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978-1-107-03136-4 - Short Introduction to Strategic Management
Torben Juul Andersen
Excerpt
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1 The strategy concept

Learning points

- Discuss diverse strategy perspectives
- Trace the roots of strategic management
- Outline the analytical foundation of the field
- Provide a basis for further studies

Strategy is important. The term *strategy* or *strategic* is used every so often to give things a more imposing flair. Just think about terms such as strategic marketing, strategic operations, strategic human resource management, strategic finance, etc. So, something being "strategic" is supposed to indicate that this thing is more important than every other thing. How this came about is possibly worth a thought. After all, the academic field now commonly referred to as *strategic management* started out as something as mundane as "business policy."

If we ask a group of intelligent people with managerial experience, say a class of MBA students, what their understanding of the term "strategy" is, a substantial portion of them will most likely answer: a plan. While this implies that strategy arises from conscious human deliberation, and that strategy makers think before they act, there are many other ways to interpret how strategy comes about. A reference from a prominent dictionary explains that strategy is "the art of planning operations in war, especially of the movement of armies and navies into favorable positions for fighting." By comparison, a tactic is an "expedient; means of achieving an object".[1] A comparable source notes that strategy is "the art of planning and moving forces, etc. especially in war, politics, etc."[2] Or, strategy is "the science or art of military command as applied to the overall planning and conduct of large-scale combat operations" where a tactic is "an expedient for a goal; a maneuver."[3] The dictionary may also explain that strategy derives from the Greek word *stratēgia*, office of a general, and *stratēgos*, general. In other words, strategy is something that takes place around the highest management echelons, anchored at the general's office and administrative staff, and deals with the ability to move entire armies around for (hopefully) victorious outcomes and (positive) long-lasting effects.

Claus von Clausewitz refers to war as "an act of violence intended to compel our opponent" where "the compulsory submission of the enemy to our will is the ultimate object."[4] This is very much seen from the commander's perspective where military genius and leadership skills support the men under command and help them accommodate unruly battle conditions. He distinguishes between *strategy* as "the use of combats for the object of the war" and *tactics*, which refers to "the use of military forces in combat." Hence, the commander develops the *strategic plan* that settles "when, where, and with what forces a battle is to be delivered." The forces should be disciplined and maintain "a certain strength of body and mind" but otherwise ordinary soldiers are not seen to play any strategic roles in battle. The commander motivates and scales efforts for the battle as "the sum of available means and the strength of the will" are assessed in view of the enemy's position. Similarly, the ancient Chinese warrior philosopher Master Sun argues that the one who uncovers many favorable strategic factors at headquarters before battle will win. Or, as expressed by the classical Taoist *Book of Changes*: "Leaders plan … consider problems, and prevent them."[5] From this summary discussion, we may discern the contours (and origins) of a strategic planning perspective that to a large extent prevails under the present-day conditions. Hence, we can trace the war-like aspirations to outmaneuver and displace market opponents in contemporary competitive analysis.

Strategy interpreted from the commander's perspective considers the effect of military genius where alert commanders in instantaneous decisiveness can change the course of events. The implied importance ascribed to individual managerial intervention and entrepreneurial initiative is also reflected in the earlier economic literature. Frank Knight ascribes the ability of entrepreneurs to deal with the uncertainty of future business activities as the underlying reason for residual income, or profit, consisting of excess rents obtained over the market price paid for different production inputs. As he explains: "When … the managerial function comes to require the exercise of judgment involving *liability to error* … the nature of the function is revolutionized; the manager becomes an entrepreneur."[6] And he argues: "His income will normally contain in addition to wages a pure *differential* element designated as 'profit' by the economic theorist."

The importance of individual entrepreneurs to industrial development is echoed by Joseph Schumpeter, a pre-eminent economist in the first half of the twentieth century, who saw economic growth as deriving from innovation and entrepreneurial activities. He explained how industries and organizations continue to change and to challenge stability with profits falling to those who instigate change and build new rewarding businesses. In his own words: "They have … employed existing means of production differently, more appropriately, more advantageously. They have *carried out new combinations*. They are entrepreneurs."[7] In short, the importance of entrepreneurial spirit in corporate leadership has been recognized for quite some time.

The strategy perspective of the supreme commander, or the chief executive in the corporate jargon, continues to permeate the strategy view. The corporate historian Alfred Chandler, who is considered one of the initial founders of corporate strategy, reinforced such a rationalistic top-down logic.[8] He defined strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."[9] He distinguished between *formulation*, where top management deliberates and outlines the strategy, and *implementation*, where lower-level managers engage to carry out the strategy. This distinction between initial executive strategic considerations and subsequent execution by managers throughout the organization remains a feature of the strategy models depicted in most strategy textbooks today. In his studies, Chandler described how large corporate conglomerates evolved in the US economy during the late nineteenth and early twentieth centuries and noted that the strategic decisions seemed to determine how corporate structures were established to achieve the expected economic payoffs. This observation laid the foundation for the so-called SSP dictum stating that organizations develop strategy before they make structural adjustments to accommodate the strategy, and that the adopted organizational structure subsequently affects performance outcomes. That is, Strategy–Structure–Performance (SSP), and in that order.

