STRATEGY

Theory and Practice

3rd Edition

Stewart R Clegg
Christos Pitelis
Jochen Schweitzer
Andrea Whittle

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STRATEGY

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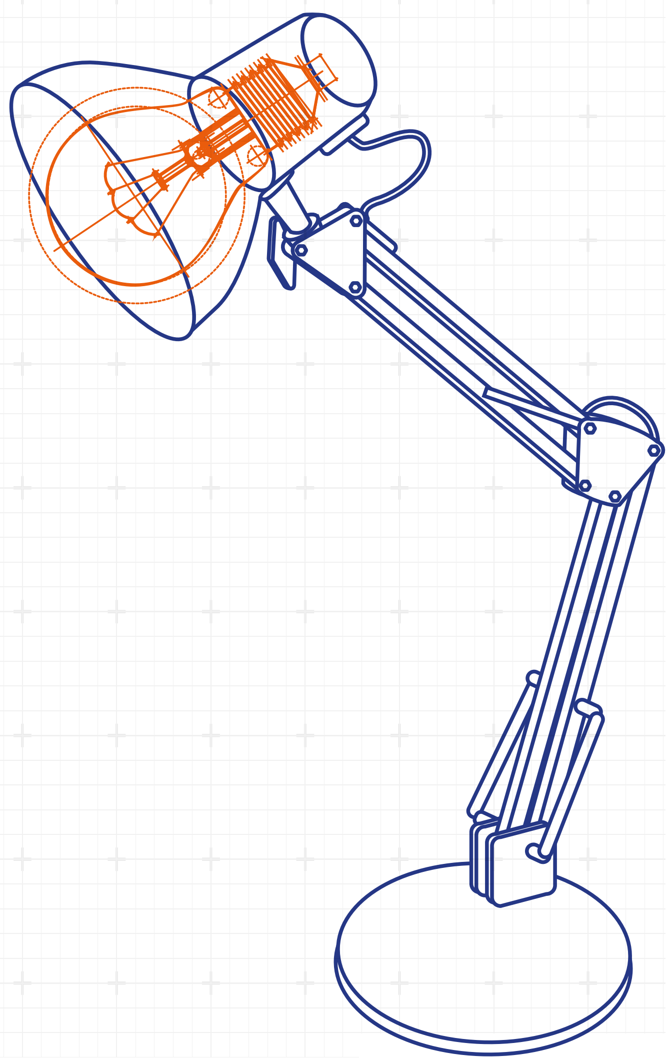

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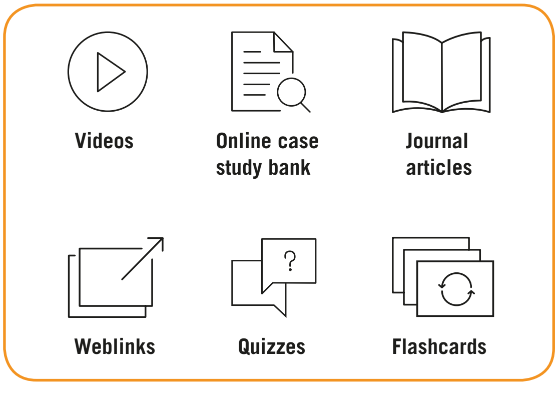

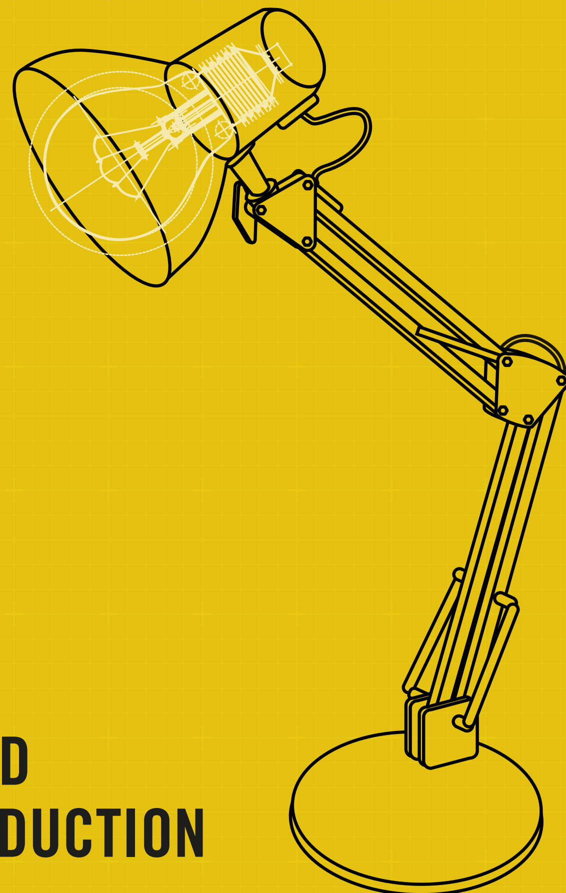

1

STRATEGY: THEORY AND PRACTICE – AN INTRODUCTION

ORIGINS, ISSUES, OVERVIEW

Learning objectives

By the end of this chapter you will be able to:

1. Understand the approach to strategy as management by objectives and goals.
2. Appreciate the antecedents of business strategy in warcraft and statecraft.
3. Identify key landmarks in the development of thought about strategy, including the work of Chandler, Ansoff, Penrose, Porter, Coase and Williamson.
4. Identify the key concerns regarding the contemporary practice of strategy.
5. Appreciate some of the limits of conventional views of strategy, including how they handle contradictory interests, surprises and the 'Red Queen' effect.

Before you get started

I think it may be the case that Fortune is the mistress of one half of our actions, and yet leaves the control of the other half, or a little less, to ourselves … Fortune … displays her might where there is no organized strength to resist her. (Machiavelli, 1961: 107)

Introduction

In this this introductory chapter we aim to frame strategy both within contemporary thoughts and within broader and older discourses. Immediately, you can steer through the strategy-related literature by thinking of strategy in very simple terms.

What is strategy? Put simply:

Strategy = Knowledge + Capability (or the power to accomplish things)

Knowledge is needed in order to be able to have both the concepts with which to imagine a future state of affairs and the know-how and skills with which to try and get there. Capabilities, as the *power to* get things done, are needed in order to be in a position to implement ideas, visions and plans. Strategy (as knowledge + capability/power to) has a double edge; it is both what is conceivable *and* what is doable – as such it is a *practice*. Hence strategy is not just concerned with the imagined 'ends' (future desired state or 'visions') but also with how to turn visions into 'reality'.

By its nature, strategy involves a paradox: the more the future is similar to the past the better the strategy will be at devising ways of dealing with it. The easier it is to imagine the future will turn out as an extension of the past the better planned the strategy will be. However, the more disjunctive and disruptive the future turns out to be with respect to the past (known only in retrospect), then the envisioned strategy will be founded upon knowledge that may well be redundant in the face of a radically discontinuous future. It is partly for this reason that the original approach to strategy as 'planning' has gradually given way to more sophisticated perceptions, such as a process of 'strategizing', for example, by undertaking actions that place a firm in a better position than its competitors. However, in this book, we won't only be looking at firms; we will also be considering the way that strategizing is done in public sector, charitable and other not-for-profit organizations.

The most basic understanding of strategy sees it as planning a sequence of actions based on a prediction of what the future will bring. For many managers, doing this became defined as management by objectives. Management by objectives has an implicit military history: for instance, the strategic objective might be to take a fortified position from the enemy as part of a wider campaign to win the war. There is a dual *military* and *business* history of thinking about strategy. Hence, we shall consider, briefly, some of the influential strategy thinkers in what we refer to as the 'classical age' of strategy. These thinkers are 'classical' because their theories were largely unchallenged in founding the field, becoming revered as pioneers. Learning about eminent theorists' ideas is one way of understanding strategy. Another way is to relate some central ideas encountered in strategy to something with which the reader is already familiar. We assume a reader that is aware of and interested in fashion and shopping, so we contrast two styles of fashion retail, M&S and Zara, to make some basic points about strategy. Finally, in this introductory chapter, we survey the contemporary strategy scene to set the stage for the remainder of the book. A number of recent surveys of the strategy field are useful in demonstrating contemporary concerns, which we elaborate towards the end of the chapter.

We conclude the chapter by outlining some limits to overly rationality-based accounts of strategy. Such limits relate to complexity, contradictory interests, the inevitability of surprises, and the so-called 'Red Queen' effect. For those who recall *Alice in Wonderland* by Lewis Carroll (1865), the Red Queen tells Alice that in order to stay in a (competitive) place you have to run very hard, whereas to get anywhere you have to run even harder. Each of the limits considered poses challenges to rationality-based approaches to strategy. Moreover, each is likely to be encountered in practice that is rarely simple, non-contradictory and unsurprising; hence, strategies based on such assumptions will constantly be outpaced or outflanked.

Strategy as management by objectives

Management by objectives is a basic strategic device that managers often use in organizations (Drucker, 1954; Greenwood, 1981). The idea is very simple. The architect's objective may be the grand design of a major new building. The project manager's objective may be to build it on time, on cost and to design specifications. The concreter's objective may be to pour this load of concrete before the mix goes off and to ensure that there are no weak spots in the final mix of concrete in the steel work. The labourer's objective is to ensure a smooth finish to the concrete poured. The basic idea is clear: set strategic objectives at different levels that cascade down the hierarchy, at each stage making the objective more concrete (an apt metaphor given the example) so that the architectural vision can be transformed into the material object envisaged. Different knowledge bases and capabilities are involved and combined.

