together. If they do not, you may need to walk back, and review the presentation.

Strategy presentations are often in a PowerPoint (PPT) or similar format and Table 2.2 summarises some brief practical tips. The key issue for a PPT strategy presentation is to make sure that the slides say what you want them to say and deliver on the overall purpose. There is no point in throwing in slides and shallow analyses that are simply 'nice to have'; they should rather all somehow deliver on the main purpose and message (you can have some slides as an appendix at the back). Keeping on message assures there is a common thread throughout the presentation.

Table 2.2 also includes some pointers for verbal presentations that may be useful when presenting PPTs in front of an audience, your class, for example. It may help to create an opener that pleases the audience somehow and gets them on your side from the beginning, perhaps a brief anecdote or a striking image related to the presentation, but be careful of any jokes that risk undermining the presentation. There is no need to be nervous and, even if you do show slight nervousness, that is not a big deal – everybody has more nerves than they actually show and, anyway, you do not have to be perfect to be a successful presenter. It can help to get audience eye contact and show some passion (why should the audience be interested if you do not seem so?). Remember, however, that the specific purpose, audience and context matters for the final format of both verbal and written strategy presentations. In addition, your strategy course syllabus and instructor may provide specific instructions for your presentations that may differ from our suggestions in Table 2.2. Keep to the specified time!

Table 2.2 Brief tips for strategy presentations

PPT presentations	Verbal presentations
Briefly explanatory bullets.	Have notes of key points and issues but try to learn main ones by heart (do not read from the slide).
Maximum six bullets per slide.	Keep it simple: do not necessarily go through all points step by step on each slide; explain, be concrete and give examples.
One main point and conclusion per slide.	Not only tell, but <i>sell</i> your message, be convincing concerning your main points.
Biggest size and font for key messages (not necessarily for the headline). Analyse – do not describe!	Do not use too many PPTs (not necessarily including all in the verbal presentation). Group/team presentations: it may not be necessary for all to speak; appointing a couple of members could result in a more professional impression.
Support the analysis with figures ('a picture is worth a thousand words') and facts.	Rehearse and practise: who should present what when? What is the time frame? Take questions during or after presentation?
Include and credit all sources (references, facts, figures, etc.)	Check the tech and location in advance. (Adapters needed? Is there a pulpit, desk, etc.?)
Avoid any temptation to include multiple extra colours, shapes, logos, etc. (minimising clutter).	Clearly signal when conclusions come: deliver a key message rather than a simple summary.

Key takeaways

Strategy is a kind of work and *Exploring Strategy* is about helping you do this work better, whether as a student or as a practitioner. Some key takeaways from this chapter are:

- When considering strategy, *think slow*: be reflective and analytical, not fast and superficial.
- Use strategy frameworks (such as *SWOT* and *TOWS*) appropriately, at the right level of analysis, in combination, respecting theoretical underpinnings and always with a conclusion.
- Draw on the principles of *allocentricism* to think about others, *issue-trees* to drill deeper into problems and *system mapping* to recognise consequential links.
- Learning from case studies involves *good preparation* and *active communication* – you are wasting your time without these.
- Your *strategic plan* should draw on the whole of this book: Part I on strategic *position*, Part II on *choices* and Part III on putting strategy into *action*. Avoid the characteristics of bad strategy: fluff, ignoring challenges, desires rather than plans and lack of focus.
- Strategies need to be understood by key audiences: invest in *communication* and *presentation*.

Recommended key readings

Daniel Kahneman's (2011) *Thinking, Fast and Slow*, Penguin Books, is a classic that will help you make better decisions both in strategy and life more generally. A good practical guide to approaching many

strategic problems is B. Garrette, C. Phelps and O. Sibony (2019) *Cracked It! How to Solve Big Problems and Sell Solutions Like Top Strategy Consultants*, Springer.

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11. See B. Garrette, C. Phelps and O. Sibony (2019) *Cracked It! How to Solve Big Problems and Sell Solutions Like Top Strategy Consultants*, Springer or A. Chia (2019) 'Distilling the essence of the McKinsey way: The problem-solving cycle', *Management Teaching Review*, 4(4): 355–70.
12. MECE (pronounced 'meesy') is associated with strategy consultants McKinsey & Co. See B. Garrette, C. Phelps and O. Sibony (2019) *Cracked It! How to Solve Big Problems and Sell Solutions Like Top Strategy Consultants*, Springer.
13. A. G. Kefalas (2011) 'On systems thinking and the systems approach', *World Futures*, 67(4–5): 343–71; E. Iacovidou, J.N. Hahladakis and P. Purnell (2021) 'A systems thinking approach to understanding the challenges of achieving the circular economy', *Environmental Science and Pollution Research*, 28(19): 785–806.
14. The Case Centre suggests a good range of articles and books to help with learning from (and teaching) cases: <https://www.thecasecentre.org/caseLearning/guidance/articlesBooks> [accessed: May 2022].
15. Meanwhile, a simple template approach to strategic plans can be found in E. Blackwell (2017) *How to Prepare a Business Plan*, 6th edition, Kogan Page.
16. R. Rumelt (2011) *Good Strategy/Bad Strategy: The Difference and Why It Matters*, Profile Books.
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Case example

