STRATEGIC MANAGEMENT

NINTH EDITION

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ABOUT THE AUTHOR

Richard Lynch is Emeritus Professor of Strategic Management at Middlesex University, London, England. He is also a Visiting Professor at the University of Portsmouth, England. He originally studied at UMIST, Leeds University and the London Business School. He then spent over 20 years in business with well-known companies such as J Walter Thompson, Kraft Jacobs Suchard and Dalgety Spillers in positions in marketing and strategic management. During the early 1980s, he was a director of two public companies before setting up his own consultancy company specialising in European and international strategy. In the 1990s he became increasingly involved in Higher Education, eventually taking a full-time professorship in 1998. He retired from his full-time post in December 2004 but remains highly active in teaching, research and writing, including work at Trinity College Dublin, Ireland, the School of Economics and Management at Wuhan University, China, and Politecnico di Milano, Italy. He has written five previous books on international marketing and strategy as well as a number of original research papers with colleagues for various academic journals and research conferences. His current research interests include projects on global, entrepreneurial and sustainability strategies, particularly with regard to companies from emerging countries like China and India.

ABOUT THE NINTH EDITION

As with previous editions, the topic of strategic management focuses essentially on developing and implementing the future direction of organisations. Every edition of this text is therefore a combination of well-established concepts coupled with new ideas and challenges. This ninth edition of *Strategic Management* continues to explore the basic strategy concepts but links this with the new thinking and technologies that will deliver interest both for student readers and for their teachers. It therefore explores new topics such as the new thinking in strategic knowledge, entrepreneurship and globalisation, plus the continuing issues linked to sustainability and green strategy. As previously, this is all set within the context of both a structured and a critical approach to the main elements of strategic management.

The underlying theme remains the need to consider not only the *rational approach* to strategic decision-making, but also the *creative aspects* of such decisions – an approach that remains unique to this strategy text. The book argues that both of these approaches are essential to enable students and practising managers to develop effective strategies. This two-pronged approach is entirely consistent with the survey amongst strategy academics conducted for the *Strategic Management Journal* published in 2007.1

In addition, the ninth edition presents four new areas of the topic:

1 Four revised chapters, the first on the shareholder versus stakeholder issue, the second on knowledge and networks, the third on theories of entrepreneurial strategy and the fourth on deglobalisation and barriers to international trade. The aim is to explore new academic thinking and changes related to these important strategic topics.

2 Twenty new cases plus significant updates to the strategy case material that explore the shifting economic fortunes of companies around the world, the rise of the developing nations and the rapid changes in communications and other technologies.

3 Additional online and open-source teaching support material for both students and their professors.

These three areas are explained in more depth later in this section.

OBJECTIVES

The purpose of the book is to provide a comprehensive, well-structured and leading-edge treatment of strategic management, covering organisations in both the private and public sectors. The text has been specially designed in a modular format to provide both a summary of the main areas and a more detailed treatment for those wishing to explore issues in more depth.

More specifically, the objectives are:

- *To provide a comprehensive coverage of the main study areas in* ***strategic management***. For example, it explores important subject areas such as **sustainable competitive advantage**, **innovation**, **knowledge** and technology strategy.
- To present the practical issues and problems of strategic management, so that the compromises and constraints of real organisations are considered. Each chapter contains case studies which both illustrate the principles and raise subjects for group and class discussion. Objective-setting, **green strategy** and **corporate governance** are amongst the topics explored.

[1] Nag, R, Hambrick, D C and Chen, M-J (2007) 'What is strategic management really? Inductive derivation of a consensus definition of the field', *Strategic Management Journal*, Vol 28, pp 935–955.

- *To assist organisations to add value to their assets through the development of effective strategic management*. The search for best practice in the context of the organisation's **resources** and constraints is a constant theme.
- *To explore both the rational and the creative approaches to the development of strategic management*. This text takes the view that the classical approaches to rational and economic-based strategic management need to be complemented by concepts based on crafting strategy development. For example, **entrepreneurship** and **learning** processes are covered in depth.
- *To stimulate critical appraisal of the major theories*, particularly with regard to their practical application in organisations. Many of the leading conceptual approaches are first described and then subjected to critical comment. The aim is to encourage the reader to think carefully about such matters.
- *To outline the international implications of the strategic management process*. Many of the cases have an international dimension. A special chapter on international and **global strategy** explores the specific issues raised by this strategic area.
- *To explore the application of strategic theory to new areas*. In addition to the well-received chapters on technology and innovation strategy, the ninth edition also continues with its unique coverage of sustainability and green strategy, entrepreneurial strategy and public sector strategy. In addition, many of the cases have been revised to reflect radical shifts in the world economy and in new technology including the impact of the Corona virus.

WHO SHOULD USE THIS BOOK?

The book is intended to provide an introduction to strategic management for the many students in this area.

- *Undergraduate students* on Business Studies, modular and other courses will find the subject matter sufficiently structured to provide a route through the subject. No prior knowledge is assumed.
- *MBA students* will find the practical discussions and theoretical background useful. They will also be able to relate these to their own experience.
- *Postgraduate students* on other specialist taught masters' programmes will find that the extensive coverage of theories and, at times, critical comment, together with the background reading, provide a useful input to their thinking.

In addition, the book will appeal to practising middle and senior managers involved in the development of strategic management. The case studies and checklists, the structured approach and the comprehensive nature of the text will provide a useful compendium for practical application.

DISTINCTIVE FEATURES

TWO-MODEL STRUCTURE

For some years, there was disagreement on the approach to be adopted in studying strategic management. The *rational* model – strategy options, selection and **implementation** – was criticised by those favouring an approach based on the more *creative* aspects of strategy development. Given the lack of agreement between the approaches, *both* models are presented throughout this book. Both models contribute to the development of effective strategy: two sides of the same strategic coin. According to a 2007 survey, this dual approach has now become accepted amongst leading academics in the field.

CLEAR CHAPTER STRUCTURE

Each chapter follows the same format: learning outcomes; short introduction; opening case study; later case studies linked to the theory points in the text; in some chapters, a specific project linked with one of the case studies; regular summaries of key strategic principles; chapter summary; review and discussion questions; critical reflection on a key issue in the chapter; recommended further reading; detailed notes and references. There is also a glossary of terms at the end of the book as an aid to comprehension.

ONLINE SUPPORT MATERIAL

This ninth edition has two areas of online support material. First, there is the open-access student material. Second, there is a separate section for teachers and instructors that needs an access code from the publishers.

The student section has additional material and checklists that complement and further develop the basic text itself. Second, all chapters have an additional strategy case that contains not only the main case material but also an indicative answer to the case questions. Importantly, 'indicative answer' means that this is only an example of the possible answers to the case questions: it is emphasised that many other responses are also possible.

MAJOR REVISIONS TO FOUR CHAPTERS

Although earlier editions referred to the **shareholder** versus **stakeholder** view of purpose, this topic has changed over the years. There is now considerably more support within many leading companies for a wider view of the purpose of the organisation. This has therefore been reflected in a revision to the chapter on *strategic purpose*.

In recent years, strategic thinking has also developed significantly in the areas of *knowledge and networks*. Although this has been previously covered in the text, it is now appropriate for a new section specifically on this topic.

The third area that is presented in this new edition relates to *theories of entrepreneurship*. In previous editions, background theories such as creation were covered but more specific theory concepts like bricolage now need more specific coverage. Three new areas are therefore outlined in the chapter on entrepreneurial strategy.

Finally, there has been a significant change in both the practice and, to a lesser extent, the theory surrounding international and global strategy. Deglobalisation and trade wars coupled with a more general downturn in world trade are therefore explored in a major re-write of parts of the chapter on international and global strategy.

NEW, FOCUSED CASE MATERIAL

There are 20 totally new cases for the ninth edition. Many other cases have had significant updates. In total, there are 61 case studies in this book, with some being longer than others. All the cases have been written or adapted to explore strategy issues relevant to their location in the text. The shorter cases have been especially designed for the larger class sizes and shorter discussion sessions now prevalent in many institutions.

For the ninth edition, there is another new feature: each chapter has a linked case study with indicative answers on the book's online, free website.

KEY STRATEGIC PRINCIPLES AND CHAPTER SUMMARIES

To aid learning and comprehension, there are frequent summaries of the main learning points under the heading of *key strategic principles*. In addition, at the end of each chapter there is an integrated summary of the areas explored.

INTERNATIONAL COVERAGE

There is extensive coverage of international strategic issues throughout the book with cases and examples threaded through the text covering many well-known European and American companies. The book now has cases covering Europe, the USA, China, Africa, Asia Pacific and the Eastern Mediterranean (excluding Israel). In addition, there is the separate chapter on the special issues involved in international and global strategy.

SUSTAINABILITY AND GREEN STRATEGY

For several editions now, this text has strongly supported this topic. Each case that explores a business makes an assessment at the end of the case on its sustainability strategies (or lack of them). In addition, there is a complete chapter on this important topic that remains neglected in many of the leading strategy research journals and conferences.

PUBLIC SECTOR AND NOT-FOR-PROFIT STRATEGY

After the widespread welcome for the new (and unique) chapter on public sector strategy in earlier editions, this has been retained in the ninth edition. *Strategic management* principles have been historically developed almost exclusively from a business perspective – for example, competitive advantage, **customer-driven strategy** and corporate governance. *Public sector* theory has historically had a completely different intellectual foundation – for example, the concepts of the **public interest**, the legal framework of the state and the role of public administrators. This chapter explores how they can come together. It will be particularly relevant to managers from the public sector studying for a business degree at both undergraduate and postgraduate level.

ENTREPRENEURIAL STRATEGY

Ever since its first edition, this text has always placed strong emphasis on creativity in strategy development. The recent increased research emphasis on entrepreneurial strategy has now prompted some further changes to this important chapter. Unusually, it explores the personal aspects of effective entrepreneurial strategy.

CRITICAL REFLECTION AND RECOMMENDED FURTHER READING

Every chapter ends with a short critical reflection on a key topic in the chapter. In addition, each chapter has a list of recommended further readings. The purpose is to allow the student to debate a topic from the chapter and to explore the subject matter further as the basis for further projects, assignments and dissertations.

STRATEGIC PROJECT

Some, but not all, chapters include at least one suggestion for a strategic project. It is linked to a case study in the chapter and shows how the case topic might be extended. The projects are supported by further information available on the internet.

INSTRUCTOR'S GUIDE

This is available to those professors adopting this textbook. It includes learning guides, teaching notes, commentaries on each chapter and comments and answers to the cases in the book. Ready-to-use PowerPoint material has also been developed on the site. They are all downloadable with a suitable access code available from the publishers.

NEW AND OPEN-ACCESS MATERIAL

- Extensive, additional web-based strategic management material and checklists. These are linked to specific topics throughout the text.
- Web-based cases with indicative answers.

FRONT COVER – WHY A CHAMELEON?

As all good students and managers know, the chameleon is adaptable, just like the best strategy. Many chameleons can change colour depending on the context of their environment: this is a characteristic shared with the best prescriptive and emergent approaches to strategic management. Moreover, such creatures represent a link with a natural world that needs to be protected by the new greener strategies adopted by the best organisations.

HOW TO USE THIS BOOK

Strategic management is complicated because there is no final agreement on what exactly should be included in the topic. There are two main strategic approaches worth mastering before venturing too far into the text. They are summarised in Chapter 1 – the *prescriptive* and the *emergent* strategic approaches. Since these approaches are discussed extensively later in the book, they should be studied in Chapter 1 before moving on to other chapters. If you have trouble understanding these two elements, then you might also like to consult the early part of Chapter 2, which investigates them in more detail.

Each chapter then follows the same basic format:

- *Learning outcomes and introduction.* This summarises the main areas to be covered in the chapter and is useful as a summary of what to expect from the chapter.
- *Opening case.* This is designed to highlight a key strategy issue in the chapter and to provide an example that will then be explored in the text. It is therefore worth reading and using the case questions to ensure that you have understood the basics of the case. You can return to it once you have read the chapter.
- *Key strategic principles.* Each chapter then explores aspects of the subject and summarises them. These can be used to test your understanding of the text and also for revision purposes later.
- *Comment.* After the outline of a major strategic theory, there may be a section with this heading to explain some of the theoretical or practical difficulties associated with that topic. The opinions contained in such a section are deliberately designed to be controversial. The section is meant to make you think about the topic. If you agree with everything I have written, then I have failed!
- *Later case studies.* These are designed to provide further examples and raise additional strategic issues. It is worth exploring the questions.
- *Strategic project.* For some of the chapters, one of the case studies has been used to suggest a broader strategic project. There is data on the internet to assist the process and your lecturer or tutor will suggest how you can access this.
- *Critical reflection.* Each chapter ends with a short section highlighting a key theme of the chapter as the basis for further discussion and exploration. For example, it might form the basis of an essay on a strategy topic or the focus of a seminar after a class lecture.
- *End of chapter questions.* Some are designed to test your understanding of the material in the chapter. Others are present as possible essay topics and require you to undertake some research using the references and reading from the chapter. Some questions have been developed to encourage you to relate the chapter to your own experience: student societies and outside organisations to which you belong can all be considered using the chapter concepts. You may also be able to relate the chapter to your own work experience or to those of other members of your family or friends. All these will provide valuable insights and help you explore the concepts and reality of corporate strategy.
- *Further reading.* This is designed to help when it comes to essay topics and dissertations. This section tries to keep to references in the major journals and books in order to make the process as accessible as possible.

GUIDED TOUR

Two-model structure – two models of strategic management thought are used throughout this book – *prescriptive* and *emergent*. Both are treated as contributing to the development of optimal strategic management.