Conventional wisdom for good management practice states that managing by *goal setting* (i.e. target setting, performance monitoring and incentives/ people management) is a central practice (Bloom, Genakos, Sadun and Van Reenen, 2012). Despite criticism (Ordóñez, Schweitzer and Galinsky, 2009; Joullié, 2016), the achievement of specific goals is generally accepted as a key discipline of management practice. Goal setting forms a core element of organizational behaviour's focus (Miner, 1984). Goal setting imposes focus, constrains behavioural strategies, canalizes feedback transmission and valorizes goal attainment as a psychologically gratifying process (e.g. Locke, Shaw, Saari and Latham, 1981; Locke and Latham, 1984, 1990).

In contemporary management theory, however, merely setting and achieving goals is now passé. Outstanding managers are expected to exceed in performance and thus achieve **stretch goals** 'that are considered virtually unattainable' (Thompson, Hochwarter and Mathys, 1997: 48). Stretch goals are more strategic than merely achieving objectives: they are strategic objectives.

Stretch goals refer to extremely difficult and novel goals that can be aligned with current activities or an extension of existing activities.

Stretch goals involve extreme ambition *and* novelty. Stretch goals are ambitious by definition: they aim to push the organization beyond its current limits by means of developing novel solutions. Stretching goals involve difficulties and require some element of novelty in approaching a problem. As Steve Kerr pointed out (in Sherman, 1995), if people already know how to reach a goal, it is not a stretch goal. A stretch goal is defined as a target that, beyond being characterized by an extreme level of difficulty, requires local innovation(s). It is because intensification of effort, *per se*, will not do that stretch goals require new strategies to approach the target. Stretch goals thus prompt people to work not only 'harder' but also 'smarter'.

Stretch goals are seductive frames for management strategy. Collins and Porras (1994) made the notion popular, defining stretch goals as 'Big Hairy Audacious Goals'. These kinds of goals are vision statements and set out an ambitious goal for an envisaged future which has a clear finishing line so people know when it has been reached. Examples include Microsoft's goal in the early 1980s of putting a computer on every desk and in every home, or Volvo's goal of ensuring that nobody would be killed or seriously injured in a new Volvo by 2020. Using managerial goals to push people beyond comfort zones in performance is a practice increasingly expected of managers in hypercompetitive contexts (D'Aveni, 1995). The setting and acceptance of goals otherwise perceived as unreasonable can be justified in familiar terms of 'leadership'. The popularity of success cases and the infrequency of reports of failed cases serve to mythologize the notion of stretch goals (Hughes, 2001; Sitkin, See, Miller, Lawless and Carton, 2011). Key business cases, such as Southwest Airlines, added to the mythology. In Southwest Airlines, top management dictated that planes be turned around at the gate in only 10 minutes (Chatterjee, 2005), a stretch goal that the organization actually achieved. Medtronic was 'transformed' in the 1990s through setting stretch goals and then figuring out how to attain them (George, 2006). Steve Jobs became famous for stretching people to achieve the unachievable at Apple as well as at Pixar through his now famous 'reality distortion field' (Isaacson, 2011; Catmull, 2014). Elon Musk, the CEO of Tesla Motors and SpaceX, is known for his 'overly optimistic deadlines' (Vance, 2015: 68).

There are also infamous cases, such as Volkswagen, where in a hostile and fear-ridden environment (Edmondson and Lei, 2014) employees cheated when pressured to reach the 'impossible' goal (Ewing, 2015: B3) of manufacturing clean and efficient diesel engines. Achieving stretch goals can lead organizations to higher achievements (Cunha, Giustiniano, Rego and Clegg, 2017). Stretch goals also present practical challenges and organizational failure to achieve them leads to loss of face (Goffman, 1967) on the part of promoters, performers and protagonists. In such a situation, the options are either to appear to fail or to fudge practice so as to appear that the former is not the case. The latter can be achieved by performing impression management in which the goals *appear* to be achieved. Goffman's (1959) term, impression management, refers to a conscious or subconscious process in which people attempt to influence the perceptions of other people about a person, object or event. While Goffman stressed the role of 'face work' in regulating and controlling information in social interaction we take a different track. Organizational impression management seeks to secure a desired identity for the organization as a whole: in VW's case, making fast, cheap and green vehicles for the most satisfied customers, which were not only the best in class but also made by the most satisfied employees. While this was the public face VW projected, it proved not to be the reality but an impression sustained by gaming the metrics that were being audited on vehicles undergoing emissions testing.

In Practice

Strategy, stretch goals and scandal at Volkswagen

Volkswagen set ambitious strategic objectives to increase market share for diesel cars in the US. At the International Auto Show in Detroit in 2008, VW announced its 'Strategy 2018', which contained the ambitious goal of more than tripling sales of its VW and Audi brands in the US. The central pillar of the strategy was its push of fuel-efficient 'clean' diesel cars. In the US market, VW faced a paradoxical set of pressures: strict emissions regulations in a number of states limited the performance and power of engines, while at the same time the US consumer had a preference for larger and more powerful cars that were more 'hungry' for fuel, while also expressing a preference for more environmentally friendly 'green' cars, all the while also being sensitive to price. And then add in the fact that in 2007 and 2008 diesel fuel prices rocketed and fuel economy suddenly became a problem too. As a BBC report commented:

> In a bid to crack the US market, pressure was reportedly piled on employees to achieve the holy grail of a diesel car which was low on both toxic emissions and fuel consumption – all the while staying unfeasibly powerful. (McGuinness, 2015)

(Continued)

For VW, manufacturing and marketing a diesel car that was fast, cheap and green was a stretch goal that proved impossible to reach (Sitkin et al., 2011: 545). In fact, achieving these three goals simultaneously proved to be a paradoxical challenge: one taken on in a very public and ostensive way. By paradox we mean facing demands that are contradictory but interrelated, constituting a persistent tension over time (Schad, Lewis, Raisch and Smith, 2016).

In the case of VW, ingenious solutions were adopted that seemingly satisfied these contradictory demands, contributing to face-saving. Rather than challenge the strategic goal and force management to accept that the ambitious targets were based on the idea of a technological solution that the company had not yet developed, cheats were designed (known as 'defeat devices') and the appearance of goal achievement was premised on a degree of duplicity. For as long as the duplicity was maintained behind a public face of integrity, the illusion could be maintained. When it became public knowledge that the stretch goals and the resolution of the fast, green and cheap objectives were artfully crafted and malfeasant illusions, VW's descent into media scandal and stock price catastrophe was precipitated (Hirsch and Milner, 2016). When organizations sustain an ethical disaster for which they are entirely responsible it is hardly surprising that their reputation is immediately tainted, in ways to which customers, employees, markets and analysts respond negatively. In such situations, the daunting management challenge of reputation recovery becomes the key task for management.

(If you are a Netflix subscriber, you can also watch the documentary about VW's emissions scandal, *Hard NOx*, directed by Alex Gibney, which is part of the Netflix original Dirty Money series.)

Question

How would you design and monitor a stretch goal for an organization to avoid creating a climate for unethical practice as found in the VW emissions scandal?

Go Online

You can read more about the relationship between the ambitious sales strategy and the defeat device scandal by clicking on the icon in the margin to access a range of online news sources and articles.

Read more about VW

Stretch goals entail a new approach to an existing problem or challenge. Three reasons explain why stretch goals are considered managerially strategic solutions. First, stretch goals serve to trigger the organization's reactive responses when there is a fear of failure or of important external menaces, posing existential organizational threats. Under these conditions stretch goals function because of negative pressure and are activated by a perceived sense of urgency (Kotter, 1996). Second, when utilized as mechanisms against stagnation, they are supported by benchmarks: 'If our best competitors can do it, we have to be able to do it too'. Selecting the right benchmarks can help support a stretch goal strategy. Finally, stretch goals are normally associated with a positive organizational identity, stressing what is core and enduring in an organization (Gioia, Schultz and Corley, 2000) and reinforcing its sense of its organizational culture (Takeuchi, Osono and Shimizu, 2008: 100).

Stretching goals involves a contradiction between realism and imagination because 'impossible' goals are imagined to be possible as a 'future perfect' achievement (Pitsis, Clegg, Marosszeky and Rura-Polley, 2003). The term 'future perfect' originates in linguistics and refers to a tense used to describe an action that will have been completed at some point in the future, such as 'I *will have finished* this book by the end of the term'. Strategizing is a process that involves thinking about a 'future perfect' state of affairs and using that thinking to organize activity in the here-and-now. An organization can institutionalize extreme goals as a dimension of identity, as symbols of a culture of ambition, creativity and innovation serving to differentiate the organization as a culture of innovation (e.g. Apple: Isaacson, 2011). Stretch goals will be more effective when supported by a sense of internally generated crisis justified by external circumstances that legitimate the rhetoric of innovation. The classic case of this is war and that is one reason why war is a major stimulant of innovation (Tellis and Rosenweig, 2018).

Extend your knowledge

Strategic threat is the mother of innovation. In a 2018 study, Richard A. Bitzinger compares two small countries, Israel and Singapore, in terms of innovation. Israel has been much more successful than Singapore in developing a range of indigenous military-technological innovations. Israel faces a looming and imminent threat demanding more military-technological innovation. Moreover, Israel's informal and anti-hierarchical society is much more supportive than Singapore's when it comes to risk-taking and experimentation. Both external threat and internal organization are significant in fostering strategic innovation.

Read the journal article

Bitzinger, R.A. (2018) 'Military-technological innovation in small states: The cases of Israel and Singapore', SITC Research Briefs, Series 10(2018-4). Available at: https://escholarship.org/uc/item/7vp2x155 (accessed 10 October 2018).

Strategy's antecedents in warcraft and statecraft

Modern notions of business strategy did not just spring into being, fully formed. There are prehistories of thought that shaped the way that more recent business theorists made sense of the term. Business strategy has antecedents in *political* and *military* strategy in particular. These areas represent two major zones of strategy as a 'craft' oriented to 'winning'. We can look at two famous examples drawn from modern strategy's antecedents to explore this aspect of contemporary strategy.