Canal+: Competing with Giants

Frédéric Fréry

In 2022, Vincent Bolloré, President of the French media conglomerate Vivendi, told the French Senate: 'The giant Vivendi is a little dwarf.' Vivendi was certainly a giant in the French media business, owning the television and cinema group Canal+, the publishing company Editis, the magazine portfolio of Prisma Media and the video games company Gameloft. But Bolloré's point was that, against some of its competitors, its \$18bn (about €16.5bn) annual revenues were tiny. In particular, its television and cinema business Canal+, was under attack from Amazon (\$469bn total annual revenues), Apple (\$378bn revenues) and Netflix (\$30bn revenues).

Canal+ had been founded in 1984 as a subscription-based television company. In 2021, the company had 8.7 million subscribers in France, plus an extra 13.7 million in 40 other countries in the rest of Europe, Africa and Asia. A Canal+ subscriber might pay about \$23 per month to subscribe to a full package of video services. Canal+ also operated three major national free-to-air channels based on advertising. StudioCanal was a European leader in the production, acquisition and distribution of feature films and TV series. It owned one of the world's most extensive libraries with over 7,000 titles from more than 60 countries. It also produced and distributed television series through a network of European production companies, including StudioCanal Original. Canal+ had been involved in creating many hits, from David Lynch's surrealist movie classic *Mulholland Drive* to the rap comedy series *All the Way Up*. In year-end 2020, Canal+ had revenues of \$6.2bn and profits of \$0.5bn. Since Vivendi's sale of Universal Music in 2021, Canal+ had been the group's largest activity.

Historically, Canal+ had based its success on two pillars – football and cinema – but both these were coming under challenge. For many years, Canal+ had enjoyed the exclusive broadcasting rights to the French top football league, Ligue 1. However, the company lost these exclusive rights in 2018 to the Spanish Mediapro company; when Mediapro failed, Canal+ rebid for the rights in 2021, but ended up sharing them with Amazon Prime, broadcaster of the English Premier League. A similar challenge was coming for Canal+'s close relationship with the French film industry. Through a specific legal scheme sponsored by the French Government, Canal+ was the main financier of the French film industry with around €190 million investment per year, in exchange for an exclusive right to show all French movies before other TV channels. However, Netflix

was now producing its own French programming (Netflix Originals), for which the Canal+ exclusivity agreement did not apply. In only 7 years since its arrival, Netflix had successfully attracted 5 million subscribers in France.

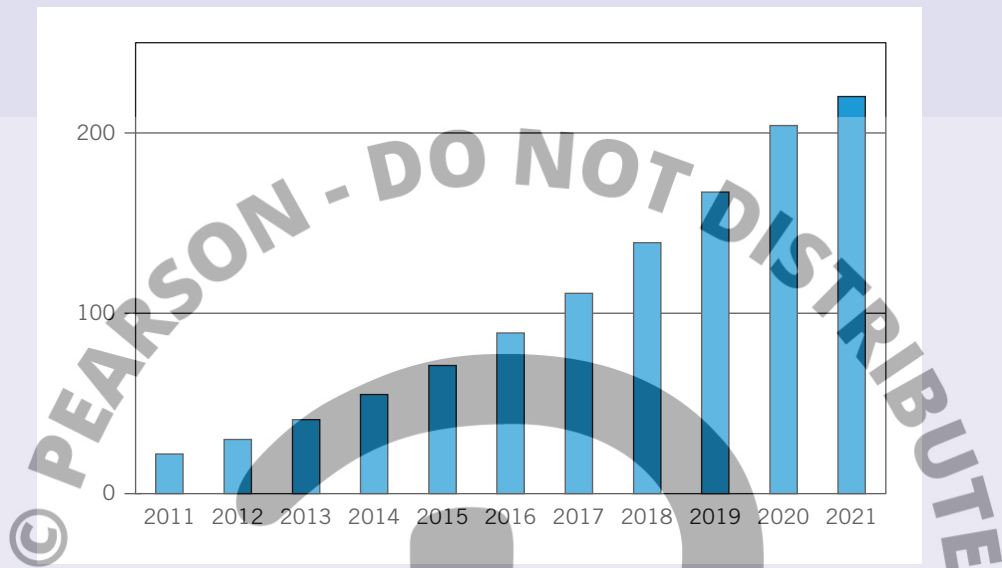
For Canal+, the time had come to update its understanding of the strategy of Netflix and its other challengers. Its main shareholder, Vivendi's Vincent Bolloré, was clear. He told the French Senate: 'Our treasure is our history. It is this treasure which can be exported . . . We can make something a little bit more subtle and refined than *Spiderman*.'