1.5 PROCESS: LINKING THE THREE CORE AREAS

1.5.1 TWO DIFFERENT APPROACHES TO THE PROCESS

Until now, strategic management has been presented as a unified, cohesive subject. It is important at this point to explain and explore a fundamental disagreement which exists among commentators over the way that the topic may be developed. Differing views on the content, process and nature of strategic management have arisen because of the breadth and complexity of the subject. For the present, the overall distinctions can be summarised as representing two main approaches to strategic management development:

1. *The prescriptive approach.* Some commentators have judged strategic management to be essentially a linear and rational process, starting with where-we-are-now and then developing new strategies for the future (see Jauch and Glueck[25] and Argenti[26]). **A prescriptive strategy is one whose *objective* has been defined in advance and whose *main elements* have been developed before the strategy commences.** ◂ Definition
2. *The emergent approach.* Other commentators take the view that strategic management emerges, adapting to human needs and continuing to develop over time. It is evolving, incremental and continuous, and therefore cannot be easily or usefully summarised in a plan which then needs to be implemented (see Mintzberg[27] and Cyert and March[28]). **An emergent strategy is one whose *final objective* is unclear and whose *elements* are developed during the course of its life, as the strategy proceeds.** The theorists of this approach often argue that long-term prescriptive ◂ Definition

Case studies – are woven into each chapter and referred to frequently in order to illustrate how strategic principles do and don't work in practice. There are 62 case studies throughout the book and many are new and updated. For ease of reference, see the Guide to the main focus of case studies on page xxii.

CASE STUDY 11.1

The strategic battle between Apple Music® and Spotify®: innovation, investment and network strategies

Although Apple iTunes® was the first to launch in 2003, music listening worldwide has made major advances since that time. Spotify has become the new market leader: what were its strategies to overtake Apple? At what cost? And what about further new entrants?

Major changes in home entertainment

Over the past hundred years, music listening has undergone several major revolutions: first with the gramophone in the home; then with music from radio and television broadcasts; more recently, personal computers and portable music devices like the iPod® have delivered music through the web. Then came the broadband revolution and the smart phone: music streaming, partly on mobile phones, has become the latest way

Key strategic principles – at regular intervals, frequent summaries are given of the main learning points.

KEY STRATEGIC PRINCIPLES

- Generic strategies are a means of generating basic strategy options in an organisation. They are based on seeking competitive advantage in the market place.
- There are three main generic options: cost leadership, differentiation and focus.
- Cost leadership aims to place the organisation amongst the lowest-cost producers in the market. It does not necessarily mean having low prices. Higher than average profits come from charging average prices.
- Differentiation is aimed at developing and targeting a product against a major market segment. Because the product is especially developed, it should be possible to add a small premium to the average price. Differentiation has a cost, but this should be more than compensated for in the higher price charged.
- Focus involves targeting a small segment of the market. It may operate by using a low-cost focus or differentiated focus approach.
- According to the theory, it is important to select between the options and not to be

Strategic projects – some chapters include a suggestion for a strategic project, based on a theme developed within the cases in the chapter and offering you the chance to delve a bit deeper.

STRATEGIC PROJECT

Will physical games machines survive?

This case was written in late 2020. The existing games machine companies were up against the competitive resources of Google and Amazon as well as the likely development of faster broadband to deliver games. As a strategic project, you might consider re-examining the market, the strategies of the leading players and the outcome from 2021 onwards. Has the proposed Sony/Microsoft joint venture materialised? It was just a vague plan when this case was written. Has Google managed to launch a full range of decent games? What has happened with Amazon and Apple? What are the implications for the competitive advantages of Sony and Microsoft?

Critical reflections – every chapter ends with a short critical reflection on a key topic in that chapter.

CRITICAL REFLECTION

Is the strategic options process too comprehensive? Too lacking in creativity?

This chapter has focused on two main approaches to developing strategic options – one related to the strategic environment and the other related to strategic resources. Some strategists place particular emphasis on the environment – Porter's *generic strategies, for example – while others place more importance on resources – Hamel and Prahalad's core competencies*, for example. More generally, the chapter reviews a whole range of other approaches under these two general headings.

While such an approach clearly has merit in that it is comprehensive, some strategists would regard this as a significant weakness. They argue the whole concept is too rigid, too wide-ranging in considering all possible options. They suggest that its very comprehensive nature makes it difficult to identify what is really important. In this sense, it is unhelpful to the company. Moreover, the generation of options may become a rigid exercise that lacks the real creativity to deliver new ideas.

Chapter summaries – these recap and reinforce the key points in each chapter succinctly.

SUMMARY

- In the prescriptive strategy process, the development of strategic options is an important part of the strategic process. Essentially, it explores the issue of what options are available to the organisation to meet its defined purpose. Although rational techniques are usually employed to develop the options, there is a need in practice to consider generating creative options from many sources. This chapter has concentrated on the more rational techniques because they are more suited to analysis and development.
- There are two main routes to options development: market-based and resource-based approaches. These correspond to the analytical structure of the earlier part of the text. Within the market-based approach, there are three main routes: generic strategies, market options and expansion methods. Each of these can usefully be considered in turn.
- According to Porter, there are only three fundamental strategic options available to any organisation – he called them *generic strategies*. The three options are:

  1. *cost leadership*, which aims to place the organisation amongst the lowest-cost producers in the market;
  2. *differentiation*, which is aimed at developing and targeting a product that is different in some significant way from its competitors in the market place;
  3. *focus*, which involves targeting a small segment of the market. It may operate by using a low-cost focus or differentiated focus approach.

End-of-chapter **Questions** – test your understanding of the key issues raised in each chapter.

Questions

1 Do small firms have anything useful to learn from a consideration of the options available from generic strategies?
2 Plot the position of Disney on the generic strategies matrix. What conclusions, if any, can you draw from this about future strategies for the company? (Note the hint in the 'if any' phrase.)
3 'Generic strategies are a fallacy. The best firms are striving all the time to reconcile opposites' (Charles Baden-Fuller and John Stopford). Discuss this statement.
4 Take an organisation with which you are familiar, such as a small voluntary group, and consider the possibilities of expansion: apply the market options matrix and expansion method matrix to your choice. What conclusions can you draw about future expansion strategy?
5 'A recurring theme to criticisms of strategic planning practice is the pedestrian quality of the strategic options that are considered' (Professor George Day). By what methods might this legitimate concern be overcome, if most important for that organisation or do they contribute equally?
7 Identify the probable key competitive resources of the following: a charity like UNICEF; a major consumer electronics company; a holiday travel tour operator; a multinational fast-moving consumer goods company.
8 'During the 1990s, top executives will be judged on their ability to identify, cultivate and exploit the core competencies that make growth possible' (Gary Hamel and C K Prahalad). Discuss whether this is still relevant in the 21st century. Was it appropriate in the last century?
9 If key competitive resources are important, can they be acquired in the space of a few months or do they take years to develop? What are the implications of your response for the development of competitive advantage?
10 Take a small student society or charitable institution with which you are familiar. What strategic options based on its resources does it have for development?

Recommended **Further reading** – allows students to explore the subject further, providing an ideal basis for essays and assignments.

FURTHER READING

For the value chain and value system: Porter, M E (1985) *Competitive Advantage*, The Free Press, New York. An interesting review of the value chain appears in: Channon, D (2005) 'Value chain analysis', in McGee, J and Channon, D F (eds) *Encyclopedic Dictionary of Management*, 2nd edn, Blackwell Business, Oxford.

For core competencies: Hamel, G and Prahalad, C K (1994) *Competing for the Future*, Harvard Business School Press, Boston, MA.

For distinctive capabilities: Kay, J (1993) *Foundations of Corporate Success*, Oxford University Press, Oxford.

Two useful summaries of the resource-based view are contained in chapters in two major texts. The first is: Cool, K, Costa, L A and Dierickx, I (2002) 'Constructing competitive advantage', in Pettigrew, A, Thomas, H and Whittington, R (eds) *Handbook of Strategy and Management*, SAGE, London, pp 55–71. The second is: Barney, J B and Arikan, A M (2001) 'The resource-based view: origins and implications', in Hitt, M A, Freeman, R E and Harrison, J S (eds) *The Blackwell Handbook of Strategic Management*, Blackwell, Oxford, pp 124–188.

For a more academic consideration of the problems with the RBV, see the critique by Priem and Butler in Priem, R L and Butler, J E (2001a) 'Is the resource-based view a useful "view" for strategic management research?', *Academy of Management Review*, January, Vol 26, No 1, pp 22–40 and Priem, R L and Butler, J E (2001b) 'Tautology in the resource-based view and the implications of externally determined resource value: further comments', *Academy of Management Review*, January, Vol 26, No 1, pp 1–45. Then read the response by Jay Barney in Barney, J B (2001) 'Is the resource-based "view" a useful perspective for strategic management research? Yes', *Academy of Management Review*, Vol 26, No 1, pp 41–56.

There are still substantial research projects on the RBV. Three suggested papers contain summaries of recent thinking and evidence: Lado, A A, Boyd, N G, Wright, P and Kroll, M (2006) 'Paradox and theorizing within the resource-based view',

ONLINE RESOURCES

This ninth edition of *Strategic Management* is supported by a wealth of online resources for students and lecturers to support study and teaching.

Find us online at **study.sagepub.com/lynch9e**

FOR INSTRUCTORS

- **Support your teaching** by making use of the **instructor's** guide structured to help teach each chapter and **guide discussions** in class.
- **Incorporate the chapters** into your weekly teaching using the **PowerPoint slides** prepared by the authors.
- **Discuss and apply the theory** of the text further with the **additional online case studies** and **test understanding** using the case study questions provided.

FOR STUDENTS

- **Expand your knowledge and understanding** of the text with the help of this **supporting guide** containing further information, explanations and checklists.

TIPS ON WRITING UP STRATEGIC PROJECTS

Here are some guidelines for writing up a Strategic Project, which often takes the following title:

> 'Critically evaluate the strategy of [an organisation] of your choice.'

First, do *all* the background analyses, e.g. SWOT, 5-Forces, etc. You will not necessarily put all of them into your report. You will *select* the most relevant areas. The remainder may be put into an appendix at the end of the report if there are no word restrictions on the length of your report. But it is usually useful to undertake most of the background analyses first.

THE REPORT ITSELF: THE MAIN HEADLINES AND CONTENT

Important: you do **not** have to follow this format. You can use your own structure. The following areas are only suggestions.

1 Introduction: one paragraph only

What does the organisation do? What is its history? Products? Services? What is its current turnover? Number of employees? Location? National or international activity? How long has it been in existence? Who owns the company? Who are the stakeholders?

2 What is the purpose of your report? One paragraph summary only

What are you trying to demonstrate or prove? Some examples:

- Company is a profit disaster – why?
- Company has had great growth – will it be able to continue to grow at the same rate?
- Company has no growth – how can it change?
- Public sector organisation has too many people and too high costs – how can it change?

Importantly, does the organisation add value? Where does it add value? A *brief* comment – maybe only one sentence – on this is highly valuable in your document because it relates to the basic purpose of the organisation.

3 Selected strategic analysis with three subsections

Do not list everything: put what is not needed in the appendix to the report. Do not go through all factors: *select* the analysis according to your purpose identified in Section 2.

3.1 Key factors for success (KFS) – what delivers profits in this market? What therefore does the report need to focus on as a first step? This does not mean that KFS deliver competitive advantage, but KFS do help to bring focus to a strategy report.

3.2 Strategic environment

- Market size, growth, market share: take care how you define the market. Make sure that you draw out the strategy conclusions, e.g. fragmented market may mean the need for a niche strategy, mature market may make it difficult to enter.
- Degree of turbulence: can we use prescriptive or emergent strategies or both? What does this mean for your report and recommendations?

- Green environmental issues that need to be considered: only list the essential points.
- Growth in the market: relevance to the report's purpose identified in Section 2 above.
- Key background factors/PESTEL that will influence the market strongly, e.g. political decision-making, economic growth, social changes in the population. Do *not* list everything.
- Competitive forces and co-operative linkages in the market: 5 forces, 4 links, etc. What does this mean for your report from a strategic perspective?
- Customers in the market place: who are they? Why do they buy from us? Segments and positioning? Are there any special market characteristics such as price or **branding**? Niche positioning?
- Strategic conclusions from this strategic environment analysis relevant to the report's purpose identified in Section 2 above.

3.3 Strategic resources

Be guided by your **Key Factors for Success**. But do not rely on these: you are seeking *competitive advantage*, not equality with competitors.

- Tangible, intangible, organisational resources – what is important here for your organisation? How does the company compare with others?
- More detailed resource areas: **architecture**, **reputation**, **innovative capability**, core technical competencies, knowledge – how does the company compare with others? Only identify and discuss those that you think are relevant. Do not produce a long list.
- Can you use the underpinning resource-based principles of imitability, sustainability, etc. to help you identify where the company competes strongly? Test the resource areas above against these principles and your competitors if possible.
- How can the company improve? Leverage, etc? What are your recommendations from this?
- What, if any, are the 'green strategy' issues that need to be developed in the future?
- Strategic conclusions from your resource analysis relevant to the report's purpose identified in Section 2 above.

Important: you may like to use the above list to check your report. But you are highly unlikely to use every element. **Be selective.**

4 Strategic opportunities and innovation

If this section is not relevant to the purpose of your report identified in Section 2 above, then *ignore* this section.

- Innovative record of your organisation so far – good? Bad? Strong? Weak?
- What knowledge does the company possess? What learning has it undertaken? Is it good at learning? Is it good at sharing its knowledge? How much more knowledge does it need?
- What technology or technologies does the company have? How important is technology in this industry? What does this mean for the R&D investment strategy of the company – heavy investment? Buying in new technology from others? Searching for new technology? Perhaps co-operating with some rivals?
- Are the common industry standards, e.g. Blue Ray DVD, important? Remember that they are only important in some industries. Who owns the standard in the industry? Can a company develop a new standard? What are the benefits and costs?

- What about new technology? Will it have the potential to *revolutionise* the whole industry? How will this impact on the existing companies – consider existing investment in old technology, legacy costs and resource inertia (see Chapter 5, Section 5.2.4, if you do not know what this means).
- Can we use the web? Digital technology? Nano technology? Biotechnology? Other areas that will change the organisation fundamentally.
- What new market opportunities are there? In the home country or worldwide? Why are they opportunities? And with what costs and benefits that often link with opportunities?
- Can we reconfigure the **value chain** and **value system** to gain new opportunities?
- Can we brainstorm? Can we be more entrepreneurial? What organisation structure should we recommend in our company to undertake these tasks – more flexible, more multifunctional, etc.?
- Can we go international? Global? What are the benefits and costs?
- Are there any 'green strategy' opportunities and threats? What are the benefits and costs of developing these?
- What are the strategic conclusions for your organisation in relation to the purpose of your report identified in Section 2 above?