Writing from the perspective of military strategy, both Hart (1982) and Ferrill (1966) stressed the strategic import of Herodotus' account of the battle of Thermopylae in Ancient Greece. The Greeks, led by the Spartans, held the much more numerous Persians at bay through superior military strategy, despite being outnumbered. For these writers warcraft represents the birth of strategy. Similarly, other writers favour Sun-Tzu, the famed Chinese warrior-strategist, as a precursor to modern strategy (Sawyer, 1994).

Certainly, there are ancient writings on strategy that have proven resilient. However, the continuities with contemporary accounts of strategy *per se* are not obvious. Accounts of how to wage warfare and exercise statecraft in ancient times are not always sound strategic guides to the twenty-first-century world of modern organizations.

Extend your knowledge

For a fairly academic yet readable perspective on strategy, you could check out Stephen Cummings' book *Recreating Strategy*. He starts with the ancient Greeks and relates strategy back to the key thinkers of that age.

Cummings, S. (2002) *Recreating Strategy*. London: SAGE.

More recent historical thinkers than the Ancient Greeks or Sun-Tzu have been identified as antecedents of modern thinking about strategy. Some scholars position thinking about strategy as emerging with the discourse of statecraft, that is, the practice of governing a territory and its population. The most notable of these was Niccolò Machiavelli (1469–1527), an Italian Renaissance diplomat and author. Machiavelli was a senior official in the Florentine Republic, responsible for both diplomatic and military affairs, who was also secretary and chief advisor to senior officials and princes. Wolin (1960) notes that modern thinking about political strategy began with Machiavelli. His distinctive contribution, in Wolin's view, was a relentless strategic focus.

Image 1.1 Engraving of philosopher Niccolò Machiavelli from 1870. Copyright: Ralf Hettler

Machiavelli was a political realist and strategic thinker because, in Powell's words:

> He was the first to … consider a world where the natural order was not set down by God but dominated by unchanging human nature. Machiavelli did not contest the rules that had bound those who went before him; he simply ignored them … he was the first to consider power and how it should be used and retained in a utilitarian rather than a utopian way. (Powell, 2010: 4)

Machiavelli's themes have been persistent and popular ideas for contemporary managers and leaders (Jay, 1994; McGuire and Hutchings, 2006). Machiavelli is usually seen as having referred to the effectiveness of power without making reference to ethical and moral standards. The term *Machiavellianism*, used to describe individuals who will behave immorally to achieve their own desired ends, has entered into popular discourse as a word with heavy pejorative baggage. As a dark disposition, it has been 'used to define a personality trait characterized by cunning, manipulation, and the use of any means necessary to achieve one's political ends' (Judge, Piccolo and Kosalka, 2009: 867). The adjective thus compresses all that is negative about those in power and chimes with fashionably cynical perspectives on management (Kellaway, 2010: 12).

What did Machiavelli offer to strategy? Machiavelli avoided the ethical issue of constructing ultimate values that should guide conduct. For him, *power* was to be conceived as pure expediency, doing whatever it takes to get what is wanted, while *strategy* involved the understanding of the means necessary to achieve the desired ends of power. Machiavelli's world of power was one of flux, discontinuity, intrigue and illusion that few were able to understand and it was the task of the strategist to master. Power needed strategy as much as strategy needed power. Power was gauged by the effectiveness of strategies for achieving for oneself a greater scope for action than for others – or, to put it simply, getting what you want.

Strategy, for Machiavelli, concerned itself with a political economy of violence; knowing when to be hard and when to be cruel, as well as when to be cruel to be kind, and occasionally, when to be kind – but always with an agenda behind the scenes. On occasion, securing *consent* may be a more effective form of translating power into strategy than always having to *coerce* recalcitrance. The good strategist was, in essence, a good ethnographer (someone who studies other peoples and cultures); someone who is alert to the shifting and seemingly inconsequential details and dramas of everyday politics among the elites in society.

In Machiavelli's world, according to Jackson (2000: 434):

> Because of the difficulty of knowing who is virtuous and who is vicious, Machiavelli tells a Prince to act as if most people are vicious ['A man who wants to act virtuously in every way necessarily comes to grief among so many who are not virtuous'; Machiavelli, 1961: 50].

Familiarity with Machiavelli's work can be of great value for any politically competent person, especially those who are managers striving to be strategists. His emphasis on the *realpolitik* of power driving strategy will be relevant to a sophisticated grasp of strategy, as will become apparent in the rest of this book.

As well as Machiavelli, one other figure that has been much studied for his insights into strategy is Carl von Clausewitz (1780–1831). Clausewitz was a Prussian military officer who, in his eight-volume treatise, *On War* (Clausewitz, 1943), argued that military strategy is not a completely rational process. The passions and emotions are central to engagement in it and its accomplishment (Gardner, 2009: 127). Strategies for the future shape action in the present designed to bring

Image 1.2 Stamp printed in GDR (East Germany) showing Carl von Clausewitz. Copyright: © cityanimal – Fotolia.com

that future to fruition (Kornberger, 2013). The future is always hostage to the present; although not always in the ways one might ordinarily think.

Clausewitz suggests that 'the more we know about the "infinity of petty circumstances", the more information we have at hand, the more our uncertainty will increase' (Kornberger, 2013: 1064). For Clausewitz, if a strategy were useful then all competing parties would use it, thus cancelling out any advantage it might offer. In these circumstances:

> [O]ne could expect both to deviate from the true strategy to reap the benefits of surprise. The truth put forward in the theory would defeat itself, so to speak. Its truth would be a function of its dissemination. Hence strategy cannot represent a body of knowledge about how to manage and master future conflicts successfully. (Kornberger, 2013: 1068)

Classic military strategy tends to assume a 'realist' view of the object of strategy, as expressed in the military adage attributed to the Prussian general von Moltke: 'no plan survives contact with the enemy'. Strategic activity *constructs* social worlds. It does not simply alter circumstances but more importantly creates enemies and allies, shapes interests and invents ends rather than merely serving them. In other words, interests, ends, allies and enemies are never immutably fixed.

Senior executives use strategy to calculate conflicting interests and make intelligible the situations that they face. If a situation is made intelligible as an object of strategic analysis, it becomes something one can attempt to control. However, to the extent that specific theories of strategy are available to competitors, it is more difficult to gain competitive advantage. If everyone has access to the same tools and similar resources with which to implement them, innovative strategy is less likely to occur.

The development of the field of strategy

As the previous section has established, the forms of capability/power + knowledge that framed strategy historically were closely related to the conduct of warcraft and statecraft. Strategy was concerned with how 'governors' of various kinds defended or expanded their territories and governed their populations. Influential thinking about strategy also emerged from the US military academy at West Point, north of New York, marking a fundamental shift in both US business and military strategy in the mid-nineteenth century.

During the American Civil War (1861–1865), the role of a General Staff, who were separate from direct surveillance of the battlefield but schooled in logistics and planning, was decisive in the industrialized North's victory over the agrarian South. Military strategy learnt from this victory that control of resources was decisive. A modern agenda for military strategy was being formed that broadened the vision from the field of battle to the whole campaign, an influential insight that was later crystalized by Mahan (1890) in his naval warfare book *The Influence of Sea Power upon History*.

Strategy continued to learn about long-term planning from warfare. For example, the US planning of the Normandy landings in the Second World War provided many lessons that were, according to Hoskin, Macve and Stone (1997), prefigured by the history of West Point military education from 1817 onwards. These lessons were initially implemented in the American Civil War. Much of this knowledge, based in engineering, was then applied to civilian campaigns, such as building the continental railroad infrastructure. Hence, military strategy and nineteenth-century business strategy had common roots in the kinds of military strategy taught at West Point. At the core was professionalism, based on success in 'written, graded examinations' qualifying personnel as 'successful, disciplinary experts' capable of careful examination of specialist problems. Strategy, in this view, was the joint achievement of the analysis of 'past data to produce a way of seeing the future' (Hoskin et al., 1997: 7). In this view, strategizing (in both the military and in business) required a formalized structure of stable power relations and a body of codified expert knowledge. In short, those at the top of the chain of command should 'think', 'plan' and 'instruct' and those underneath should 'do'.

Image 1.3 West Point stamp. Copyright: traveler1116

The Normandy landings, which assured the defeat of Germany in the Second World War, were planned and strategized with a high degree of secrecy and an enormous attention to detail. The success of the long range planning that was assembled for this campaign became a strong inspiration for the post-war generation of strategic leaders, many of whom had learnt their leadership, management and strategy skills in the war. The importance of context was not as thoroughly learnt. For example, that these landings pitted

Extend your knowledge

The word ‘strategy’, which is now commonplace, only first came into use to understand military affairs at the beginning of the nineteenth century in Europe. Since then, its meaning has changed in important ways that Sir Lawrence Freedman traces in ‘The meaning of strategy: Part I: The origin story’, which you can access from the Texas National Security Review at https://repositories.lib.utexas.edu/bitstream/handle/2152/63933/Vol-1-Issue-1-Freedman.pdf?sequence=2&isAllowed=y (accessed 18 October 2018).

Read the journal article

the cream of US armed forces against weakened German troops, whose strength was shattered by the war on the eastern front, was less the lesson learned than the internal focus on *planning*. Nonetheless, the post-war generation of strategy thinkers gave birth to what we might refer to as the classical age of strategy, tied up with the rise of the multinational corporation designed on the multi-divisional form (MDF) – largely autonomous units (subsidiaries) guided and controlled by a centre (parent) – in the post Second World War period.