Netflix reinvents the television industry

Netflix was founded in 1997 by Reed Hastings and Marc Randolph as a mail-order DVD (digital video disc) sales and rental business. The idea was to compete against large video rental stores like Blockbuster or Hollywood Video, which had thousands of outlets in the USA at that time. In 1998, Netflix focused on online DVD rental service and launched its first website, with 925 titles available. It followed in 1999 with a monthly subscription. The company went public in 2002, and it reached 1 million subscribers in 2003.

In 2007, 10 years after its debut – and thanks to the growth of high-speed Internet – Netflix introduced its streaming service while maintaining its DVD online rental service. The streaming service expanded internationally (in Canada in 2008, then in Latin America in 2011, in parts of Europe in 2012 and in Japan in 2015). The first Netflix Original programme, *House of Cards*, was produced in 2013. Between 2011 and 2021, the number of subscribers increased tenfold (see Figure 1).

In early 2022, Netflix was available in 190 countries and its market capitalisation exceeded \$170 billion. It had over 220 million users worldwide and was attracting 1.5 million more each month. Its brand name was almost synonymous with video-on-demand and binge-watching, and it alone consumed 15 per cent of the global Internet bandwidth. In the 2021 financial year, its revenue was \$29.5 billion (+19 per cent compared to 2020) and its net profit \$5.1 billion (+85 per cent). Series like *Squid Game*, *Stranger Things* or *La Casa de Papel* (*Money Heist*) had established themselves in popular culture, and Oscar-winning directors, such as Martin Scorsese, David Fincher, Alfonso

Figure 1 Number of Netflix's paid streaming subscribers at the end of the respective year (in millions)

Cuarón or Bong Joon Ho were working with Netflix. Worldwide, Netflix spent \$17bn on content production in 2020. Netflix's French productions included the mystery series *Lupin*, which became a global hit. As a result of this extensive production activity, plus acquisitions, Netflix had an ever-growing library of titles, with 5,800 in the USA (library sizes varied by country).

A competitive market

By 2022, of course, Netflix was not alone, with a host of new video streaming players emerging from the USA over the last decade. Only two years after its 2019 launch, Disney+ boasted more than 118 million subscribers worldwide, followed by Amazon Prime Video with 100 million users, and AT&T-Time Warner's HBO Max with over 70 million. Apple launched its Apple TV+ offering in 2019, but had only 20 million subscribers by the end of 2021.

Like Canal+, none of these American competitors was available worldwide. For instance, all of them – including Netflix – were blocked in China. Amazon Prime Video, thanks to the global reach of Amazon, was available in 200 countries. Due to various agreements with local third-party TV providers, HBO Max was present in most of the Americas (but not in Canada), in large parts of Europe (but not in the UK, France, Germany, Italy, The Netherlands or Belgium), and not at all in Asia. In France, HBO programmes were distributed by Canal+.

The growth of competition, and the variety of business models (some drawing on advertising, some part of service

bundles) was driving down prices. Netflix offered its Standard plan (HD, up to two screens at a time) for \$12.99 (about €12) per month in the USA. Apple TV+ was at only \$4.99 per month (and free for three months following the purchase of an Apple device). Disney+ was charging \$7.99 per month, but also proposed a bundle that included Disney+, ESPN+ (a sports streaming platform) and Hulu (a video streaming platform founded in 2007 and acquired by Disney in 2019) for \$13.99. HBO Max was charging a minimum price of \$9.99 per month for its 'Ad-Supported' plan and \$14.99 for its 'Ad-Free' plan. Amazon's approach was different, since Amazon Prime Video was included in its Prime bundle (\$139 per year in the USA, but only €49 per year in France), which also gave access to free express delivery, exclusive discounts and unlimited photo storage, among other benefits.