Again, be selective.

5 Prescriptive options and choice?

Section 3 covers the analysis of the strategic environment, the strategic resources in the context of the purpose of your report in Section 2. It does not specifically mention 'Options and Choice' typically found in prescriptive strategy. The reason for this is that the subject of the project is to explore and criticise an *existing* strategy (or **strategies**). 'Options and Choice' may be relevant, especially for a company that is small and still innovative. But it is not essential to put 'Options and Choice' into your report.

6 Critical comment

- What is the company doing well? Why? What is it doing badly? Why?
- How do your conclusions relate to the purpose of the report identified in Section 2 above?
- What is your judgement on the performance of the organisation to the present time?
- What is the likelihood that the organisation or company can do better?

Use the evidence from Section 4 and, perhaps, Section 5 to answer these questions and use logic to reach your conclusions.

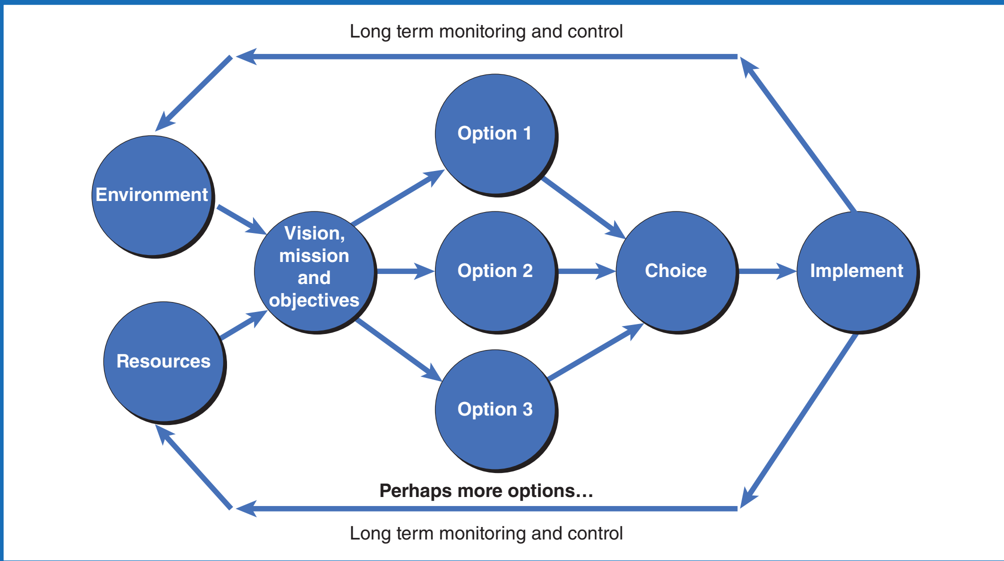
7 Conclusions and recommendations.

- Summarise briefly your critical comments.
- Summarise briefly your strategic conclusions from Sections 3 and 4 above – probably only the final parts of each of those two sections as previously identified.
- So, what do you now recommend for the organisation?

Remember: if your recommendations have costs in terms of finance or people (human resource) or other implications, then you must cost these. However, if you do not have enough information to estimate the costs, then you should at least recognise and state that your recommendations have costs and benefits that you would specify if you had enough evidence. Make this clear in your report.

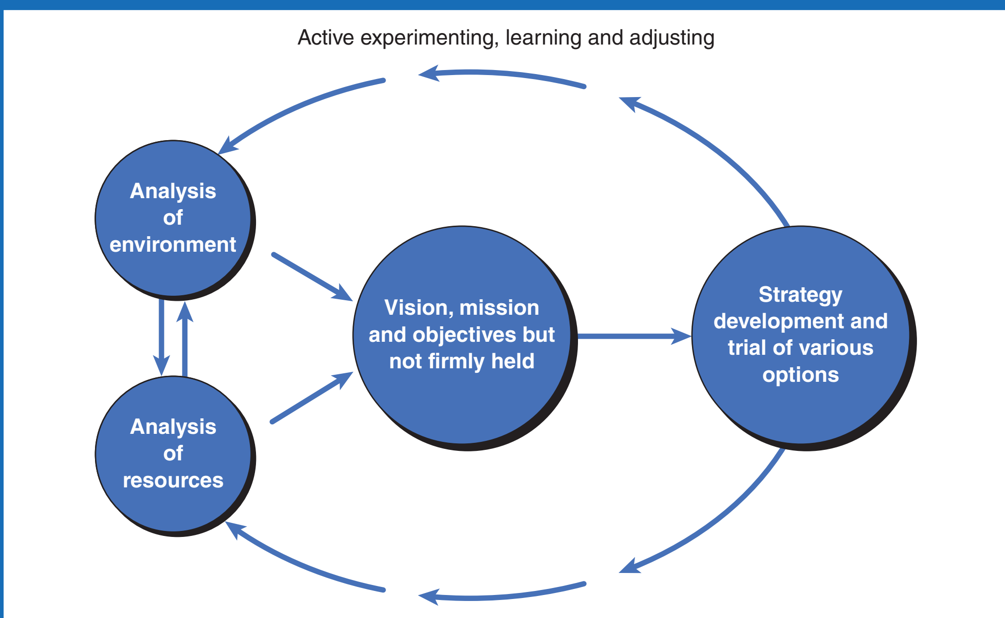
PART 1

INTRODUCTION



Model of prescriptive strategy process

This part of the book introduces the concept of strategic management. Chapter 1 outlines the main elements of the subject and explains its importance and its role in delivering the purpose of the organisation. The two main approaches to the process of strategic management are outlined and explored. Chapter 2 gives a fuller review of how strategic management has evolved and discusses in greater depth the two main approaches in its development.



Model of emergent strategy process

Key strategic management questions

CHAPTER 1 Strategic management	• What is strategic management and why is it important? • What are the core areas of strategic management and how do they link together? • Distinguish between process, content and context of a strategy. • Outline the two main approaches to strategy development. • Explain the differences between the prescriptive and emergent strategy models.
CHAPTER 2 A review of theory and practice	• How have current ideas on strategic management evolved? • What are the main approaches to strategic management? • What are the main prescriptive and emergent theories of strategy? • How does the theory of strategic management relate to corporate practice?

CHAPTER 1

Strategic management

LEARNING OUTCOMES

When you have worked through this chapter, you will be able to:

- define strategic management and explain its five special elements;
- explain the core areas of strategic management and how they link together;
- distinguish between process, content and context of a strategy;
- outline the two main approaches to strategy development;
- explain the differences between the prescriptive and emergent strategy models.

INTRODUCTION

Strategic management is exciting and challenging. It makes fundamental decisions about the future direction of an organisation: its purpose, its resources and how it interacts with the world in which it operates.

Every aspect of the organisation plays a role in this strategy – its people, its finances, its production methods and its environment (including its customers). In this introductory chapter we examine how these broad areas need to be structured and developed if the organisation is to continue to operate effectively.

Strategic management is complicated by the fact that there is considerable disagreement between researchers on the subject and how its elements are linked together. There are two main routes, and these are examined in this chapter: the prescriptive process and the emergent process. As a result, two models have been developed to explain the subject. These are shown in the opening diagram to this part of the book.

In exploring strategic management, it is useful to begin by examining why it is important and what it contains. A useful distinction can also be drawn between its process, content and context. Finally, the two main strategy routes are then examined – see Figure 1.1.

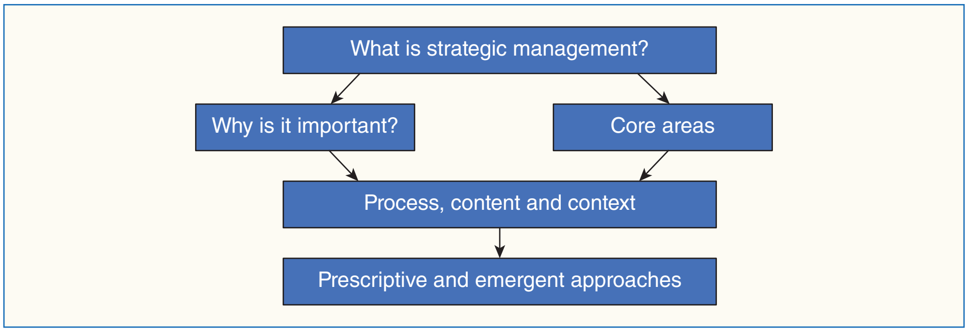


FIGURE 1.1 Analysing strategic management

CASE STUDY 1.1

Wizz Air™ strategy: Continued growth during COVID-19?

Although the COVID-19 pandemic had a disastrous impact on airline profitability worldwide during 2020, some companies claimed that they had strategies that would allow them to survive and grow. This case examines the strategies of the Hungarian-based company Wizz Air.

Wizz Air delivered $2.8 billion turnover in the year April 2019–March 2020. This was achieved just before the full summer impact of COVID-19

Wizz Air business strategy

Launched in 2003, Wizz Air® began life as an Eastern European regional airline with flights from central Poland, though the airline was (and remains) headquartered in Budapest, Hungary. Its strategy from the start was to operate as a low-cost airline. This involved seeking the lowest possible costs, for example by having high load factors – selling every available seat – and charging for food, luggage and other items. The strategy also involved avoiding, where possible, the high landing fees of popular airports, like Heathrow in London, and flying to cheaper destination airports. In addition, to reduce costs even further, Wizz Air purchased new aircraft that were more fuel-efficient: typically, fuel accounts for around 25 per cent of total airline costs.

In some respects, this strategy was no different from other low-cost airlines such as Ryanair and easyJet. What made Wizz Air distinct was that it focused its efforts on the new and rapidly growing air passenger traffic in Central and Eastern Europe. Thus, for example, it opened up new routes from Hungary, Poland, Romania and Ukraine to the UK and to summer resorts in Greece and Turkey from its Eastern European base. These were then followed by new routes that linked up to other central European countries – such as Moldova, Bosnia Herzegovina and Georgia – that were not well served by other airlines. Thus, Wizz Air was not directly in competition with the market leaders, Ryanair and easyJet, that had major tourist routes that were more focused on the links between the UK, Germany, France, Spain, Portugal and Italy.

By early 2020, Wizz Air was claiming to be the 'Undisputed market leader in the CEE [Central and Eastern Europe] region with a market share of 40 per cent in the low-cost market segment.' Ryanair was second with 32 per cent market share. The Wizz Air strategy was therefore to dominate a market segment – the CEE market – where it was able to become and

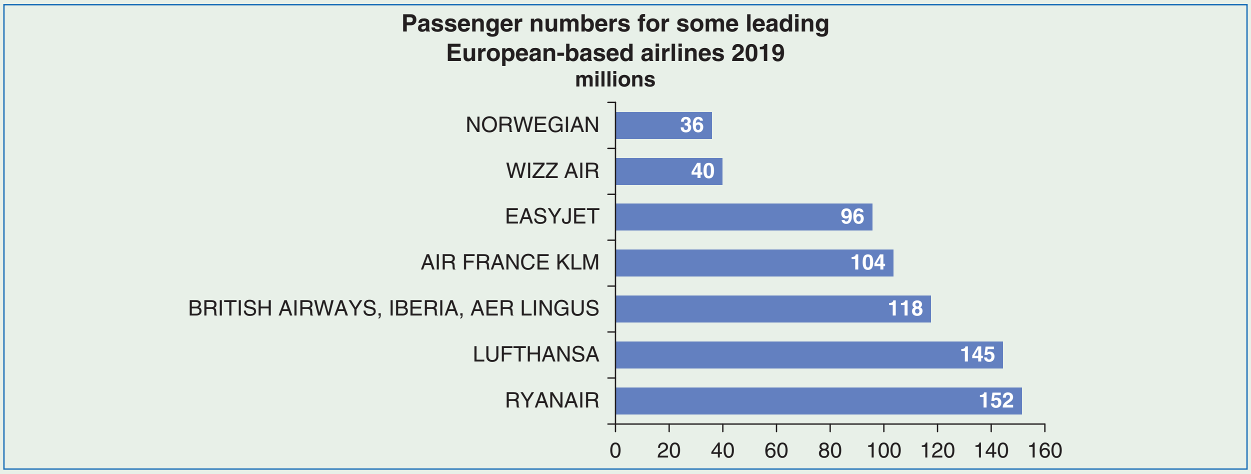


FIGURE 1.2 Wizz Air passengers before the impact of COVID-19

Source: Richard Lynch, from airline Annual Report and Accounts.

Note: the figures for airlines such as the IAG group (British Airways, Iberia and Aer Lingus), Lufthansa and Air France/KLM include passengers flying elsewhere in the world – not just Europe.

remain the first. However, this strategy meant that it missed some of the airline business generated by the major tourist routes of western Europe. This is reflected in its airline passenger numbers compared to other airlines – see Figure 1.2.

The Wizz Air business

In addition to the low-cost and market segment strategies described above, Wizz Air also built a number of other competitive advantages over the years. First, it possessed the right to land aircraft at a number of European airports. Airlines cannot land anywhere they want in Europe because many airports have limited capacity to handle aircraft, passengers and freight. This means that airlines like Wizz Air have to obtain 'landing slots' which are unique to each airport. In the case of Wizz Air, its expansion into some Eastern European destinations before other airlines meant that it was easier to obtain such slots because those airports were less busy and had slots available. By taking up these slots and effectively pioneering new airports, Wizz Air was able to gain the benefit of new business. The obvious risk was that the chosen airport was not sufficiently popular geographically to justify the cost of developing airline desks, ground handling, etc.

Another interesting consequence of the Wizz Air strategy was that its customers were not necessarily typical holiday tourists, who might only be interested in the sun and sea. The routes developed by the company meant that it served a number of Eastern and Central European capital cities that catered more (but not exclusively) for business traffic and for weekend party destinations. Thus, some Wizz Air customers were younger and perhaps more affluent. The company was not necessarily reliant on the highly seasonal summer tourist trade.