The education schooled at West Point proved decisive in the nineteenth-century transformation of strategy; a no less decisive break occurred in the context of management education in the twentieth century. As a result of two separate commissions of inquiry into business education in the United States – the Carnegie and Ford commissions both published reports in 1959 (Khurana, 2007) – it was concluded that the majority of US business schools were little more than trade schools with a low level of intellectual legitimacy. The remedy was to import social science, especially quantitatively oriented social scientific theories, such as economics. Behavioural theory was in the ascendancy (Cyert and March, 1963) and widely imported and developed in the reformed business schools. The behavioural perspective on bounded rationality fed into later development of the transaction costs perspective by Williamson (1985). Other strategy scholars adopted the ideas of other economists: imperfect competition from Chamberlin (1933); the idea of the innovative entrepreneur from Schumpeter (1934/2008), as well as the notion of the firm as a collection of resources from Penrose (1959). Of these first-generation business strategists, arguably the most influential was Alfred Chandler (1918–2007), one of the first scholars to popularize the use of the term ‘strategy’ itself.

Alfred Chandler

Early in its business school life, strategy was not called strategy; it was typically referred to as ‘business policy’ or ‘long range planning’, the latter still the title of an influential journal. Chandler’s book, *Strategy and Structure* (1962), popularized the idea that managers were able to adapt firms' structures to accommodate them to new strategies, linking strategy formulation to the structure of the organization and the processes of its implementation. Chandler brought the language of *strategy* to practitioners and students.

Chandler wrote the history of business in America in terms of strategy, structure, scale and scope, especially focusing on the rise of the MDF. At roughly the same time, Chandler's ideas became a critical input into the European business schools that developed from the late 1960s onwards. He made the idea of strategy tangible for the new scholars and students that were gathered in these institutions.

As a business historian, Chandler (1962) saw changes in the business environment creating a need for new strategies in firms. As new strategies developed, they required a new organizational structure to support them. Strategy, driven by business objectives and changes in the environment, should drive the organization. Thus, Chandler (1962) built on the proposition that strategy drives and determines organizational structure.

Chandler studied nineteenth-century pre-industrial, small-scale, family-owned and rudimentarily managed enterprises in the United States. He investigated their transformation into large-scale, impersonally owned and bureaucratically managed multi-divisional structures by the early twentieth century. How did this happen?

The end of the nineteenth century saw the emergence of a smaller number of dominant firms that grew by incorporating suppliers, marketing outlets, and so on. What had been distinct businesses were reconstituted under more centralized organizational control (Edwards, 1979: 18). Organizations grew in part as a strategic response to the failure of markets in those situations where contracts tended to be longer rather than shorter term; where the environment was more, rather than less certain; where the barriers to entry for new agents were high. Implicitly, these barriers were frequently *organizational* because they concerned the capacity to hire labour, raise credit and secure supplies. Hence, modern organizational forms were a necessary response to strategies that, in turn, were informed by business objectives and market conditions.

The first significant change occurred as a result of the conquest of US continental space by the railways. To manage and control systems that were now nationwide and covered vast geographic territories, railway companies developed military models of bureaucracy and a modern 'multi-unit' corporate form. The railways adopted strict rules of time-tabling, uniforms for their staff, and many other elements of a military model, especially a linear, hierarchical bureaucracy based on rank, divisions of labour and expertise.

Once railways connected the whole country, local and regional markets became integrated into an emerging national market. The possibilities of a mass market could now be entertained, anticipating the growth of global markets. The railroads made the national market possible and revolutionized logistics because firms could now source and sell beyond local markets. The railways also created opportunities for property speculation to occur around railheads, thus creating new and more concentrated urban markets. The growth of Chicago as the abattoir of the mid-west to which pigs and cattle were shipped is a case in point. Many other secondary industries, such as canneries, food processing and glue factories arose around the stockyards and slaughterhouses that clustered near the railheads.

By the end of the nineteenth century and through the early years of the twentieth century, US businesses were becoming more national as improved communication and transport links forged the national continental market. Businesses found that it was more efficient to incorporate internally the purchase of raw materials, debt financing, marketing and distribution that had previously been entrusted to regionally specialized agents. Administrative coordination began to replace market exchanges as the major mechanism of control because it was more technically efficient and allowed for a greater volume of business. Productivity and profits were higher and costs were lower where the fragmentation of markets was replaced with rudimentary bureaucratization of organization. The new organizational structures better fitted the emergent strategies; hence, structure follows strategy.

Chandler's ideas were enormously influential, in part because in these early days he virtually defined the field. They spread into practice, informing the work of other early scholars such as Andrews (1971). Determining strategy became conceptualized as a rational and objective process, divided into two aspects: strategy formulation and implementation (Andrews, 1971: 68). Researchers isolated these phases for analytic purposes. Andrews' ideas created the basis for the well-known SWOT matrix developed by a consultant, Albert Humphrey, who devised this new form of analysis in the 1960s. It analysed organizations in terms of strengths, weaknesses, opportunities and threats (SWOT). The first two concepts focused on an organization's internal condition, and the latter two analysed its environment. The core strategic assumption concerned the identification of opportunities that an organization could exploit better than its competitors. From this point of view, strategic management involves auditing the environment carefully for opportunities and threats and looking internally for strengths that can be exploited and weaknesses that must be overcome. Once the strengths and weaknesses have been elaborated and the opportunities and threats have been identified, then appropriate strategies can be developed. Due to its simplicity and straightforwardness, this approach became widely recognized in the field and is still in frequent use (Learned, Christensen, Andrews and Guth, 1969).

Strategy was emerging as a field in its own right, setting the parameters for organizational action. It was Igor Ansoff who saw the implications of this emergence for the stratification of organizational action.

Igor Ansoff

For Ansoff (1965: 123) strategy defined the nature of an organization's business; hence, his focus was more on strategy formulation than implementation. Igor Ansoff made his important contribution to understanding strategy as a planning process in his book, *Corporate Strategy* (1965). Ansoff identified three different levels of action:

Operational: the direct production processes.

Administrative: the maximization of efficiency of the direct production processes.

Strategic: the concern with the organization's relation with its environment.

Ansoff's influence is echoed in management thinking that understands those at the top as the strategic thinkers of the organization. From this perspective, their task is to define the big picture and to steer the organization. Top management is given a role denied to the lower levels of the hierarchy; since the latter lack data and strategic foresight, their role is to support and implement strategy.

Ansoff argued that there are five strategic decisions that a company should make:

1. Scope of the product market.
2. Growth vector (the direction in which the scope is changing).
3. Competitive advantage (unique product or market opportunities).
4. Internal synergy generated by a combination of capabilities and competencies.
5. Make or buy decisions (Ansoff, 1965: 130).

On the basis of this analysis, the organization can build a strategy.

In his day, Ansoff was a major strategy thinker. But today many strategy scholars would see him only as a historic founder who did not go beyond identifying the key issues and weaving them together. Arguably the first or best to have done this was Edith Penrose.

Edith Penrose

For economists working in the strategy field, one of the most significant foundations is provided by the work of Penrose (1959, 2009) in *The Theory of the Growth of the Firm*. She saw the firm as a collection of productive resources, including people as well as physical resources (e.g. land, equipment, etc.), subject to administrative coordination and authoritative communication. Much as Coase (1937) before her (discussed later in the chapter), Penrose established the firm as an object of specific economic analysis separate from the market.

For Penrose, firms consist of bundles of resources directed and managed to produce goods and services that sell in markets for a profit. The boundaries of the firm are defined by the limits of authoritative coordination and communication. Directing a firm entails making effective use of resources, material and human, most successfully when combined in uniquely innovative ways.

Resources are not finite but created through experience and growth. Managerial numbers, acumen and ability determine the limits to growth because they conceive of possibilities in the external environment that their command of the firms' internal environment can realize. In the long run, profitability, growth and survival of firms depends on establishing 'relatively impregnable "bases"' (Penrose, 1959: 137) – forms of uniqueness and differentiation that mean that others cannot compete with them – from which to adapt and extend their operations in an uncertain, changing world.

Penrose's definition of the firm in terms of resources enabled strategists to conceptualize the uniqueness of the firm in terms of the specific resources that they command. Resources, especially intangible resources such as managerial capabilities or cumulative experience that are not easily copied by competitor organizations, are the real source of differentiation and value for a firm. It is resources, not products, which define firms; realizing this enables a better understanding of growth and evolution, diversification and innovation.

Firms always have more resources than they currently need, that is they have 'excess resources'. This is partly because of the indivisibilities of resources (for example, if you need ten workers and two and a half machines for optimal production, you can only buy three machines, meaning you either under produce or you have excess resources), but mostly because of cumulative *learning* that makes humans more productive.

Building on Penrose's (1959, 2009) resource-based perspective of the firm, Wernerfelt (1984) suggested strategy should be understood in terms of the management of internal resources – a theme picked up in the discussion of the so-called resource-based view (RBV) of strategy in Chapter 3. He thought of a firm as a bundle of resources that represent strengths and weaknesses. These internal resources, and their configuration, would determine firm performance. The strategist's job is to manage these resources, develop them and ensure that the firm has the capabilities to compete. This view focuses on the internal management of the organization. The focus is on the firm and the dynamics of how effectively resources are positioned, exploited and renewed. The knowledge that the firm includes can also be the basis for a knowledge-based view of the firm (see Chapter 3). Essentially, it is a combination of the management of resources, such as knowledge, and the imagination of the entrepreneur in enacting the environment for the firm, which limits its growth.

In this view, sustained competitive advantage – that is, competitive advantage that can be sustained over a period of time rather than lost as competitors quickly 'catch up' – depends on firms developing unique combinations of resources providing competences that allow for flexible development in an uncertain and changing environment. Penrose provided the foundations for the resource, knowledge and dynamic capabilities perspectives discussed in Chapter 3 of this book, approaches that have increasingly been represented in major journals in the field, such as special issues of the *Strategic Management Journal* (Winter 1986), *Organization Science* (September–October 1996), *Journal of Management Studies* (2004) and *Organization Studies* (2008).