In terms of content, there was considerable variety too. Apple+ had a small catalogue so far. However, Disney's catalogue was unrivalled, with the *Disney*, *Pixar*, *Marvel*, *Star Wars* and *Fox* licences, and it was constantly developing new programmes. HBO Max, with the *Game of Thrones* or *Friends* series and the *Harry Potter* or *DC Comics* franchises, was also a formidable competitor. In May 2021, Amazon spent \$8.45 billion to acquire MGM studios (*James Bond*, *Rocky*, *The Handmaid's Tale*, etc.), and produced the first season of its *Lord of the Rings* television series for \$465 million. Amazon Prime Video was planning to invest around \$10 billion each year in original contents. Such huge investments in content were driving an inflationary spiral in terms of costs of production, with

star actors and producers in massive demand and enjoying record rewards.

More choice for consumers implied lower loyalty to platforms. Users realised they couldn't get all their preferred content in one place: in 2021, 20 per cent of subscribers reported cancelling a service in order to switch to another one (sometimes, after watching a specific series). Netflix had the lowest cancellation rate in the industry, followed by Disney+. In addition, video piracy was on the rise, with between 4–25 per cent of internet users consuming illegal content each week, and approximately 50 million people worldwide were using Netflix without paying, but by sharing passwords with friends or relatives. This practice was costing Netflix more than \$6bn per year.

Moreover, there were close substitutes to television and film, such as YouTube and the Chinese video-based social networking service TikTok. Video games were an important alternative pastime too, one that had been attracting huge investments from the technology giants: in early 2022, Microsoft bought the leading games company Activision Blizzard for \$69bn. In 2021, Facebook changed its name to Meta in order to mark its entry into the metaverse, a virtual reality global interface for all online activities from social networking, through video to games. Netflix CEO Reed Hastings commented: 'We compete (and lose) with Fortnite more than with HBO.' All these various alternative forms of entertainment threatened attention saturation among consumers: there would simply be no time to watch Canal+ movies.

Consequences for Canal+

In 2019, in order to maintain its attractiveness, Canal+ decided to include a Netflix subscription within its premium streaming plan, which also offered a curated catalogue of thousands of movies, pay-per-view options, and access to award-winning shows such as *The Bureau* or *Spiral*, for a total of €40.99 (\$46) per month. In 2020, Canal+ added access to Disney+ to this plan. As a consequence, since Canal+ already distributed HBO programmes in France, it gave access to three of the major streaming platforms through its own single offer. As an aggregator, Canal+ also proposed beIN SPORTS streaming platform as an option. The idea was to position Canal+ as a 'one-stop shop' for all the platforms, with two potential benefits for viewers:

its price was lower than the subscriptions to the different services would be on their own; and its own interface, MyCanal, was designed to smooth the experience for the viewers, with seamless access to the different catalogues.

In parallel with this aggregation strategy, Canal+ also announced in late 2021 that it was planning to add a new series every week on its platform, and it renewed its financing – and exclusivity – agreement with the French movie industry. The leader of the French cinema production industry declared: 'At a time when the market is being upended by the entry of the [American] streaming companies, the [French] cinema industry wants to keep Canal+ as its principal partner'. At the same time, to build up scale in the French media market generally, it announced a takeover bid for another leading French media conglomerate, Groupe Lagardère, which had major stakes in television, radio, book publishing, newspapers and magazines (2021 revenues \$5bn). In 2021, MyCanal was used by nearly 12 million users per month in France, with 10 hours of content consumed per week on average per subscriber, and access via 15 million connected TV devices (set-top boxes, smart TVs, video game consoles, etc.). Up to 120,000 pieces of content were available at any time on the platform, with 1,100 new pieces added per day. Thus, by a combination of aggregation and investment, the French dwarf was bulking up – but was this enough in its battle with the giants?

Sources: *Les Echos*, 17 September 2019, 19 January 2021 and 2 February 2022; *Variety*, 20 April 2021 and 27 May 2021; *Statista*; *medium.com*, 5 November 2019; *Interpret*, 8 June 2021; *Deloitte Insights*, 1 December 2021; *Sport Index*, March 2021; *ZDNet.com*, 21 February 2021, 23 and 30 January 2022; *netflixinvestor.com*.

Questions

- 1 Identify the main strengths and weaknesses of Canal+.
- 2 Identify the main threats and opportunities for Canal+.
- 3 Using the findings of the first two questions, construct a SWOT diagram.
- 4 In the light of this SWOT, what do you think of Canal+'s strategy?