In terms of resources and capabilities, Wizz Air had built substantial operations in a number of locations over the years from 2003. Some company resources were similar to other airlines, such as flight handling at airports, its check-in desks and its online ticket booking. But other resources and capabilities were also a strength of the airline, such as its modern aircraft fleet and its branding and marketing.

Wizz Air strategic purpose

Although the COVID-19 virus was expected to have a significant impact on the company in 2020, Wizz Air was still seeking strong growth. The company was listed on the London stock exchange but it was reported that its biggest backer was an American private equity company holding 20 per cent of the company's shares. This meant that Wizz Air needed to deliver long-term growth in profits to its shareholders. However, it was fully recognised that the company would suffer from the impact of COVID-19: for example, it was reported that Wizz Air passengers were down 53 per cent in early 2020. Nevertheless, around the same time, the company was still expanding its Latvian operations and developing a totally new base in Abu Dhabi in co-operation with the Abu Dhabi state holding company ADQ. Destinations were also being planned between Europe, the Indian subcontinent, the Middle East and Africa.

(Continued)

Evidently, Wizz Air's strategy was still seeking new growth opportunities.

Wizz Air has developed significant green strategies according to its website

Case questions

1. What are the competitive advantages of Wizz Air? Are they sustainable? And what is its strategic purpose? To what extent is the company engaged in prescriptive and emergent strategies? Explain how these concepts might provide insights into how Wizz Air's strategy needed to change.
2. What lessons, if any, can other companies learn from airline COVID-19 strategies?

1.1 WHAT IS STRATEGIC MANAGEMENT?

1.1.1 THE ESSENCE OF STRATEGIC MANAGEMENT – A PRESCRIPTIVE VIEW

Definition ▶

Strategic management can be described as the identification of the *purpose* of the organisation and the plans and actions to achieve that purpose.[2]

Importantly, this is not the only definition. We will consider an alternative view in the next section. This definition clearly carries the implication that it is possible to plan strategy in advance and then carry out that strategy over time: rather like a doctor writing out a prescription with the aim of curing an illness – hence the word *prescriptive* strategy.

Taking the Hungarian-based airline Wizz Air as an example, the company's early sense of purpose was to copy the main low-cost elements of the strategy of Ryanair in Ireland and South West airlines in the USA. In later years, the purpose changed as the company grew larger and it was able to seek new customers and broaden its business activities. Thus purpose became a broader concept that included the possibility of expanding its network across Europe and the provision of its services to a far wider range of customers. Over the years, Wizz Air was developing new business opportunities through planned expansion into new European countries. More recently, it has been coping with the Corona virus pandemic: a cost-cutting strategy as customer demand dropped. But this is only a short-term strategy: its longer-term purpose remains unclear. The company's strategies are explored in more depth in Case Study 1.1.

Within this definition, strategic management consists of two main elements: **corporate-level strategy** and business-level strategy. Figure 1.3 captures these two important aspects

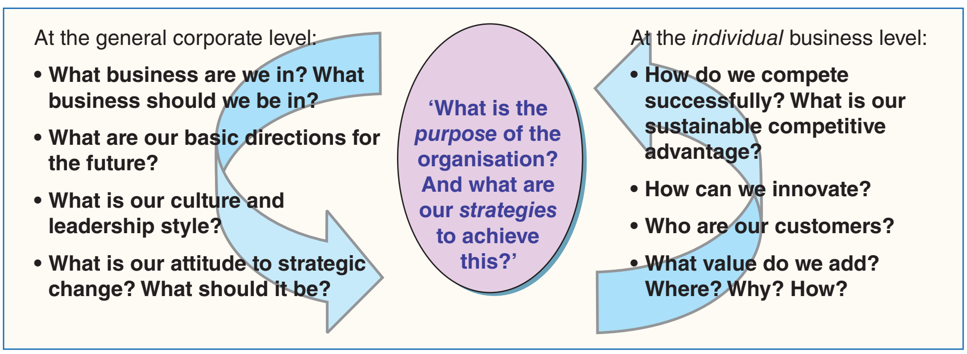


FIGURE 1.3 The essence of strategic management

of the topic of strategic management. Early commentators such as Ansoff[3] and Drucker[4] clearly refer to both these aspects of strategy: mapping out the future directions that need to be adopted against the resources possessed by the organisation.

- *At the general corporate or headquarters level*, basic decisions need to be taken over what business the company is in or should be in. The **culture** and **leadership** of the organisation are also important at this broad general level.[5] Take the example of the well-know search engine company Google: this company's strategies are explored in more depth in Case Study 17.3. Google developed a major new European headquarters to match its American operation: the basic strategic decision to move internationally was taken at the centre of the organisation. Importantly, Google decided that the original American spirit of the organisation needed to be replicated in Europe. Hence, the company designed its new headquarters in Zurich, Switzerland, with funky colours and bean bags, and it began recruiting innovative team-players who would fit the special Google culture. Twitter also has offices in many cities around the world but does not seem to have been so geeky or inventive: perhaps this choice by the Twitter headquarters partially explains its lower level of revenue growth. Corporate-level strategy can also be seen in the following definition of strategic management:

Strategic management is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to become.[6]

◂ Definition

- *At the business level*, strategic management is concerned with competing for customers, generating value from the resources and the underlying principle of the sustainable competitive advantages of those resources over rival companies. For example, Google in the early 21st century was investing heavily in new internet services such as the Google earth mapping library archive as described in Case Study 17.3. Equally, Wizz Air and other airlines were engaged in protecting their business from the effects of the Corona virus in 2020 through reworking their relationships with their customers, their suppliers (such as fuel companies), their competitors and the local and national government agents (who license airline business). Business-level strategy can be seen in the following definition of strategic management:

The strategy of the firm is the match between its internal capabilities and its external relationships. It describes how it responds to its suppliers, its customers, its competitors and the social and economic environment within which it operates.[7]

◂ Definition

However, as pointed out above, there is no universally agreed definition of strategy.[8] For example, some strategy writers, such as Campbell and others,[9] have concentrated on corporate-level activity. By contrast, most strategy writing and research, such as that by Porter and Barney,[10] have concentrated on the business level. This book explores *both* levels.

1.1.2 AN ALTERNATIVE VIEW OF STRATEGY – AN EMERGENT VIEW

Some strategists dispute the approach to strategy described above.[11] Some writers, like Quinn, emphasise the **uncertainty** of the future and suggest that setting out to identify a purpose and a single strategy and then develop a complete strategic plan may be a fruitless task.[12] They see strategic management as being essentially entrepreneurial and dynamic, with an element of **risk**. The intended purpose of the strategy may not necessarily be realised in practice. The following definition of strategy captures this view:

Definition ▶ **Strategic management can be described as finding market opportunities, experimenting and developing competitive advantage over time.**

This definition is clearly different from that mentioned earlier. For example, Google has changed the way that it sells advertising space on the internet on two separate occasions after its initial launch of the service: the company adapted its strategy as a result of market experience. Wizz Air has also been experimenting with new destinations and local airline hubs as it has grown larger. This suggests that strategy evolves as the events both inside and outside the organisation change over time – hence the phrase *emergent strategy*.

1.1.3 WHAT IS STRATEGIC MANAGEMENT? A MODERN CONSENSUS VIEW

Given that there are two fundamental differences of view about the nature of strategic management, it is reasonable to enquire whether there is any modern consensus on the topic. Three strategists investigated this in the years 2002–2005: they surveyed the views of senior strategy writers and researchers on the topic over the period 1984–2003.[13] In summary, they concluded that there was an implicit agreement on the definition of the field of strategic management amongst leading strategy researchers and writers, as follows.

Definition ▶ **'The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilisation of resources, to enhance the performance of firms in their external environments.'**[14]

Essentially, this definition combines the earlier two approaches above in that it contains reference to both intended (called *prescriptive* in this text) and emergent perspectives. This book explicitly employs this consensual definition.

Equally, this definition is also reflected in the recognition by business leaders that the traditional elements in strategy – such as competitive advantage, controlling costs, maintaining quality and seeking technological innovation – are necessary but insufficient for success. For example, A G Lafley, the former chief executive of the global multinational company Procter & Gamble, explained: 'The name of the game is innovation. We work really hard to try to turn innovation into a strategy and a process.'[15]

Within this framework, the main differences between the prescriptive and emergent approaches cannot be ignored. Therefore this text explores both prescriptive and emergent processes and their implications for strategy development. However, it focuses more on the former than the latter because the former has received more attention in the literature.

1.2 THE MAIN TOPICS COVERED IN STRATEGY

Examining the actions further at the *business level* of strategic management and focusing on this definition, every organisation has to manage its strategies in three main areas:

1. the organisation's internal *resources*;
2. the external *environment* within which the organisation operates;
3. the organisation's ability to *add value* to what it does.

Strategic management can be seen as the linking process between the management of the organisation's internal resources and its external relationships with its customers, suppliers, competitors and the economic and social environment in which it exists.[16] The organisation

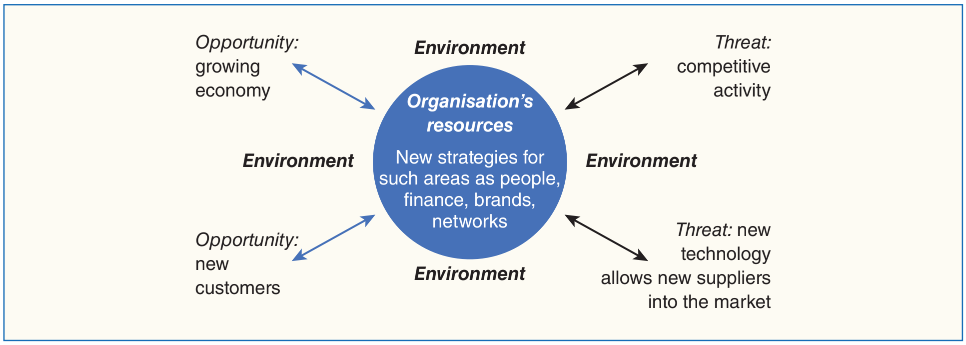


FIGURE 1.4 Examples of how strategic management links the organisation's resources with its outside environment

develops these relationships from its abilities and resources. Hence, the organisation uses its history, skills, resources, knowledge and various concepts to explore its future actions. Figure 1.4 shows some examples of this process.

For some large organisations, there are additional aspects of strategy that occur at their headquarters. This is called the *corporate level* of strategic management and covers such topics as raising finance and dealing with subsidiaries: these are explored in Chapter 9.

1.2.1 RESOURCE STRATEGY

The *resources and capabilities* of an organisation include its human resource skills, the investment and the capital in every part of the organisation. Organisations need to develop strategies to optimise the use of these resources. In particular, it is essential to investigate the *sustainable competitive advantage* that will allow the organisation to survive and prosper against competition. For example, Google (see Case Study 17.3) had advantages in its possession of unique and secret algorithms for handling large volumes of computer data and its established network of satisfied users. It had also invested heavily in branding its products and in the network of companies that use Google to advertise their services. All these were part of its resources and capabilities.

1.2.2 ENVIRONMENTAL STRATEGY

In this context, *environment* encompasses every aspect external to the organisation itself: not only the economic and political circumstances, which may vary widely around the world, but also competitors, customers and suppliers, who may vary in being aggressive to a greater or lesser degree. Customers and competitors are particularly important here. In strategy, the word 'environment' does *not* just mean the 'green, preserve the planet' issues, though these are important and are included in the definition.

Organisations therefore need to develop strategies that are best suited to their strengths and weaknesses in relation to the environment in which they operate. For example, Google faced a highly competitive environment for the launch of its first information search engine from established American companies such as Yahoo! and Ask Jeeves (later re-branded as Ask). Similarly, Wizz Air has been confronted with newer competitors such as Ryanair and Norwegian Airlines. In addition, both companies have had to cope with changing levels of economic growth and decline in many markets around the world. These have influenced the decisions of its customers to search for new sources of products and services.

Some commentators, such as Ohmae,[17] suggest that a strategy is really only needed when an organisation faces competitors: no competitive threat means there is no need for strategy. This is a rather narrow view of strategy and its environment: even a monopoly without competitors could need a strategy to defend its monopolistic position. With a general move to privatise the former nationalised monopolies such as electricity and water around the world, strategic management may be required for this reason alone. Equally, charitable foundations compete for funds from donors and sometimes for the volunteers that make the wheels turn. Strategic management is no less relevant in this context.

Other commentators, such as Mintzberg,[18] have suggested that the environment is so uncertain, particularly at a global level, that it may be impossible to *plan* a long-term strategy. This may need to be *crafted*, i.e. built up gradually through a learning process involving experimentation. For example, the evidence from Case Study 1.2 suggests that Twitter has learnt to adapt its social networking strategy over the first few years of its existence, adding and adapting new services as it developed. More generally, the organisation may be seeking to add value by operating effectively, but a fast-changing environment may offer little or no possibility for the management to plan in advance. Such commentators argue that unpredictable environments make the task of devising a realistic strategy more than mere prediction about the future. Strategies have to be devised to cope with such uncertainty.

1.2.3 ADDING VALUE

There is a need to explore further the purpose of strategic management beyond the requirements of environmental change and management of resources. In essence, the need is to *add value* to the supplies brought into the organisation. To ensure its long-term survival, an organisation must take the supplies it brings in, add value to these through its operations and then deliver its output to the customer.

For example, Twitter in Case Study 1.2 takes the supplies it buys in – such as software, energy, skills and computer equipment – and then uses its own resources and expertise to create a product from these supplies – essentially the contents of the Twitter page – that has a value which is higher than the combined value of all the supplies which have been used to make the product. If this value is higher than its inputs, then the organisation makes a profit. In its early years, Twitter in Case Study 1.2 was not adding sufficient value to its inputs – thus it was making a loss in the years 2011 to 2015. However, Twitter became profitable in 2018.