Michael Porter

In the 1980s, the dominant theory of strategy became that of Michael Porter, a leading advocate of a rationalist analysis, based on the industrial organization (IO) approach. Michael Porter is a Professor at Harvard Business School, where he leads the Institute for Strategy and Competitiveness. Porter (1980) first advanced his ideas in the hugely successful book, *Competitive Strategy*.

Porter offered a highly rational view of competitive strategy, which we explore in more detail in Chapter 2. He introduced key terms that will be discussed in later chapters, such as the 'three generic strategies' and what are commonly referred to as the 'Five Forces framework' for industry strategy. The latter framework suggested that the aim of strategy should be to reduce the power of competitive forces in the industry the firm is competing in (or indeed, exit highly competitive industries in favour of less competitive industries), to position oneself within the industry in terms of the three generic strategies and to align these strategies to the firm's value chain (the set of primary and supporting activities that help generate profit margin).

For Porter, strategy is to be conceived, planned and executed with precision, using data. While he acknowledged the role of surprise (chance factors) and internal structure and of wider institutions such as government, he considered these subsidiary factors. These became themes that the next generations of strategy theory, associated with figures such as Mintzberg and Pettigrew, introduced, drawing on different disciplines from economics, such as anthropology and sociology.

At the height of the post-war era of the 'organization man' (Whyte, 1956/2013) and of modern organizations founded on planning and hierarchy, strategy established itself as a discipline with its own highly regarded specialized journal, the *Strategic Management Journal*. By the 1980s, strategy writers such as Michael Porter and Gary Hamel had become famous not only academically but also as consultants. These authoritative figures, straddling commercial practice and academic life, became known as 'gurus' (Huczynski, 1993; Micklethwaite and Wooldridge, 1996). They had enormous popular legitimacy and were widely read by people in business and other organizations. One particular audience for these more popular books was the rising ranks of MBA students. Hence, the links with practice were well established from these early days, as the students graduated and started to put these ideas into practice in the workplace. Ideas were also translated into practice by large consulting firms (Rumelt, Schendel and Teece, 1994; Ghemawat, 2002), such as the Boston Consulting Group, which developed popular notions such as the experience curve and the growth-share matrix, alongside other consultancy firms, such as McKinsey's influential 7s framework (Henderson, 1970, 1973).

Transaction costs economics (TCE) – Ronald Coase and Oliver Williamson

For a **transaction** to take place the assumption is that all organizations must be firms operating in a market in which there are buyers and sellers of goods and services.

At the core of many organizational activities are transactions – transactions with customers, suppliers, regulators and other organizations in general. A focus on **transactions** defines one of the more successful economic approaches to strategy, known as *Transaction Cost Economics*, albeit that it is also one of the more limited because it assumes markets as a necessary form of exchange.

TCE started with the question: Why do firms exist in a world of markets and exchanges where, at least in theory, everything a firm does could also be done through impersonal market exchanges? Apparently a simple question, but one to which the answer has seen the development of TCE analysis and has given rise to two 'Nobel' prizes in economics for both Coase and Williamson.

According to Ronald Coase (1937), production is organized in firms when the transaction costs of coordinating production through market exchanges is greater than the costs of internalizing the transaction within a firm. There are many different types of costs that accompany buying from an open market: the costs of searching for suppliers and gathering information about their goods or services, the costs of comparing their various offerings, the costs of bargaining with the chosen supplier and drawing up a contract, and the costs of policing and enforcing the terms of this contract, for example when the goods are faulty or deficient in some way. In short, firms exist when it is deemed more efficient to 'make' something yourself rather than 'buy' it from the marketplace.

Internalizing activities within organizations simplifies the renegotiating and monitoring of the many contracts that would need to be created if only market exchanges were used. Instead, long-term employment contracts can be used to create some degree of certainty about available resources. Such contracts will be issued until that point where costs of intra-firm transactions become equal to the costs of undertaking the same transaction through alternative market arrangements.

Williamson (1981a, 1981b) built on Coase's theoretical framework. According to Williamson, firms exist because all complex contracts are incomplete – they cannot anticipate and cover all possible future contingencies. When the complexity and cost of contracts increases, it makes sense to organize transactions within the firm.

Williamson followed Simon (1972) in claiming that individuals are characterized by bounded rationality (they are not fully rational) as well as opportunism (they act in ways that are self-interested but masked with guile – where diplomatic deceit masks self-interest). Where different firms own specific assets (there exists asset specificity), then market contracts can lead to bilateral dependencies, where each party depends uniquely on the other for access to those assets, hence generating protracted bargaining and coordination costs. In such cases, foresighted agents can internalize the transaction in an organizational hierarchy.

Monteverde and Teece (1982) first operationalized TCE and showed that the degree of asset specificity could help determine the degree of integration. That spearheaded empirical research that ultimately led to Williamson receiving the Nobel Prize in economics. Subsequently, Williamson critiqued other theories, such as market power (as in Porter, 1985) and the so-called resource-based view, for being non-operationalizable, a rather controversial view according to some critics (see Clegg and Pitelis, 2016). In critiquing Michael Porter, Williamson was positioning himself against the leading author of economics-based strategy studies.

Some of the themes that fed into TCE were developed from the behavioural perspectives of Simon (1947) and Cyert and March (1963), which eventually became used in developing the hallmarks of strategy as an emergent process, which we will encounter in Chapter 9 in the form of the emergent school's chief protagonist, Henry Mintzberg. The emergent tradition highlighted the unintended outcomes of the strategic process, suggesting that strategies are mostly rationalized in hindsight through the organization's everyday actions and decisions. In contrast to more rationalist perspectives, emergent strategy considered strategy to be a pattern of decisions taken in response to unfolding events.

By the turn of the century the positioning school launched by Porter had been superseded by a concern with competitive dynamics, responding to rapidly changing competition. Teece, Pisano and Shuen (1997: 537) noted the shift in focus was to the firm and its capabilities, rather than industries, as core units of analysis. The central concern was on maintaining fast moving competitive advantage in rapidly changing, even hypercompetitive (D'Aveni, 1994), times.

Contemporary strategy

The academic field of strategy is now well established, albeit highly diverse and differentiated. There is a strategy division at major conferences such as the Academy of Management in the US and specialist meetings organized by the Strategic Management Society. Strategic management is a pivotal ingredient of business education (that's why you are reading this book!) and many professors in business schools define themselves as strategy scholars. A huge textbook enterprise now supports the discipline.

Textbooks have a particular role to play in the philosophy of science – they define the 'normal science' constituting a paradigm. Thomas Kuhn (1962), the famous historian of science, defined a 'normal science' in terms of what he called a 'paradigm' – the relatively unanimous agreement on the central questions in a field that defines what gets into textbooks on the subject. But does strategic management have any such unanimous agreement?

Nag and his colleagues (2007) speculated that strategy scholars might share more implicit than explicit definitions of their field. It is precisely the implicit assumptions characterizing a field that have been seen as paradigmatic by historians of science such as Kuhn (1962).

Nag, Hambrick and Chen (2007) picked 447 journal articles from three major US management journals that were published over a time span of 20 years. The three journals that were mined for articles included the *Academy of Management Review, Academy of Management Journal* and *Administrative Science Quarterly*

Go Online

Go to Google Scholar in your browser. Type in 'strategy': what terms come up? Which of these do you think would be useful to you as a student of strategy? Pick three of these terms that seem most salient for your interests in strategy or which you would like to know more about. Limit your search to articles from the current year. How many articles come up? Identify one with a large number of hits already. Click on the abstract and read it. What is it about? Is it interesting enough to read some more? If so, do.

Google 'strategy'

(note the US-centric choice of journals, implying that American scholarship counts most when defining a field). Nag and his colleagues then emailed 585 authors who had presented at the strategy division (more accurately the Business Policy and Strategy Division) of the meetings of the Academy of Management. They asked their respondents to rate whether the articles (presented with titles and abstracts, but no authors) were:

1. *Clearly* a strategic management article.
2. *Probably* a strategic management article.
3. *Probably not* a strategic management article.
4. *Definitely not* a strategic management article.

Surprisingly, the respondents displayed a high level of agreement with regard to what they perceived to be strategic management. Nag and his colleagues then studied the abstracts of articles identified by their respondents. On the basis of the responses that they received, they reduced the list of abstracts to 385 that were definitely about strategy according to the evaluation. From these abstracts they identified the 54 key terms that appeared most often, which they were able to reduce to six categories:

1. Strategy involves *major intended and emergent initiatives* such as innovation, acquisitions and diversification.
2. Strategy is an activity *undertaken by general managers on behalf of owners* concerned with central issues of governance and management.
3. Strategy involves *the utilization of resources* such as the firm's assets, capabilities and competencies.
4. Strategy should enhance *the performance of an organization* in terms of issues such as growth, return on investment and competitive advantage.

5. Strategy, as represented by the literature they covered in their survey, is overwhelmingly *something that is done by firms* – although in this book we do discuss the uses of strategy by other organizations that are not-for-profit.
6. Strategy involves understanding the organization's *relationship with the external environment* such as the industry, competitors and markets.

Strategic management involves the 'major intended and emergent initiatives taken by general managers on behalf of owners involving utilization of resources to enhance the performance of firms in their external environments' (Nag et al., 2007: 942–943).

Doing so, they arrived at the following paradigmatic definition of key aspects of **strategic management**.

There have been other studies that have sought to provide an overview of the strategy field. Furrer, Thomas and Goussevskaia (2008) conducted a painstakingly detailed literature review of the strategic management field. They analysed all the papers dealing with strategy that had been published in the *Academy of Management Review, Academy of Management Journal, Administrative Science Quarterly* and the *Strategic Management Journal* between 1980 and 2005. They chose these four US journals because they are frequently referred to as the most influential journals in the strategy field. (Implying that strategy is primarily a North American phenomenon. With their exclusive choice of journals, Furrer and his colleagues contribute to the continuation of this bias.)