The purpose of strategic management is to bring about the conditions under which the organisation is able to create this vital *additional value*. It may then distribute this value to its shareholders through dividends, to employees through wages and to the wider community through various sharing schemes and events that it supports. Strategic management must also ensure that the organisation adapts to changing circumstances so that it can continue to add value in the future. *The ways in which value can be added and enhanced are crucial to strategic management.*

Strategic management is both an art and a science. No single strategy will apply in all cases. While most organisations would like to build on their skills, they will be influenced by their past experiences and culture, and constrained by their background, resources and environment (just as we are in our own individual lives). Nevertheless, strategic management is not without logic or the application of scientific method and the use of evidence. At the end of the process, however, there is a place for the application of *business judgement*. In Case Study 17.3, Google took a business judgement to go ahead and acquire YouTube in 2006 in spite of the apparent high price of $1.65 billion because the video sharing market was new, growing fast and difficult for a company to enter after the first sharing networks had been established.

1.2.4 KEY ELEMENTS OF STRATEGIC DECISIONS

There are five key elements of strategic decisions that are related primarily to the organisation's ability to add value and compete for customers in the market place. To illustrate these elements, examples are given from the highly competitive market for video computer games, which was worth around $50 billion globally in 2019:

1. *Existing and new customers.* Customers are crucial to strategic management because they make the buying decision, not competitors. This may seem obvious, but much of the literature on strategic management has focused more heavily on competitors than on customers. Even in the public sector and the non-profit sector, customers matter. For example, there would be little point in Microsoft® launching its new *Xbox* games console if it was unable to attract substantial sales. Up to 2016, Microsoft had sold over 26 million units since its launch in 2001.
2. *Implementation processes to deliver the strategy.* Strategy is at least partly about *how* to develop organisations or allow them to evolve towards their chosen purpose. For example, Microsoft began by launching *Xbox* into the US market in autumn 2001, followed by Japan in early spring 2002 and Europe about one month later. It then launched its next generation product – the *Xbox 360* – in 2006 and the *Kinect* controller in 2010. Importantly, the whole strategic decision of Microsoft to compete in this market was taken in the 1990s and then major investments were undertaken to achieve this purpose.
3. *Offer sustainable competitive advantage.* For the long-term survival of the organisation, it is important that the strategy is sustainable. There would be little point in Microsoft launching its new *Xbox* games console if the market disappeared after six months. Up to year 2007, the company had spent millions of dollars developing the product, and this would take some years to recover.[19] In addition to being sustainable, a strategy is more likely to be effective if it delivers competitive advantages over actual or potential competitors. Microsoft was much later in entering the global computer games market than its main rivals, Sony® and Nintendo™. Microsoft therefore needed some special competitive advantages in its new machine to persuade customers of rival products to change. Initially, it was offering what it claimed to be the best video graphics and the ability to play its games online. Subsequently, it has claimed to offer superior games and more computing power than its competitors. Its main rival – Sony PlayStation™ – then announced a totally new computer chip in 2005 that would beat this advantage. One way of developing competitive advantage is through *innovation* – a constant theme of this book. As some readers will be aware, Sony had technical problems with its computer chip and related laser technology so that PlayStation 3™ was launched late and had to play catch-up. This is often the risk associated with innovative technology.
4. *Exploit linkages between the organisation and its environment.* These are links that cannot easily be duplicated and will contribute to superior performance. The strategy has to exploit the many linkages that exist between the organisation and its environment: suppliers, customers, competitors and often the government itself. Such linkages may be contractual and formal, or they may be vague and informal. (Just because they are not legally binding does not mean they have little importance.) In the case of video game machines, Microsoft was able to offer compatibility and connections with its other dominant computer software products – Explorer/Edge and Windows XP/Vista/7/8/10 – not that this link appears to have proved particularly beneficial.
5. *Vision and purpose.* These provide the ability to move the organisation forward in a significant way beyond the current environment. This is likely to involve innovative strategies. In the highly competitive video games market, it is vital to have a **vision** of

the future and also a clear sense of purpose. This may involve the environment but is mainly for the organisation itself: a picture of how video games might look in five years' time will challenge and direct strategic decisions over the intervening period. For Microsoft, its vision of the *Xbox* would move it from its current involvement primarily with *office* activities like report writing and presentations to new, *home entertainment* applications like video games – thus providing a completely new source of revenue. It is highly likely to involve *innovative* solutions to the strategic issues facing the company, such as the Microsoft *Kinect* controller launched in 2010. The vision then needs to be turned into a specific purpose for the company over time. Nintendo had a rival vision and purpose with the launch of its revolutionary Wii games machine in 2006: this is explained and explored in Case Study 4.3 later in this text.

The outcome of strategic management is concerned with delivering long-term ***added value*** to the organisation. Microsoft was reported in 2006 as still not making any significant profits on *Xbox*, but this had changed by 2019.

To summarise with regard to the topic of strategic management, it deals with the major intended and emergent initiatives taken by general managers on behalf of owners and other stakeholders, involving the utilisation of resources, to enhance the performance of organisations in their external environments and thereby add value to the organisation.

online resources

On the book's free website: **https://study.sagepub.com/lynch9e**
What makes effective strategy? Given the difficulty in developing effective strategy, it makes sense to explore and answer this important question.

KEY STRATEGIC PRINCIPLES

- The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners and other stakeholders, involving the utilisation of resources, to enhance the performance of organisations in their external environments and thereby add value to the organisation.
- Strategic management can be considered at two levels in the organisation: the corporate level and the business level.
- At the corporate level, strategic management is the pattern of major objectives, purposes or goals and the essential policies or **plans** for achieving those goals. It involves a consideration of what business the company is in or should be in.
- At the business level, strategic management is concerned with the match between the internal capabilities of the organisation and its external relationships with customers, competitors and others outside the organisation.
- A modern consensus view of strategy adds another dimension – prescriptive and emergent processes – to the existing processes.
- Strategy is developed by a consideration of the resources of the organisation in relation to its environment, the prime purpose being to add value. The added value is then distributed among the stakeholders.
- There are five key elements to strategy: customers; implementation process; sustainable competitive advantage; the exploitation of linkages between the organisation and its environment; and vision and purpose. They are principally related to the need to add value and to offer advantages over competitors. Several of these elements may well involve innovative solutions to strategic issues.

CASE STUDY 1.2

Turnaround at Twitter®

Despite rapid growth in its early years, user growth at Twitter had slowed to a crawl by 2019. However, the company moved from loss to profit in 2018 and 2019. What was wrong, if anything, with its earlier business strategy? And how did it manage the turnaround?

Early years: 2006–2011

Founded by the entrepreneur Jack Dorsey and three friends in 2006, Twitter benefited from its unique approach to messaging across the World Wide Web. Twitter is an online social networking and news service: its short messages – called 'tweets' – have a maximum size of only 140 characters. They can be read without belonging to the Twitter network. But only those who have joined the network can post tweets. In the early days, it was both a social network and a news network. In recent years, it has become the news network of choice for celebrity bloggers from the president of the United States to film and television stars. It has also been used by companies and public sector organisations to post news, especially instant news about events in real time.

From around 20,000 tweets per day in early 2006, it grew rapidly to 400,000 in 2007 and over 65 million in 2010. The service was enhanced in 2010 by enabling links from Twitter to videos on services like YouTube and Flickr. However, it was the 'instant news' aspect of the site that promoted high usage – for example, at the time of a natural disaster or a special sporting achievement. Although the company was still losing money up to 2017 (see Figure 1.5), its losses were modest for a start-up. This gave the company confidence to move towards consolidating its position by offering shares to the public.

Consolidation and public share issue: 2012–2013

Over these two years, the founders worked hard to launch an initial public share offering. This took place in 2013 with the company being valued at around $30 billion. The founders made significant gains in wealth, and a new chief executive officer, Dick Costolo, joined the company, with Jack Dorsey stepping back from his leadership role. One of the problems with a public share offering is that investors from outside then begin to press for continued growth. Twitter made some small company acquisitions over these two years, but nothing substantial was acquired, and growth began to slow.

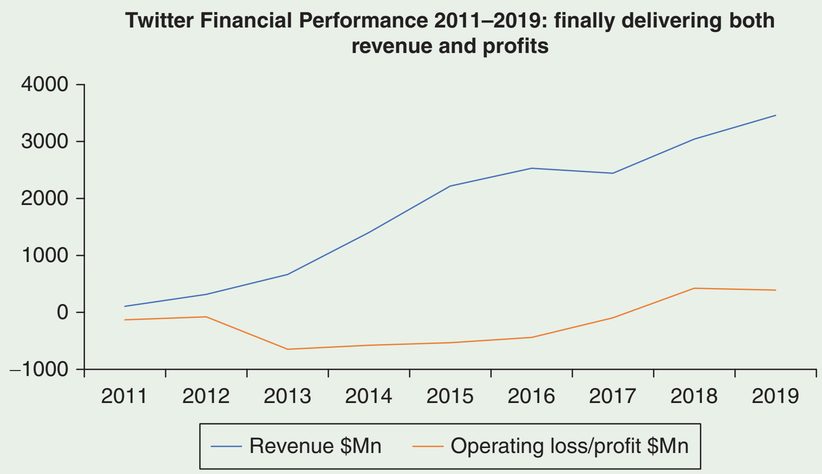


FIGURE 1.5 Twitter financial performance, 2011–2019

Source: Richard Lynch, from company Annual Report and Accounts for various years.

(Continued)

Growth in revenue but little growth in tweeters: 2014–2019

Over the next five years, revenue continued to grow (see Figure 1.5). This was generated by increasing engagement between tweeters and advertisers – Twitter's 'pay-for-performance' advertising product. Revenue growth also came from video links with third party commercial websites and apps. But tweeters from the USA were the main sources of this commercial activity: for example, 65 per cent of total revenue in 2015 came from the USA, with only 35 per cent from other countries. This was particularly striking because the reverse was true regarding monthly active users: in a typical month, only 21 per cent of monthly active users came from the USA with 79 per cent from other countries (see Figure 1.6).

Even more relevant to Twitter's business development, growth in monthly users was slowing down both in the USA and in other countries (see Figure 1.6). This was in considerable contrast to other websites like Flickr, Snapchat and Facebook that were still growing rapidly. Importantly, the lack

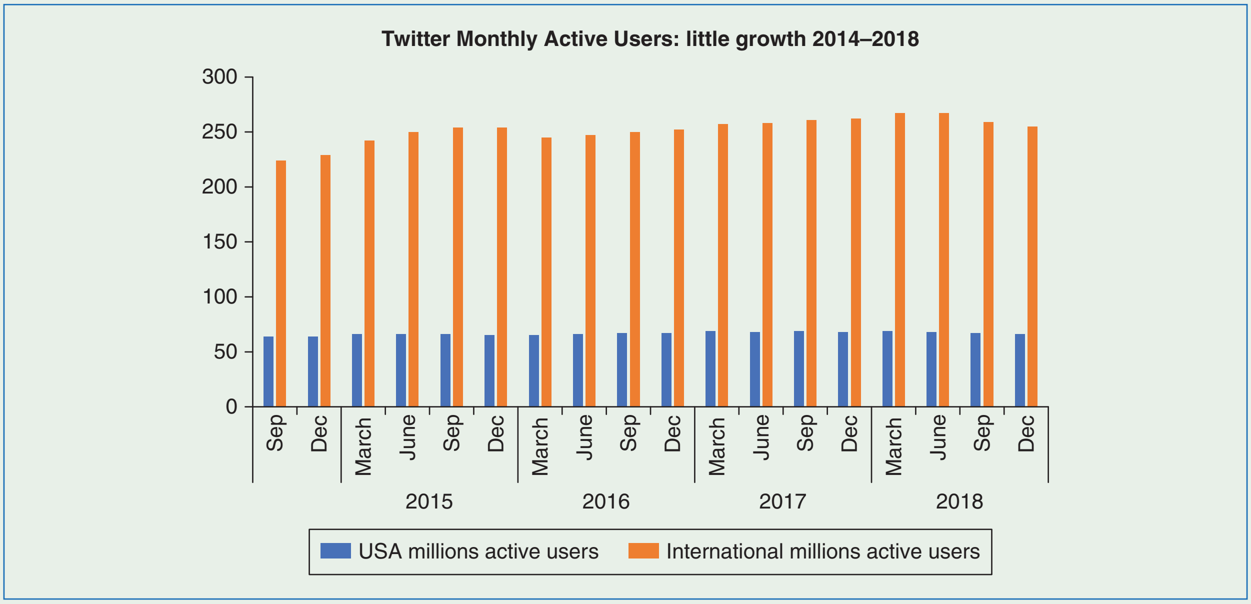


FIGURE 1.6 Twitter monthly active users, 2014–2018

Source: Richard Lynch, from company Annual Report and Accounts for various years.

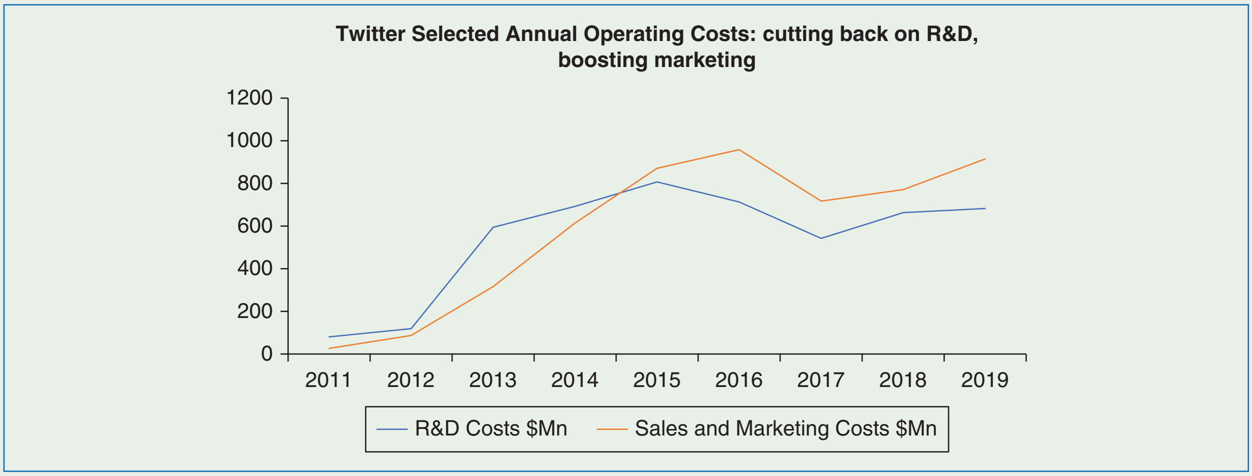


FIGURE 1.7 Twitter selected annual operating costs, 2011–2019

Source: Richard Lynch, from company Annual Report and Accounts for various years.

of growth at Twitter was not the outcome of limited investment. Both research and development and sales and marketing were increased substantially over this period before R&D was cut back in 2017 (see Figure 1.7). This activity finally paid off in 2018 and 2019 with Twitter becoming profitable.

In 2015, one financial investor in the company, Chris Sacca, summed up the situation: 'I am very bullish on Twitter's future and I can't imagine life without it.' But he went on to outline some issues that he said needed to be solved:

1. New user growth has stalled.
2. Almost one billion users have tried Twitter and not stuck around.
3. Direct response advertising has fallen short of hopes.
4. Wall Street's confidence in the management team has diminished.
5. Twitter has been unable to convince investors of its potential upside.

By 2019, Twitter had turned around its situation: it was delivering the profits desired by its shareholders. But there were concerns that the reduced investment in R&D in 2018 and 2019 might impact profits negatively in the long-term. Moreover, Twitter was still taking only a small share of the global digital advertising market. The worldwide digital advertising market was worth around $200 billion in 2019. Google dominated the market with a share of around 31 per cent; Facebook had a share of 10 per cent; Twitter had a share of less than 1 per cent of this revenue. Yet Twitter remained the communications channel of choice for millions of people, including President Trump. The business strategy of Twitter still needed to improve.

Case questions

1. Take the strategy concepts covered in this chapter, for example, customers, sustainable competitive advantage, purpose, prescriptive and emergent strategies. Consider how these concepts might provide insights into how Twitter's strategy needed to change.
2. What lessons, if any, can other companies learn from Twitter's recent strategies?

1.3 CORE AREAS OF STRATEGIC MANAGEMENT

The three core areas of strategic management are strategic analysis, strategy development and strategy implementation.

◄ Definition

1. *Strategic analysis.* The organisation, its **mission** and objectives have to be examined and analysed. Strategic management provides value for the people involved in the organisation – its *stakeholders* – but it is often the senior managers who develop the view of the organisation's overall objectives in the broadest possible terms. They conduct an examination of the *objectives* and the organisation's *relationship with its environment*. They will also analyse the *resources* of the organisation. This is explored in Chapters 3 to 7.
2. *Strategy development.* The strategy options have to be developed and then selected. To be successful, the strategy is likely to be built on the particular skills of the organisation and the special relationships that it has or can develop with those outside – suppliers, customers, distributors and government. For many organisations, this will mean developing advantages over competitors that are sustainable over time. There are usually many options available, and one or more will have to be selected. This is covered in Chapters 8 to 12.
3. *Strategy implementation.* The selected options now have to be implemented. There may be major difficulties in terms of motivation, **power** relationships, government negotiations, company acquisitions and many other matters. A strategy that cannot be implemented is not worth the paper it is written on. This is explored in Chapters 13 to 15, including a special chapter on the important topic of green strategy.

If a viable strategic management is to be developed, each of these three areas should be explored carefully. For the purpose of clarity, it is useful to separate the strategic management process into three sequential core areas, as we have done above. It would be wrong, however, to think of the three core areas as being only sequential. While it is not possible to implement something that does not exist, many organisations will have some existing relationships with customers and suppliers that are well developed and others that have not yet started. Even small, new companies will want to experiment and negotiate. This means that activities in all three areas might well be simultaneous – implementing some ideas while analysing and developing others.

Table 1.1 lists some of the working definitions used in the three core areas of strategic management, some of which will already be familiar to you. To clarify the distinction between the terms, the table also includes the example of an ambitious young manager, showing his or her strategy for career progression. However, the example in Table 1.1 highlights two important qualifications to the three core areas:

1 the influence of judgement and values;

2 the high level of speculation involved in major predictions.

The importance of *judgement and values* in arriving at the mission and objectives shows that strategic management is not a precise science. Equally, there are risks in many strategic decisions. For example, in the hypothetical career example in Table 1.1, the person has a clear view on what is important in life if their ambitions are to be achieved; some people would not share these ambitious values. Moreover, the career choice made will carry risks with regard to its achievement. We examine the role of value judgements further in Chapter 6 and risk in Chapter 10.

TABLE 1.1 Definition of terms used in the three core areas of strategy[23]

	Definition	Personal career example
Mission statement	Defines the business that the organisation is in against the values and expectations of the stakeholders.	To become a leading European industrialist.
Objectives (or goals)	State more precisely what is to be achieved and when the results are to be accomplished. Often quantified. (Note that there is no statement of how the results are to be attained.)	To achieve a directorship on the main board of a significant company by the age of 42.
Strategies	The pattern or plan that integrates an organisation's major goals or policies and action sequences into a cohesive whole. Usually deals with the general principles for achieving the objectives: why the organisation has chosen this particular route.	1 To obtain an MBA from a leading European business school. 2 To move into a leading consultancy company as a stepping stone to corporate HQ. 3 To obtain a key functional directorship by the age of 35 in the chosen company.
Plans (or programmes)	The specific actions that then follow from the strategies. They specify the step-by-step sequence of actions to achieve the major objectives.	1 To obtain a first-class honours degree this year. 2 To take the next two years working in a merchant bank for commercial experience. 3 To identify three top business schools by December two years from now. 4 To make application to these schools by January of the following year.
Controls	The process of monitoring the proposed plans as they proceed and adjusting where necessary. There may well be some modification of the strategies as they proceed.	Marriage and children mean some compromise on the first two years above. Adjust plans back by three years.
Reward	The result of the successful strategy, adding value to the organisation and to the individual.	High salary and career satisfaction.

Moreover, strategic management may be *highly speculative* and *involve major assumptions* as it attempts to predict the future of the organisation. For example, many of the later stages of the career progression in Table 1.1 involve some very difficult projections – on marriage, family and health, for example – that may well not be achieved. Indeed, given such risks and uncertainties, it is difficult to see the example as anything more than an idealised series of wish-statements. In the same way, in the case of strategic management, there may be a largely false and perhaps unrealistic sense of direction.

Some books and research papers on strategic management do not recognise this problem and may be guilty of implying that strategic management has certainties about the future that it does not possess in reality.[21] Some companies also take this approach and work on the basis that strategy is set rigidly for a fixed time period.[22] This does not mean we should not explore the future directions of the subject, just that we should be cautious about their meaning and be aware of the risks.[23]

KEY STRATEGIC PRINCIPLES

- The three core areas of strategic management are: strategic analysis, strategy development and strategy implementation.
- There are two important qualifications to the three core areas. Judgement and values play an important role in determining the objectives and choice. Moreover, some elements are highly speculative and may involve major assumptions and risks.
- There is considerable overlap between the three core areas, which are separated out for the sake of clarity but, in practice, may operate concurrently.

1.4 CONTEXT, CONTENT AND PROCESS

Research[24] has shown that in most situations strategic management is not simply a matter of taking a strategic decision and then implementing it. It often takes a considerable time to make the decision itself and then another delay before it comes into effect. There are two reasons for this. First, *people* are involved – managers, employees, suppliers and customers, for example. Any of these people may choose to apply their own business judgement to the chosen strategy. They may influence both the initial decision and the subsequent actions that will implement it. Second, the *environment* may change radically as the strategy is being implemented. This will invalidate the chosen strategy and mean that the process of strategy development needs to start again.

For these reasons, an important distinction needs to be drawn in strategy development between *process*, *content* and *context*. Every strategic decision involves these three elements, which must be considered separately, as well as together.

Every strategic decision involves:

1. *Context* – the environment within which the strategy operates and is developed. In the Twitter case during the 2010s, the context was the fast-changing technological development in personal computers. This is explored further in Chapters 2 and 3.
2. *Content* – the main actions of the proposed strategy. For example, part of the content of the Kodak strategy (see Case Study 1.3) was the decision to launch into low-end cameras only. This is explored further in Chapters 4, 8, 9 and 10.
3. *Process* – how the actions link together or interact with each other as the strategy unfolds against what may be a changing environment. There were many processes

in the Kodak case at the end of this chapter: for example, the successive factory closures and the diversification into areas unrelated to film processing. Process is thus the means by which the strategy will be developed and achieved. This is explored further in Chapters 5, 7 and 11.

These three elements are the axes of the same three-dimensional cube of strategic management decision-making (see Figure 1.8). The implications of this distinction are explored further in Chapters 5, 10 and 11.

In most strategic management situations, the *context* and *content* are reasonably clear. It is the way in which strategy is developed and enacted – the *process* – that usually causes the most problems. Processes need investigation and are vague and quixotic because they involve people and rapidly changing environments.

The difficulty is compounded by the problem that, during the implementation period, the process can influence the initial strategic decision. For example, as the process unfolded at Kodak, competitive actions forced the organisation to make cutbacks that were not originally identified as part of the strategic content.

At various points throughout this book, the distinction between process, content and context will be useful in clarifying relationships. Much emphasis will be laid on process, which is one of the more difficult parts of strategy.

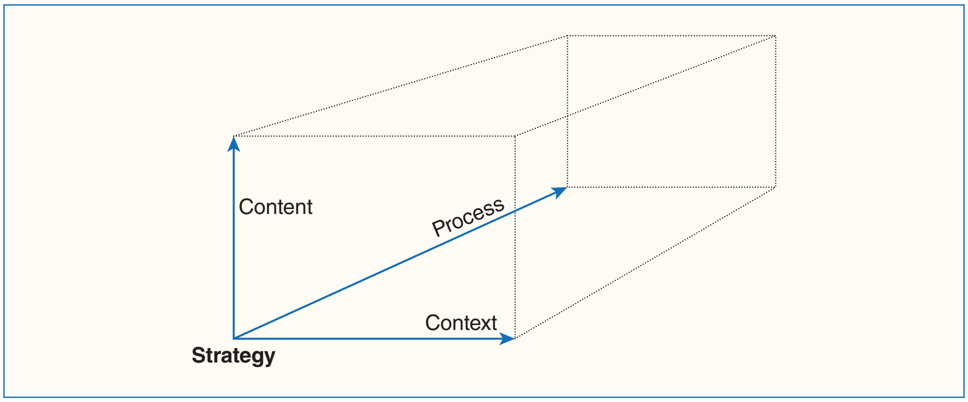


FIGURE 1.8 The three dimensions of strategic decisions

KEY STRATEGIC PRINCIPLES

- In strategic management development, it is necessary to distinguish between three elements: context, content and process.
- In most strategic management situations, the context and content are reasonably clear; it is the process that causes the problem because process may influence the way that people in the organisation develop and implement strategy.
- Process is the way actions link together or interact with each other as the strategy unfolds in the environment, which may itself be changing. It is often one of the more difficult parts of strategy development.

1.5 PROCESS: LINKING THE THREE CORE AREAS

1.5.1 TWO DIFFERENT APPROACHES TO THE PROCESS

Until now, strategic management has been presented as a unified, cohesive subject. It is important at this point to explain and explore a fundamental disagreement which exists among commentators over the way that the topic may be developed. Differing views on the content, process and nature of strategic management have arisen because of the breadth and complexity of the subject. For the present, the overall distinctions can be summarised as representing two main approaches to strategic management development:

1 *The prescriptive approach.* Some commentators have judged strategic management to be essentially a linear and rational process, starting with where-we-are-now and then developing new strategies for the future (see Jauch and Glueck[25] and Argenti[26]). **A prescriptive strategy is one whose *objective* has been defined in advance and whose *main elements* have been developed before the strategy commences**. ◄ Definition

2 *The emergent approach.* Other commentators take the view that strategic management emerges, adapting to human needs and continuing to develop over time. It is evolving, incremental and continuous, and therefore cannot be easily or usefully summarised in a plan which then needs to be implemented (see Mintzberg[27] and Cyert and March[28]). **An emergent strategy is one whose *final objective* is unclear and whose *elements* are developed during the course of its life, as the strategy proceeds.** The theorists of this approach often argue that long-term prescriptive strategies are of limited value. In Chapter 2 we examine these important differences in more detail. There are, for example, differences in approach even amongst those who judge that the process is rational and linear. Mintzberg[29] captured the essence of the distinction: ◄ Definition

> The popular view sees the strategist as a planner or as a visionary; someone sitting on a pedestal dictating brilliant strategies for everyone else to implement. While recognising the importance of thinking ahead and especially of the need for creative vision in this pedantic world, I wish to propose an additional view of the strategist – as a pattern recogniser, a learner if you will – who manages a process in which strategies (and visions) can emerge as well as be deliberately conceived.

It should be noted here that Mintzberg sees merit in *both* approaches. (Both approaches can make a contribution and are not mutually exclusive. In many respects, they can be said to be like the human brain, which has both a rational left side and an emotional right side. Both sides are needed for the brain to function properly.[30]) It can be argued that the same is true in strategic management. Reference is therefore made to both the prescriptive and emergent approaches throughout this book. However, it should be understood that these are main headings for a *whole series of concepts* of strategic management – explored in more detail in Chapter 2.

1.5.2 IMPACT ON THE THREE CORE AREAS

1 *The prescriptive approach* takes the view that the three core areas – strategic analysis, strategy development and strategy implementation – are linked together sequentially. Thus it is possible to use the analysis area to develop a strategy which is then implemented. The strategy is *prescribed* in advance (see Figure 1.9(a)).

2 The *emergent approach* takes the view that the three core areas are essentially interrelated. However, it is usual to regard the analysis area as being distinctive and in advance of the other two elements. Because strategy is then developed by an experimental process that involves trial and error, it is not appropriate to make a clear distinction between the strategy development and implementation phases: they are closely linked, one responding to the results obtained by the other. These relationships are shown in Figure 1.9(b).