In Furrer et al.'s study (2008), 2,125 articles were identified that engaged with strategy. Unsurprisingly, 65% of the articles were published in the *Strategic Management Journal*. Furrer and his colleagues coded the articles by identifying 26 keywords. One article could contribute to more than one keyword, so some papers counted twice. Here are their findings:

1. The most frequent keyword that was used to describe strategy research from 1980 until 2005 was *performance* (777 papers). Performance includes subtopics such as wealth creation, profitability, risk and return, productivity and others. In short, strategists were occupied with how well a company did.
2. The second most frequently used keyword was *environmental modelling* (534 papers), which included a vast array of topics dealing with the interaction between the firm and its environment.
3. The third most frequently used keyword was *capabilities*, with 518 mentions. Capabilities focused on the resources inside a firm, and how they were deployed strategically.
4. Finally, there was the term *organization* (492 papers), which included issues around implementation, change, learning and structure.

While performance was clearly the most important concept for strategy researchers (with 36.6% of the total), the concepts of environment, capabilities and organization came in close to each other in terms of their importance (25.1%, 24.4% and 23.2% respectively).

During the 26-year period covered in this study (1980–2005 inclusive), some interesting developments and trends occurred. Performance was the constant number one concern. However, interest in the environment (this is interest in what strategists call the environment – an economic term referring to that which is outside the firm – not the natural environment conceived in terms of businesses' strategic effects on it in terms of carbon footprint, climate change and so on) reduced over time, replaced with an increased concern with capabilities. Other topics closely aligned with capabilities, such as innovation, also increased in frequency of occurrence: while only 4.9% of strategy research focused on innovation between 1980 and 1985, 22.9% researched its relation with strategy between 2001 and 2005.

In another study of the strategy field, Stephen Cummings and Urs Daellenbach (2009) analysed all 2,366 articles published by the end of 2006 in the journal *Long Range Planning*. This is particularly significant as *LRP* is by far the longest running academic journal devoted to strategy, publishing its first issue in 1968. The authors start their article with a quote by Benjamin Franklin:

> At twenty years of age, the will reigns; at thirty, the wit; and at forty, the judgment.

Applied to strategy, Cummings and Daellenbach argue that Porter's Five Forces and the BCG matrix were creatures of the 'will'. They argue that we have entered the period of 'wit', marked by the fact that the 'fields of strategy and organization studies have spilled over into one another, and the focus on the noun strategy has shifted toward an interest in the verb *strategizing*' (2009: 234). The 'wit' in strategy analysis that we have enjoyed over the past years has also a downside: as the '"wit" has gradually obscured the focus prevalent at the outset – there are now so many varied views of strategy it has become hard to be sure of what we mean when we use the term' (2009: 235). Hence, Cummings and Daellenbach suggest a new orientation towards the fourth decade of strategizing – a focus on judgement.

They found six re-occurring themes that represent the baseline of much of strategy research over the past 40 years.

1. First, the notion of 'corporate' has been a key aspect – signifying strategy's interest in the for-profit sector, especially large firms.
2. A second keyword was 'organization', which grew rapidly from 2000 onwards. In line with other research, we can speculate that an interest in the inner workings of firms has started to occupy strategy researchers.
3. Mergers and acquisitions, divestments and joint ventures have always been high on the strategist's agenda.
4. 'Technology' has enjoyed a prominent place in strategy research – but surprisingly it has not increased in importance over 40 years.

5. There has been a steadily growing concern with 'change', identified by Cummings and Daellenbach as one of strategy's master concepts.
6. Recently, notions of 'creativity and innovation' have enjoyed increased attention from strategy scholars, reflecting some of the challenges of management in the knowledge economy.

The authors conclude:

> Combining our key word data from *LRP* titles and abstracts enables us to interpret strategic management's most constant (and so perhaps its fundamental) themes, as *processes* and *practices* relating to the *corporate* whole, the *organizing* of resources and how the corporation responds to or manages *change*. Thinking more broadly, one could add to this set responses to or *decisions* about *technology* and other related *environmental* issues, and a recognition of the importance of *creative* or *innovative* developments. (Cummings and Daellenbach, 2009: 239)

Cummings and Daellenbach also look to the future as well as assessing the past. They identify five emerging trends for the future of strategic management:

1. Strategic management will become more comfortable with eclectic approaches built on a smaller number of fundamental elements.
2. Strategists are becoming more politically astute in their practice.
3. Strategists are becoming more aesthetically aware, for example, when publishing the results of strategy analysis the presentations will be artfully designed with graphics, images and bullet points rather than dense text and figures.
4. There is increasing recognition that strategy is influenced equally by conceptions of the past and of the future, and should not dismiss strategic management's archive as limited, simplistic and outmoded.
5. Prescriptive tools and models will become less important as scholars increasingly appreciate the uniqueness of organizations. Since a 'focus on particular cultures, practices and processes highlights […] the uniqueness of organizations (and therefore of their strategies), we are less likely to believe in the power of general prescriptions, and be more interested in rich case studies' (Cummings and Daellenbach, 2009: 254).

The authors suggest that there will be a diminishing use of tools and models, which will be offset by a rise in frameworks and case studies. Interpreting Cummings and Daellenbach, we can argue that strategy is evolving from a managerial–economistic perspective towards an empirically informed social science that seeks to understand what people do when they do 'strategy' – a shift our book seeks to contribute to. In a nutshell, strategy is a particular form of sensemaking, as we explore in more detail in Chapter 10, when we discuss strategy as practice.

Extend your knowledge

Strategy can be constructed from many sources, including tradition and history, as argued by Maclean, Harvey, Sillince and Golant (2018). Using the global multinational organization Proctor and Gamble (or PG) as a case study, they show how the organization transformed into a global enterprise doing so with a consistent use of history to steer strategy.

Maclean, M., Harvey, C., Sillince, J. and Golant, B.D. (2018) 'Intertextuality, rhetorical history and the uses of the past in organizational transition', *Organization Studies*, 39(12): 1733–1755. https://doi.org/10.1177/0170840618789206.

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The practice of contemporary strategy

Strategy as *practice*

A relative newcomer to the field of strategy is a body of work that goes by the name strategy as practice (SAP) (Johnson, Scholes and Whittington, 2007; Golsorkhi, Rouleau, Seidl and Vaara, 2015). We discuss the SAP approach in more detail in Chapter 10. From the SAP perspective, we should study what it is that strategists actually *do* when they do strategy. SAP is concerned with in-depth analysis of the social practices that produce strategy formulation, planning, implementation and so on. In this respect, SAP research picks up on the earlier focus on real-life organizing processes that once set the agenda for strategy research under Mintzberg but which largely disappeared beneath the quantity of contributions from micro-economic approaches and statistical analysis of variables.

SAP research offers different theories and methodological choices to the mainstream represented by more orthodox work. The new approach is clearly to be understood as a systematic critique of orthodox, hegemonic and mainly North American (or at least North American-inspired) strategy research with the objective being to 'break through the economics-based dominance over strategy research' (Jarzabkowski and Spee, 2009: 70).

The objective of 'breaking through' the dominance of economics-based approaches to strategy is not easy. The economics profession has become a somewhat inverted paradigm, inwardly focused on its criteria of legitimacy and disdainful of any positions that are outside of its domain assumptions. From this position of intellectual solipsism, it is easy to ignore the babble of voices keyed to a different disciplinary register. Hence, the emergence of SAP has not (yet) breached the barriers of 'normal' strategy research so much as constituted an alternative stream, largely separate from the mainstream.

Strategy in *practice*

In reality, strategy is rarely as predictable and rational as implied by Porterian, RBV and TCE views. Strategy in practice consists of patterns of actions and decisions, some conscious and explicit and others not, created prospectively and in an ongoing fashion. This pattern, of course, may involve complex operational activities and decision-making leading to tactical execution. For instance, Kodak refused to give up on printed photography, went bankrupt and closed down as a result of their inaction in the face of a changing market. Blockbuster decided to move from video rentals into online downloads – but too late as Netflix and others already occupied the space. The actions and decisions that organizations make translate into routines. Organizations seek to sustain and improvise around these routines, even in the face of unanticipated events. Strategy is not a science of predictive formulas so much as a basis for creative improvisation.

Strategists explore, develop and advise how organizations can best define and achieve goals of creating and capturing *value*. The organization might be a large multinational corporation, a political party, or an organization like a charity in the not-for-profit sector.

The creation and capture of value and the pursuit of sustainable competitive advantage (SCA) are widely regarded as two critical concerns of strategic management and organization scholarship (Collis and Montgomery, 1998; Saloner, Shephard and Podolny, 2001; Ghoshal, Hahn and Moran, 2002; MacDonald and Ryall, 2004; Lepak, Smith and Taylor, 2007; Teece, 2007a). 'Value' is an elusive term in social science and management scholarship (Dobb, 1973; Ramirez, 1999). Value can be defined in many ways: for instance, in terms of shareholder returns, public utility or political advantage. The value could be a return on investment, share valuation, winning political office, or securing benefits for service users or other stakeholders. What is of value to some stakeholders, such as shareholders, may be gained at a loss to others, such as polluted communities, redundant employees or dissatisfied customers.

If organizations seek to be successful, whether as political parties, businesses, public sector organizations or not-for-profit organizations, they have to improvise and change as the worlds in which they operate change, otherwise they risk inexorable decline. Challenges must be faced, opportunities seized, problems responded to rapidly. To make these points in a way that is understood more easily we can relate these ideas to the world of fashion retailing, in this instance, in Marks & Spencer and Zara. We will contrast their two different approaches to retailing to make some essential points about the role of strategy.