1.5.3 DEVELOPING MODELS OF STRATEGIC MANAGEMENT

Based on the two approaches, it is possible to develop models to aid in understanding the way that strategic management operates. These models are explained here and will then be used throughout this book to structure our examination of the topic.

The two contrasting models are shown in Figure 1.10. Each element of the process is explored in more depth in the chapters that follow.

Strategic analysis

The analytical phase of both the *prescriptive* and the *emergent* approach can be divided into two parts:

1 *Analysis of the environment* – examining what is happening or likely to happen outside the organisation (e.g. economic and political developments, competition).

2 *Analysis of resources* – exploring the skills and resources available inside the organisation (e.g. **human resources**, plant, finance).

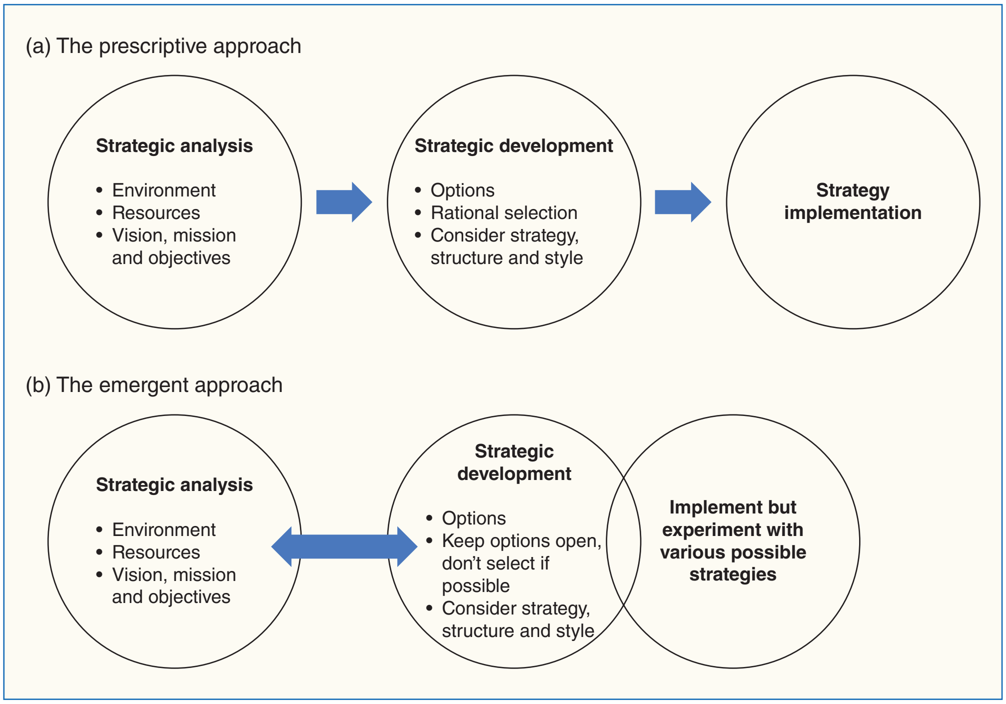


FIGURE 1.9 Prescriptive and emergent elements to the three core processes

These are followed by a third element:

3 Identification of vision, mission and objectives – developing and reviewing the strategic direction and the more specific objectives (e.g. the maximisation of profit or return on capital, or in some cases a social service).

Some strategists put this third element *before* the other two.[31] They argue that any organisation first sets out its objectives and then analyses how to achieve them.

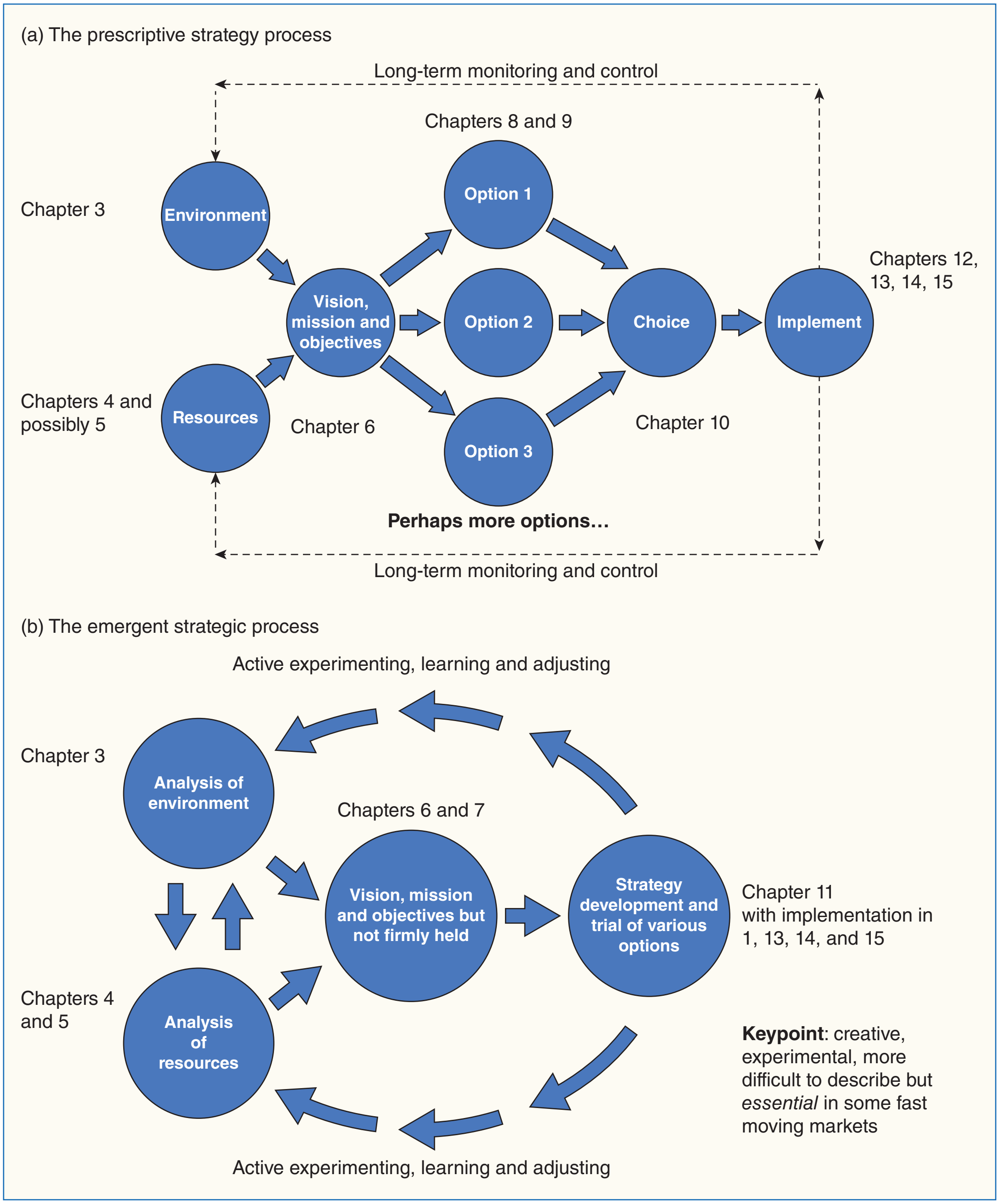


FIGURE 1.10 The prescriptive and emergent approaches

However, this book takes the view that it is necessary to set objectives in the *context* of the environment and competitive resources of the organisation. For example, a manufacturer of straw hats needs to take account of the very limited demand for that product and the limited likelihood of having superior competitive resources *before* setting its objectives.

To summarise, vision, mission and objectives are accepted by both prescriptive and emergent approaches but, at this point, the two processes clearly diverge.

Strategy development and implementation

According to the prescriptive approach, the next step is the formal consideration of the options available to achieve the agreed objectives. This is followed by a rational selection from the options, according to identified criteria, in order to arrive at the prescriptive strategy. In most cases, this choice is implemented after considering the necessary organisation, **controls** and other matters that will be important in practice. The decisions then feed back into the resources and the environment of the organisation – for example, the 'resources' of the strategy might include new factories and new products, and the 'environment' might include new customers attracted to the organisation as a result of its new strategy. Both these will have an impact on subsequent strategic decisions and are represented in the model by the outside feedback arrows.

In Figure 1.10(a) the steps in this process can be followed. It should be emphasised, however, that this diagram represents only one description of the approach; there are many different approaches, with strategists unable to agree on the definitive prescriptive route. Chapter 2 explores this in more depth.

Strategy development and implementation – the emergent approach

Essentially, this takes a much more experimental view of the strategy choice and its implementation. It seeks to learn by trial, experimentation and discussion as strategies are developed. There is no final, agreed strategy but rather a series of experimental approaches that are considered by those involved and then developed further. Strategies emerge during a process of crafting and testing.

There is therefore no clear distinction in the emergent approach between the two stages of developing the strategy and its implementation. Moreover, there is no need to identify a separate stage of discussion involving the leadership, culture and organisation, since all these will occur inevitably during the strategy development and implementation phase. Importantly, there is then a strong link back to the earlier analytical phase, enabling changes in the environment and resources to be reflected quickly in the adaptive, learning strategy. This is shown in Figure 1.10(b).

By definition, there can be no single view of a process that emerges within an organisation – each one will be different. Figure 1.10(b) serves to indicate the circulatory nature of the decision-making process according to this approach. There is no definitive emergent route.

KEY STRATEGIC PRINCIPLES

- There are two main approaches to strategic management development: the *prescriptive* approach and the *emergent* approach. Each complements the other, and both are relevant to the **strategy process**.

- The *prescriptive* approach takes the view that the three core elements are linked together sequentially. The *emergent* approach regards the three core areas as being essentially interrelated.
- The two approaches can be used to develop models for the strategic management process. However, it should be recognised that every model is a compromise and may not reflect all the circumstances that exist in reality.

online resources

On the book's free website: **https://study.sagepub.com/lynch9e**
There is one area of strategic management that deserves a special strategy: International and global strategies. There is a more detailed discussion of this topic in Chapter 19.

CASE STUDY 1.3

Why did Kodak collapse?

Kodak, formerly one of the world's leading photographic companies, filed for Chapter 11 bankruptcy protection in 2012. Why? What went wrong with its business strategy?

Early years

Founded by the entrepreneur George Eastman in 1880, Kodak became the world leader in silver halide photographic film by the 1920s. It introduced the first cheap, mass market film camera, the Kodak Brownie, in 1900 – $1 for the camera and 15 cents for each roll of film. Essentially, the strategy was to hook customers with a cheap camera so that they would repeat buy the film. Kodak had major economies of scale in film production: the profit margins, reportedly around 75 per cent, were described as 'luxurious'. This strategic resource – chemistry-based, continuous flow manufacturing – was part of its competitive advantage. The company's purpose was to grow profitably and thus generate more value added. By 1993, the company had annual sales of nearly $13 billion. It had strong branding, wide distribution and quality products. But some Kodak executives could already see 'the oncoming freight train' of digital cameras: they did not need rolls of film. This would eventually undermine its major source of revenue. The real problem was that too many at Kodak were either unable or unwilling to jump out of the train's path.

The 20 years of change: 1993–2012

Although some senior managers at Kodak predicted the inevitable, others were more optimistic. Kodak itself invented one of the early digital cameras in 1975. The company had previously launched other film camera designs like the Kodak Instamatic camera in 1963. The problem for the company was that it was investing heavily in research and development expenditure, but it was not producing any major new winners. The contrast with one of its competitors, the Japanese printer, lens and camera company Canon®, is quite striking. Kodak sales were essentially flat and then declining in the 20 years to 2013. Canon's sales increased steadily from new products and new markets: see Figure 1.11.

The declining revenue figures at Kodak in Figure 1.11 hide a more complex strategic story: the loss of film sales as customers moved to digital cameras was partially replaced by sales of Kodak digital cameras. But, unlike Canon, Kodak made no serious attempt to launch upmarket camera models where the profit margins were higher. Kodak's mindset was still cheap, mass market products. Moreover, competition was high in the mass market and Kodak had no clear competitive advantages beyond its well-known brand name and entrenched distribution position with some retailers.

(Continued)

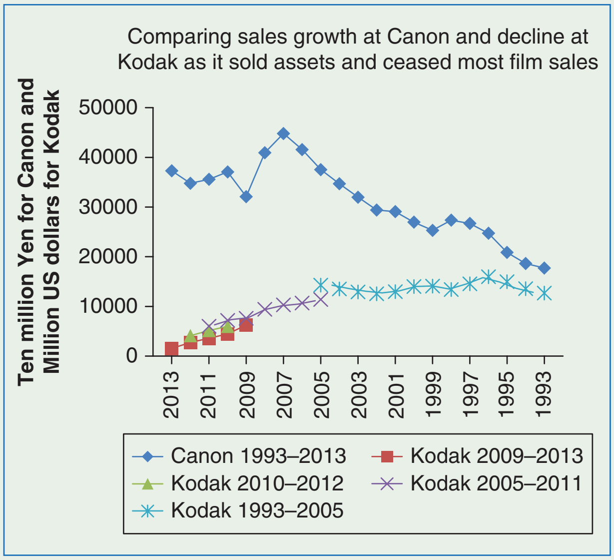


FIGURE 1.11 Comparing sales growth at Canon and decline at Kodak

Notes:

The sales for the two companies are in different currencies. But the trend is clear. Moreover, the two companies had similar starting sales levels in 1993: nearly \$15 billion for Canon, nearly \$13 billion for Kodak.

The Canon sales declined during the world recession in 2008/2009.

The Kodak accounting base was changed in 2005 and 2011 because parts of the company were sold. This meant that strict comparison with earlier years was no longer possible. But the trend is clear.

Source: Richard Lynch, from company Annual Report and Accounts for various years.

For many years, Kodak was the world leader in photographic film sales and processing – here in Germany for example

At the same time as launching cheap digital cameras, Kodak was closing down most of its film-making factories: demand dropped as customers moved to digital cameras or mobile phones. The company closed 13 factories and 130 film processing labs with the loss of 47,000 jobs over the period to 2007. Kodak was loss-making and struggling to survive. The company spent \$3.4 billion restructuring itself alone in the period 2004–2007. In addition, Kodak offered generous pension and health insurance benefits to many of its former employees: these are often called 'legacy costs'. This built up a big company pension liability that resulted finally in the USA 'Chapter 11' bankruptcy protection filing in 2012. Since that time, Kodak has been re-inventing itself in health markets and other product areas. But it will never have the same market dominance as the company had during its film processing and printing years.

What did Kodak do well in its business strategy?

Four areas stand out:

1 Strong marketing and branding with good reliable film products.

2 It identified digital cameras early as being a game-changer for the company. Former employee Larry Matteson commented: 'I can't think of another major company in the US that has undergone as tough a transformational problem as Kodak.' The company completely relaunched its digital strategy in the years 2000 onwards.

3 It exploited its low-cost film manufacturing and processing base as a competitive advantage for as long as possible. It is still using this knowledge but for industrial and commercial customers where film has not yet replaced digital cameras – for example in the Hollywood film industry (though digital is now coming here as well).

4 It recognised the value of patenting its products to maintain its competitive advantage in digital camera technology. However, it has been involved in some recent expensive legal battles to preserve its rights (against Apple® and RIM/Blackberry®).

So, what did Kodak do badly in its business strategy?

With the benefit of hindsight, it is possible to identify at least five major errors:

1 Although it moved into digital cameras, it focused mainly on low-end camera designs. Thus, the company was moving from its dominance of the highly profitable roll-film business to the lower profit margin and highly competitive digital camera business.

2 More fundamentally, many (but not all) Kodak senior managers were never fully convinced about the death of film until it was too late. This meant that the move into digital was implemented slowly and with reluctance. The Kodak old guard were against digital.

3 Anticipating the change, Kodak attempted to diversify its product range into printers and scanners. But these were also competing against low-cost competition in fragmented markets: this was a poor product market choice with no clear competitive advantage. Kodak finally ceased to sell printers in 2012.

4 Kodak also diversified into other unrelated product areas, including chemicals, pharmaceuticals and health products. These **divisions** were later sold, some after running into profit problems. But, unlike its rival Fuji Film, who had moved into components for LCD screens, Kodak had no other business to deliver profits while it sorted out digital.

5 Its pension benefits were too generous, leading to legacy cost issues that eventually led to the USA 'Chapter 11' filing.

Where is Kodak now?

Kodak came out of Chapter 11 bankruptcy protection in 2013: smaller, wiser and focused on specialist imaging business markets that still use film and digital products, but it was a shadow of its former global business.

In 2013, Kodak had clear policies on green strategy and sustainability. However, it had previously been under investigation with regard to some of its earlier practices.

Case questions

1 Take the strategy concepts covered in this chapter: for example, customers, sustainable competitive advantage, purpose, prescriptive and emergent strategies. Can you re-interpret Kodak's strategies using these concepts?

2 What lessons, if any, can other companies learn from recent strategies?

online resources

On the book's free website: **https://study.sagepub.com/lynch9e**. Given the major strategic problems that hit Kodak, this raises the strategic question, 'Why do companies fail?' There are some answers on the web.

CRITICAL REFLECTION

The nature of strategic management

One of the main disputes in strategic management over the past 25 years concerns the differences between prescriptive and emergent forms of strategy process. Companies argue that they need to have a 'strategic plan' in order to plan ahead in terms of both the competitive environment – sales, customers, new products and services – and of resources – finance and cash, people, factories. Some of these elements take years to develop and put into practice. A clear strategic plan is therefore essential and involves a *prescriptive* process to strategy development.

Other companies have a more entrepreneurial and experimental approach to strategy.

It is important to sense what is happening in fast-changing markets and to be able to respond to this. In addition, long-term strategic planning often turns out to be mistaken, with unintended outcomes. It is better therefore to be more creative in strategy development and to take an *emergent* approach to the process of strategy development.

What is your view? Which approach is better?

Or do both approaches have merit? If the latter is true, then how do you handle the differences of approach inside a company?

SUMMARY

- The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners and other stakeholders, involving the utilisation of resources, to enhance the performance of organisations in their external environments and thereby add value to the organisation.
- In this chapter, we have explored the nature of strategic management – linking process between the organisation and its environment – which focuses particularly on value added and the sustainable competitive advantages of the organisation and the need to be innovative. Adding value is of particular importance to most organisations, although for non-profit and government organisations this is not necessarily the case. Sustainable competitive advantage is also important.
- There are five key elements to strategy. They are principally related to the need to add value and to offer advantages over competitors: customers; implementation process; sustainable competitive advantage; the exploitation of linkages between the organisation and its environment; vision and purpose. Several of these elements may well involve innovative solutions to strategic issues.
- There are three core areas of strategic management: strategic analysis; strategy development; and strategy implementation. Although the three core areas are often presented as being strictly sequential, they will be simultaneous in some circumstances. There are two important qualifications to the three core areas: the use of judgement and values to derive the strategy and the need to make highly speculative assessments about the future and significant risks. Unless handled carefully, these may give a false sense of direction about the future.
- In developing strategic management, there is a need to distinguish between process, content and context. Process is the method by which the strategies are derived; content is the strategic decisions then made; context is the environment within which the organisation operates and develops its strategies. Process is usually the area that causes the most problems because it is difficult to measure precisely and because it is crucial to strategy development.
- There has been a fundamental disagreement between some strategists regarding how strategic management can be developed. There are two basic routes: the *prescriptive approach* and the *emergent approach*. The prescriptive approach takes the view that the three core areas are linked together sequentially; the emergent approach regards the three core areas as being interrelated. The two approaches have some common elements in the early stages: analysis and the development of a mission for the organisation. Beyond this, they go their separate ways and lead to two different models for the strategic management process. There has been some recent acceptance that both approaches may be valuable.

QUESTIONS

1. Summarise the main Kodak strategies in Case Study 1.3. Take each element of your summary and compare it against the criteria for a successful strategy shown on the free web material for this chapter. How does each element measure up? Did Kodak have an effective strategy?
2. As a work assignment, analyse the activities of Twitter in Case 1.2. Investigate in particular how it has managed to compete against others in the market place. Compare your answer with the five key elements of strategic decisions in Section 1.2.4.
3. In commenting on strategy, Professor John Kay makes the comment that motivation of employees is not really part of strategic management. Do you agree with this? Give reasons for your views.
4. Take the three core areas of strategic management and apply them to a decision with which you have recently been involved. For example, it might be the organisation of a student activity or the purchase of a major item of equipment. Did you analyse the facts, consider the options and make a selection? Does this description over-simplify the process because, for example, it was necessary to persuade others to spend some money?
5. To what extent do you agree with Professor Mintzberg's description of strategies emerging rather than being prescribed in advance? If you agree with his description, what evidence do you have to support your view? If you disagree, then explain the basis of your rejection.
6. With the three core areas of strategic management in mind, identify how the strategy development process might vary for the following types of business: a global company such as Twitter; a public service company such as a water provider (which might also be a monopoly); a non-profit organisation such as a student union or society.
7. If strategic management is so uncertain and has such a strong element of judgement, is there any point in its formal analysis? What arguments does the chapter use to justify such a process? Using your own value judgement, do you find them convincing?

FURTHER READING

John Kay's book *Foundations of Corporate Success* (Oxford University Press, 1993) remains an excellent introduction to the nature of strategic management; read the early chapters. In addition, the well-known book of readings and cases by Henry Mintzberg and James Brian Quinn, *The Strategy Process* (Prentice Hall, 1996), has a useful selection of material on the nature of strategic management; read Chapter 1 in particular: it is currently out of print but will be available in libraries. The article by Mintzberg on 'Crafting strategy' in the *Harvard Business Review* (July–August 1987, p. 65) is also strongly recommended.

For the counter-argument to Mintzberg, a useful paper is: Miller, C C and Ireland, R D (2005) 'Intuition in strategic decision making: Friend or foe in the fast-paced 21st century', *Academy of Management Executive*, Vol 19, pp 19–30, which argues that intuition is troublesome in strategy.

See also Henry Mintzberg and Frances Westley (2001) 'Decision-making: It's not what you think', *Sloan Management Review*, MIT. Another interesting paper: Ireland, R D, Hitt, M A, Camp, S M and Sexton, D L (2001) 'Integrating entrepreneurship and strategic management actions to create firm wealth', *Academy of Management Executive*, Vol 15, No 1, pp 49–63.

For an excellent view on strategy definitions, see: Nag, R, Hambrick, D C and Chen, M-J (2007) 'What is strategic management really? Inductive derivation of a consensus definition of the field', *Strategic Management Journal*, Vol 28, pp 935–955.

For a thought-provoking and challenging review of recent strategic thinking, see Durand, R, Grant, R M and Madsen, T L (January 2017) 'Special Issue: Reviews of strategic management research', *Strategic Management Journal*, Vol 38, No 1.

For a more general but interesting view of theory development, see the special issue of *The Academy of Management Review*, Vol 36, No 2, April 2011: *Special topic forum on Theory Development: Where are the New Theories of Organization?* Some thoughtful papers that take a broader look at organisations but are relevant to future directions in strategic management are presented.

NOTES AND REFERENCES

1 Sources for Wizz Air case: Wizz Air Annual Report and Accounts 2020. Passenger numbers for other airlines from the company report and accounts of those airlines.

2 Adapted from Andrews, K (1987) *The Concept of Corporate Strategy*, Irwin, Homewood, IL, Ch 2.

3 Ansoff, I (1969) *Corporate Strategy*, Penguin, Harmondsworth, Ch 1.

4 Drucker, P (1961) *The Practice of Management*, Mercury, London, Ch 6.

5 Leadership is sometimes ignored as part of the topic of strategy but is actually extremely important. For example, where would Microsoft be without Bill Gates? It might be argued that 'strategy' should stand separately from 'leadership', but this is like trying to separate an orange from its juice.

6 Andrews, K (1971) *The Concept of Corporate Strategy*, Irwin, Homewood, IL, p 28.

7 Kay, J (1993) *Foundations of Corporate Success*, Oxford University Press, Oxford, p 4.

8 Further definitions are discussed in Quinn, J B (1980) *Strategies for Change: Logical Incrementalism*, Irwin, Homewood, IL, Ch 1.

9 Campbell, A, Goold, M and Alexander, M (1995) 'Corporate strategy: The quest for parenting advantage', *Harvard Business Review*, March–April, pp 120–132.

10 Porter, M E (1985) *Competitive Advantage*, The Free Press, Harvard, MA. Barney, J. (1991) 'Firm resources and sustained competitive advantage', *Journal of Management*, 17(1), 99–120.

11 See, for example, Quinn, J B (1980) Op. cit.

12 He argues that strategic decisions are those that determine the overall direction of an enterprise and its ultimate viability in the light of the predictable, the unpredictable and the unknowable changes that may occur in its most important environments. Quinn, J B (1980) Op. cit.

13 Nag, R, Hambrick, D C and Chen, M-J (2007) 'What is strategic management really? Inductive derivation of a consensus definition of the field', *Strategic Management Journal*, Vol 28, pp 935–955.

14 Ibid., p 944.

15 Quoted in Teece, D J (2007) 'Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance', *Strategic Management Journal*, Vol 28, p 1320.

16 Kay, J (1993) Op. cit., Ch 1.

17 Ohmae, K (1982) *The Mind of the Strategist*, Penguin, Harmondsworth, p 36.

18 Mintzberg, H (1987) 'Crafting strategy', *Harvard Business Review*, July–August, p 65.

19 Harney, A (2002) 'Microsoft fired up for console wars', *Financial Times*, 7 February 2002, p 28.

20 References for the Twitter case: Annual Report and Accounts for Twitter 2016. *Financial Times*: 24 September 2016, 'Twitter explores a sale with Google and Salesforce', James

Fontanella-Khan, Hannah Kuchler and Richard Waters; 23 September 2016, 'Instagram has doubled advertisers in six months', Hannah Kuchler; 2 November 2016, 'Instagram has doubled advertisers in six months', Hannah Kuchler; *BBC News Website*: 12 June 2015, 'Why did Twitter boss Dick Costolo stand down?', Dave Lee, Technology reporter, BBC News, – includes quotes from Chris Sacca used in the case.

21 For example, Gilmore, F F and Brandenburg, R G (1962) 'Anatomy of corporate planning', *Harvard Business Review*, Vol 40, November–December, p 61.

22 For example, the IBM Annual Report and Accounts for 1993 took a firm and inflexible view on what was required to recover from its major losses. It was only the arrival of a new chief executive that revised this picture in a more experimental way.

23 Partly adapted from Quinn, J B (1991) *Strategies for Change*, Ch 1, and Mintzberg, H and Quinn, J B (1991) *The Strategy Process*, Prentice Hall, Upper Saddle River, NJ.

24 See, for example, Pettigrew, A and Whipp, R (1991) *Managing Change for Competitive Success*, Blackwell, Oxford. See also Mintzberg, H (1987) Op. cit.

25 Jauch, L R and Glueck, W (1988) *Business Policy and Strategic Management*, McGraw-Hill, New York.

26 Argenti, J (1965) *Corporate Planning*, Allen and Unwin, London.

27 Mintzberg, H (1987) Op. cit.

28 Cyert, R M and March, J (1963) *A Behavioural Theory of the Firm*, Prentice Hall, Upper Saddle River, NJ.

29 Mintzberg, H (1987) Op. cit.

30 This analogy was inspired by Professor Mintzberg's brief comment in his article: Mintzberg, H (1994) 'The fall and rise of strategic planning', *Harvard Business Review*, January–February, p 114.

31 See, for example, Thompson, A A and Strickland, A J (1993) *Strategic Management: Concepts and Cases*, 7th edn, Irwin, Homewood, IL.

32 References for the Kodak case: Annual Report and Accounts for Kodak 1997, 2000, 2005, 2010, 2011, 2013. Annual Report and Accounts for Canon Inc (in English) for the years 2002, 2004, 2009, 2013. *Financial Times*: 3 April 2012, p 12; 4 April 2012, p 14. Both are well-researched articles by Andrew Hill.