Complexity

In the past, many companies saw strategic planning as an exercise in modelling and predicting the future. They crunched through data and enjoyed lengthy planning sessions. PowerPoint presentations charted the path to the future, followed by Excel spreadsheets that translated the opportunities along the way into numbers.

Camillus (2008) argues that this old-fashioned approach works as long as we are dealing with simple or trivial problems. In a world of increased complexity and **wicked problems**, however, strategy needs to change.

> A **wicked problem** is a problem that is hard to describe, has many interrelated causes, no criteria for evaluating potential solutions, where actions to address the problem tend to cause more unanticipated problems and where defining the problem itself is as difficult as identifying potential solutions.

Global warming, terrorism or poverty, for instance, may all be considered wicked problems. Defining the problem is as hard, if not harder, than finding potential solutions. There are no 'correct' solutions to wicked problems, only better or worse. There is no ultimate test of a solution to a wicked problem; unexpected consequences of solutions make evaluation a tricky task. You can only evaluate whether a solution is working after you have started to do it, after which turning back and trying something else is no longer an option. Moreover, any attempt to 'solve' a wicked problem tends to create more unexpected problems along the way.

Every solution to a wicked problem is a 'one-shot operation' because there is no opportunity to learn by trial and error. Once a potential solution has been tried, there is no way to turn back time to try a different one. Trying out a solution also changes the situation and therefore changes the nature of the problem, sending you right back to the beginning again. Every wicked problem is essentially unique even if it looks familiar: this means past experience does not help you to identify prime causal factors or candidate solutions. How you try to explain the problem determines the nature of the problem's resolution – change the definition and the candidate solution also changes.

For instance, Bill and Linda Gates seem to have learnt some lessons in dealing with wicked problems. They use prizes to foster the development of unexpected solutions. The Bill and Linda Gates Foundation uses this strategy extensively to promote and fund the search for solutions to social issues; one good example is their approach to fighting AIDS. Since research shows that the best solution to reducing HIV transmission is protected sex, they have launched a global competition to design new types of condom that people would want to wear because they would make sex *better*, not just safer. This is an interesting example of a strategic approach that is partially rational, partially creative, partially rhetoric, partially emergent and wholly engaged with the complexity of the problems involved.

In organizations, most issues that are truly strategic show strong elements of 'wickedness'. Camillus (2008) uses the example of Wal-Mart to illustrate the case. Wal-Mart, the world's largest organization, deals with many different stakeholders with different values and priorities. More than 2 million employees want good working conditions and a reliable pension system; shareholders are more interested in annual dividends and the stock price; suppliers want to establish long-term relationships and struggle over standards and working practices; consumers are keen to pay as little as possible for as much as possible; many non-governmental organizations (NGOs) monitor Wal-Mart's behaviour, especially its environmental record, while unions abhor its anti-union orientation.

Extend your knowledge

Read the journal article

Camillus arrived at the findings discussed above from revisiting the contribution made by two urban planners, Horts Rittel and Melvin Webber, who wrote their ‘Dilemmas in a general theory of planning’ in 1973.

Rittel, H. and Webber, M. (1973) ‘Dilemmas in a general theory of planning’, *Policy Sciences*, 4: 155–169.

It’s easy to see how these different groups have different demands that Wal-Mart can hardly satisfy with one neat strategy. The matter is further complicated by the fact that the cause of some of the problems is extremely complex. Pressure on lowering prices is handed down by Wal-Mart to its suppliers who might not always adhere to the highest ethical or environmental standards *and* fulfil low-cost criteria. When tackling some of these challenges, Wal-Mart experiences another characteristic of wicked problems: they are moving targets. Let’s say Wal-Mart decides to put its employees first and promises fair pay, good health care and a decent pension plan. Shareholders would be up in arms as they would not earn the dividend their money could earn elsewhere. Wal-Mart’s stock would lose value. Consumers would also be disappointed, as they would face higher prices. They would argue that Wal-Mart is breaking its promise of ‘always low prices’. What if Wal-Mart follows the shareholders’ interest instead? Unions, employees, local governments and NGOs will start putting pressure on Wal-Mart. Consumers might call for a boycott to punish Wal-Mart and shares will lose value in consequence.

To make wicked problems more complicated, Camillus (2008) adds that they represent new challenges that have not been experienced before. Wal-Mart cannot simply follow someone else who has mastered the wicked problems it finds so challenging. Rather, the problems, their complexity and their configuration are novel, and might not repeat themselves. Even worse, answers to wicked problems are hard to evaluate. Often, one only develops a sense of right or wrong after a decision has been made and the strategy is being implemented. Usually, this is too late to change the course of action.

Camillus (2008) defines five principles for resolving complex problems.

Stakeholder involvement is crucial. Strategy becomes a forum in which to work out what the challenges might look like, as well as in what order or priority they should be tackled.

Making sense of the situation and agreeing the nature of the problem are paramount. Strategic conversations are a communication platform for these discussions.

While the strategic plans for coping with problems will change, the organization's sense of purpose and identity should not. In other words, the question of 'who we are and what is our purpose' should be clarified before strategic plans are crafted. In this sense, identity precedes strategy. We can't decide what we should *do* before we decide who we *are*.

Because wicked problems are complex, we cannot think through every permutation and then act on the results of our reasoning. Rather, we have to experiment, put ideas forward, act on them, and then adjust in the light of experience. Trial and error, learning, making experiments, adopting pilot programmes and creating prototypes seem to be better ways forward than following grand plans.

Feedback is not the best way to learn, as the name suggests, it feeds *back* onto something from the past. A 'feed-forward' orientation would scan the environment for weak signals. Who would have thought that the rise of the Internet would change the music industry? Feedback tells us that it *did*; feed-forward could have told us that it *would*.

In Practice

Strategy at Marks & Spencer

A good example of an organization that has found it hard to change and improvise strategies is M&S, the British-based and international retail institution. M&S had a certain ethos that characterized its strategy.

M&S's heyday was before the swinging 60s and the advent of boutiques and fashion targeted at a young demographic. As the individualized boutiques, such as Biba, gave way to the boutique chains that grew up around mastery of supply chains, such as Benetton, Zara and H&M, the clothes that M&S sold were increasingly trying to be everything for too many people. Available in every size and marketed fairly indiscriminately in terms of demographics, the stock often stuck; turnover was not fast. The fundamentals of socks and underwear still sold but increasingly the outerwear needs of their customers, particularly the younger ones, were being met elsewhere. Nonetheless, clothes had built the brand when everything sold at M&S was labelled 'St. Michael' but that identity, meaningful for a diminishing customer base of older shoppers, had given way to a mix of in-house brands that were not clearly differentiated and were still available in a full range of sizes, increasing stock costs.

(Continued)

Image 1.4 M&S Store in Westfield Shopping Centre, Stratford, London. Copyright: nicolamargaret

M&S's move into food became an increasingly important part of the business and their home products did reasonable business but, as Perkins (2015) says, it was the clothes that are the problem. 'The M&S mid-market recipe of good value and nothing too scary works brilliantly with food, but it's a dud in fashion.' (Perkins, 2015)

The generation that defined the M&S customer lived through the post-war era; now they are dying out, literally. M&S built a valid value proposition based on quality, returnability and the Britishness of its brand – St Michael – with the vast majority of its clothes manufactured in Britain. However, from the 'swinging sixties' onwards it ceased to be a magnet for younger fashion buyers. Initially challenged only by stand-alone boutiques, such as Biba, by the 1980s the competitors were chain stores such as Next. By the 1990s the initiative had been seized by the Spanish retailer Zara and the Swedish firm, H&M.

In recent times M&S has made many attempts to revamp its fashion business; indeed, in the three years before 2015, no fewer than three executives in succession had been in charge of the fashion business. The head in 2015 had been moved across from the food division, the most successful area of the retailer, to take charge of fashion. Reportedly, he would concentrate on the supply chain, planning a visit to factories in Bangladesh with supply chain experts Mark and Neil Lindsey, whose expertise helped

M&S rival Next become a far more profitable business than M&S, on half the turnover. These brothers were appointed on a three-year contract in 2015 to shake up the ways in which M&S buys and makes its clothing.

M&S has had a succession of CEOs, each optimistically claiming that they will develop a strategy to revise the firm. Thus far, none has succeeded. Among its problems analysts have noted weaknesses in the generic nature of both its clothing and food offerings, that its management has been weak, that its website is clunky and its stores old-fashioned and cluttered. Steve Rowe, M&S CEO since 2016, has been recruiting star curators of its fashion lines to refresh the brand while closing stores, thus affecting the total number of sales. Meanwhile Rowe has had his pay cut by a third and M&S is no longer an FT100 company. More recently, Rowe has sought to capitalise on the popular M&S food range in a joint venture with Ocado to provide a home delivery service, as Ocado's partnership with Waitrose comes to an end in 2020 and Waitrose relies on its own in-house home delivery system. Markets were sceptical, however, with M&S shares falling 10% following the announcement.

Latest reports such as that by Goodley (2019) suggest that the 'retailer's recovery formulas' have not been as successful as might have been anticipated.

Go Online

There are a number of news articles that could help you build your knowledge about this case over time, including several that chart the strategies of Steve Rowe. In Goodley's 2019 article in *The Guardian* he asks: when will M&S' fortunes be revived? The answer, he notes, is always the same whenever the question is asked: in about five years. The article is scathing about the succession of optimistic projections and targets that have emanated from M&S that have failed to be met.

Read M&S news articles

Read M&S CEO strategies

Questions

1. In your view, what are the factors contributing to the lack of success of M&S' strategy in recent years?
2. Is M&S doomed? If so, why? If not, what strategies should it be following?

In Practice

Strategy at Zara

Zara introduced the idea of fast fashion some two decades ago, developing a highly centralized design, manufacturing and distribution system for a fashion empire built on the idea that speed and responsiveness to the latest fashion trends from London, Milan or Paris are as important as cost. As Berfield and Bagiorri (2013) explain, Zara delivers new clothes to stores quickly and in small batches. Twice weekly, at precise times, store managers order clothes and new garments arrive on schedule. Zara is able to do this because it controls more of its manufacturing than most retailers: its supply chain provides its competitive advantage, with many of the clothes being made in Spain or nearby countries. Zara's head office, known as The Cube, is situated in Arteixo, a small town on north-western Spain's Atlantic coast.

Image 1.5 Zara store. Copyright: gioadventures

Just outside the Cube is the company's 5 million-square-foot main distribution center. The company produces about 450 million items a year for its 1,770 stores in 86 countries. Some 150 million garments pass through the center to be inspected and sorted, according to Zara ... Whether a shirt is made in Portugal or Morocco, in China or Bangladesh, it still goes to Spain before being shipped to a store. Beyond the

> distribution center are the 11 Zara-owned factories. Every shirt, sweater, and dress made in them is sent directly to the distribution center via an automated underground monorail. There are 124 miles of track. Across the surrounding Galicia region are subcontractors, some of which have worked for the company since Amancio Ortega founded it in 1975. (Berfield and Bagiorri, 2013)

Production of clothes for Zara follows a simple model. The more fashion-conscious clothes – designs that 'interpret' *prêt-à-porter* collections – are mostly produced in Spain or nearby countries. The 'basics' – the T-shirts, sweatshirts and jeans – are produced in larger batches with longer lead times in China and other cheap manufacturing East Asian countries, such as Bangladesh. These goods are very price responsive to the costs of raw materials: for instance, as cotton prices increased up to 2014, production switched to cheaper fabrics. From 2014 on, because the higher prices had attracted more primary production of cotton, the prices slumped to a five-year low and Zara switched back to manufacturing in cotton.

The simple story of relative market success and failure of M&S and Zara tells us a lot about strategy. Retailers such as M&S, to the extent that they focus on their core customers, kill off the customer base – not the existing one but the next generation that does not want to be seen wearing what their mother wears. Instead, they want edgy, current fashion, they want it now and they don't mind if it doesn't last because fashion changes so fast.

Zara clearly understands the essence of fashion retail. Of course, it is much easier for Zara because it does not have a 50-year heritage of clothes retailing based on a national model founded in economically hard times. They did not have to try and reinvent themselves in high street stores that were 'department stores', selling fashion and much else besides. They were not embedded in an essentially national model of retailing and supply. They were able to design an innovative business model from scratch – the IT system, the monorail, the network of suppliers and subcontractors, and the fast model for fashion based on the latest collections.

Strategy clearly works from knowing your customer; M&S knew theirs in the past – but they knew them too well, ageing with them. As the nature of the customer generations changed, M&S failed to change with them. In the 1990s, they sought to make strategic changes within the envelope of customary business practice, introducing more specialist fashion lines, such as Per Una and Limited Edition as in-store brands, brands which now are damned as having lost an 'identity' that sceptics believed few identified with in the first place. For the younger and more fashion-conscious customer these in-store brands hardly compete with the allure of going into Zara and seeing the latest fashions.

Zara is designed in such a way that the fashions are already on view before the store is entered, as are the crowds of customers creating the buzz and vibe inside the store.

Zara know their customers and they built on the innovations of a previous generation of Italian fashion retailers, such as Benetton (Clegg, 1990), to design their practice. From Benetton they learnt the advantages of IT systems at the point of sale that kept them posted on a daily basis on what lines, in what colours, sizes and style variations were selling where. From Benetton, they also learnt the importance of a regional network of reliable contractors, which they found in northern Spain and in Portugal, in areas where fashion and textile manufacturing was well developed and embedded. These local manufacturers were trusted to make the most fashion-responsive goods.

The following lessons can be gleaned from the above:

- Strategy attends to the *context* of an organization. M&S gained its direction from a prolonged period of limited choice and limited expenditure among its key customers in post-war austerity Britain. Zara's context was set in an era of unrivalled prosperity for the Spanish economy as it came out of the relative stupor of the years of the Franco dictatorship and boomed as a member of the EU.
- M&S had a *long-term direction* of seeking to be a generalist. Zara, by contrast, set a specialist direction by being a conduit from the catwalk to the high street through its interpretations of the latest fashions. What the young and fashionable might have seen in *Vogue* would be in store in a matter of two weeks, interpreted for a mass market (but not so 'mass' as to lose the cachet of feeling that you needed to buy them there and then because you knew that they would not be there tomorrow).
- *Scope*: M&S was set in a particular national model of retail as a department store, concentrating on many different lines; unlike Zara it was not a dedicated fashion retailer.
- *Long-term competitive advantage*: The setting and accomplishment of *long-term objectives* is a vital aspect of strategy. M&S, as a one-stop shop for basic clothing lines that were stocked in multiple sizes and numbers for the mass market, had effected a very good strategic fit with a particular business environment in which there was little choice, competition or cash. This was the market in which the store was established as a British institution. Clothes were sold from counters rather than racks, with little in the way of presentation and no sense of in-store experience or excitement. Retail staff wore dowdy uniforms rather than clothes available in store. As the market changed from the 1960s onwards, those retailers that learnt from the boutiques, coupled with high-tech supply chain and distribution systems, had a much better fit with a newer generation of customers more knowledgeable about fashion, who were

prepared to spend to stand out. Zara, with a number of other retailers, such as H&M, captured this market.

- The *emergent and paradoxical trends*, from a chain store point of view, of a youth-oriented fashion market based on difference and trends, were not really dealt with effectively by M&S. The basic model did not change to meet the emerging market. One reason for this was an unintended and unanticipated aspect of the way M&S organized. It recruited non-graduate entry staff and trained them rigorously in the M&S way. A great deal of individual learning occurred but not much *organizational* learning. In fact, it was very difficult for the organization to learn new ways because its whole system consisted of imprinting a specific way of working on its staff. All staff promotions were internal so there was little opportunity for new ideas to be introduced.
- M&S had a basic management model that reduced *complexity* to M&S systems: routinely, M&S managers were 'grown' in the firm. The upside was tremendous loyalty and deep knowledge of the M&S way of doing things. The downside was a highly restricted capacity to learn different ways of doing either the same or different things. M&S handled the complexity of changing environments through a strong set of organizational routines embedded in a large-scale bureaucratic structure that delivered mass products for mass markets. Zara, by contrast, started from a structure that enabled it to deal with a wide geographical scope and a wide range of fashions.
- The limited size range of Zara's stock was a subtle way of reducing the complexity of the *environment*. Zara's size range focused on smaller sizes while M&S had a full size range. The necessity to create designs that would work across the range from slender body sizes to large body sizes was a restricting factor for M&S. Also, it meant that if you bought an M&S garment and were young and trim you might see someone 'old' and 'fat' wearing it. Instead of retailing clothes for everyone, Zara set market niche parameters.
- Zara's *strategic capability* was to deliver the right clothes, at the right time, at the right price, in the right kind of bright, buzzy and airy stores designed to appeal to fashionable young buyers. Its storefronts and windows *narrate possibilitie*s of being attractively dressed in the latest fashions. The savvy shopper knows the stock is frequently changed and up to the minute – a narrative that needs no words or advertisements to communicate because the shoppers can construct it for themselves from the visual cues and experiences. M&S, by contrast, had much more traditional high street stores, in which fashion was a barely discernible element in clothes retailing, itself only a part of the overall business. These strategic capabilities, in terms of its resources and competences, were very much based on learning existing systems rooted in past

experience. By contrast, Zara's strategic capabilities were based in regional networks, in sophisticated use of technology, in cutting edge design interpretation, using the highly centralized rapid distribution system.

- M&S was a paternalist organization: it looked after its people. Its *values* were consistent with this ethos, in as much as it offered value for money. It was also proudly British in design and manufacture, with the expectation that its customers would reward it with loyalty and repeat purchases of a basic repertoire of goods that did not change dramatically. You could rely on M&S for twin-sets, sweaters and what they used to call 'underwear' (before it became 'lingerie') and you could also buy home wares and, increasingly, food as well, if you wanted to. The new generation of younger shoppers, however, were more interested in up to the minute fashion and you didn't expect to find that in M&S. Zara, from the start, knew its values: on-trend styles, two-week 'runway to rack' approach and international reach. When a trend hits the runways of the world's most fashionable cities, Zara positions these looks on its shelves within two weeks, anywhere in the world, at a price you can afford.

Go Online

Read the book

Read about Store Wars

Retail strategy is a fast-moving area. Its earliest analyst was the French novelist Emile Zola (1883) – see 'Doctor Clérambault in Zola's paradise' by Pierre Guillet de Monthoux.

De Monthoux, G. (1994) 'Doctor Clérambault in Zola's paradise', in *Good Novels, Better Management: Reading End Realities*. Chur, Switzerland: Harwood Academic Publishers.

Nonetheless, it is surprising how some of the basics of the department store have not changed greatly since Zola first analysed them. More recently, 'Store Wars', in various countries, have attracted attention – you might want to relate these debates to what you know of such stores where you live.

Fashion is serious business. We have used the comparison of Zara and M&S to make some basic points about strategy as the reader, someone who enjoys shopping, might see its effects. Of course, looking at strategy through the store window only tells us about strategy in practice. We need also, having discussed some of the antecedents of contemporary strategy thinking in theory, to supplement this account of contemporary practice, in this case of fashion, with accounts of contemporary theory, which we will return to throughout the book as we weave back and forth between theory and practice.