Igor Ansoff was a contemporary scholar and another pioneer in early conceptualizations of corporate strategy making and is often considered the “father” of strategic planning. Somewhat inspired by decision theory, he made normative descriptions of the strategy process as it ought to be carried out in large organizations. Ansoff’s depiction of strategy was ascribed to “decision rules and guidelines, which guide the process of development of an organization” and he argued that “strategy is one of several sets of decision-making rules for guidance of organizational behavior.”[10] Accordingly, he outlined a formal *strategic decision-making process* with sequential steps of objective setting, using gap identification between current and intended firm positions, while assessing alternative solutions to reduce identified *gaps*. He proposed a *cascading approach* whereby preliminary decisions deal with overarching issues, such as corporate purpose, and then decide on business, product, and customer choices before specifying organizational structure, systems, processes, etc. This logical sequence of increasingly detailed analytical steps also implies that the firm eventually specifies functional strategies, e.g., in marketing, operations, finance, etc. Ansoff shaped the idea to assess future growth opportunities along dimensions of geography, market needs, and product/service technologies. He also subtly pointed out that everyday operational problems attract management attention automatically whereas strategic issues remain in the background and thus need conscious effort to attract high-level attention. Hence, strategic focus and initiative is something that must be assumed by (top) management itself, and gaining this is crucial unless the firm wants to be mindlessly driven by events that happen in the surrounding business environment.

The view of strategy as something that derives from the executive echelons is contrasted in Chester Barnard’s earlier discussion of the executive role.[11] He defined a *formal organization* as “a system of consciously coordinated activities or forces of two or more persons” and noted that the “willingness of persons to contribute efforts to the cooperative system is indispensable." So, people matter for the way business is carried out in the organization and those people need an acceptable purpose to motivate collaboration and individual contributions. The *informal organization* formed by personal contacts and their operating interactions was deemed equally important for the creation of supportive social norms. That is, authority can be gained only when the internal communication is consistent with an overarching acceptable corporate purpose. This in turn makes strategy making a function of the *morality* in executive governance. Philip Selznick backed this view when he argued: "The setting of institutional *goals* cannot be divorced from the enunciation of governing *principles*. Goal-setting, if it is institutionally meaningful, is framed in the language of character or identity, that is, it tells us what we should 'do' in order to become what we want to 'be'."[12] In short, mission, purpose, and values constitute cornerstones of effective strategy-making processes.

Business policy

The era of *business policy* developed during the 1950s and 1960s from essential management courses that confronted students in business administration with managerial issues involving the entire organization. The business policy classes required students to apply insights from different fields of study, including decision making, organizational behavior, accounting, marketing, operations, corporate finance, etc., in dealing with overarching organizational challenges and complex business problems. This required inclusion of insights from different topical fields across essential functional areas handled in different parts of the firm, often supported by case studies developed for teaching purposes to consider different competencies and concerns, including human resource management and general leadership challenges.[13]

In the words of Kenneth Andrews: "Business policy is the study of the functions and responsibilities of the senior management in a company, the crucial problems that affect the success of the total enterprise, and the decisions that determine its direction, shape its future, and produce the results desired."[14]

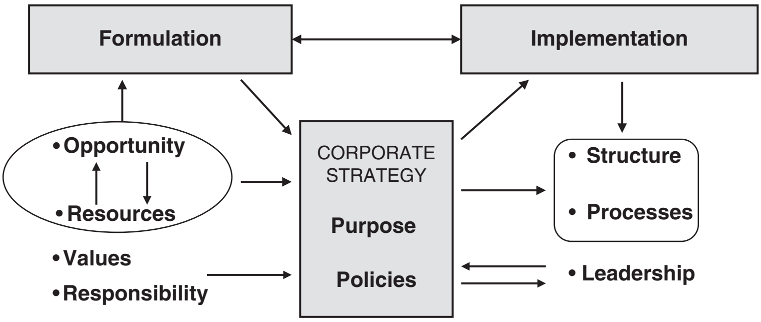

Figure 1.1 Andrews' corporate strategy model. Source: adapted from Andrews (1971/1987)

This implies that it is a primary task for top management to impose coordinated policies that tie the organization together for successful business outcomes and high performance. Hence, Andrews argued: "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals." Here we can trace the relationship to corporate decisions noted by Ansoff as well as the role of purpose emphasized by Barnard. Andrews placed these decisions within a more structured model of corporate strategy making that is quite consistent with the SSP dictum introduced by Chandler. He clearly distinguished between *formulation* as a distinct activity deciding what to do and *implementation* where the decisions subsequently are carried out through concrete actions (Figure 1.1). Strategic alternatives to be decided upon are determined through identification of opportunities and risks in the business environment held against available competences and resources assessed by strengths and weaknesses. This constitutes the precursor to the well-known SWOT analysis. The adaptation of organization structure and internal processes then follows from the execution of strategic decisions as proposed by Chandler. Andrews' original model recognized the importance of personal values and social responsibility and he reasoned: "It is increasingly clear that government regulation is not a good substitute for knowledgeable self-restraint."

The business policy teaching at the Harvard Business School was leading the way at the time and offered one of the dominant textbooks by Learned *et al*.[15] They defined strategy as "the pattern of objectives, purposes, or goals and major policies and plans for achieving these 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 be."[16] This view of strategy recognized the importance of organizational purpose while emphasizing the conscious development of corporate policies and plans as the means by which to achieve the overarching strategic aims.

Strategic management

By the end of the 1970s two established business policy scholars, Dan Schendel and Charles Hofer, argued that the field needed a new paradigm to advance research and practice in an increasingly dynamic business environment.[17] The business policy perspective was too limiting and they argued: "It is good strategy that ensures the formation, renewal, and survival of the total enterprise." To deal with this, they organized a conference with leading policy scholars at the time to outline the contours of a new field of study they called s*trategic management*.[18] The proposed paradigm defined strategic management as "a process that deals with the entrepreneurial work of the organization, with organizational renewal and growth, and more particularly, with developing and utilizing the strategy which is to guide the organization's operations." This paradigm set out a sequential structure of tasks in the strategic management process: goal formation, environmental analysis, strategy formulation, strategy evaluation, strategy implementation, and strategic control (Figure 1.2).

Their main argument for the formal strategic management process was that businesses were facing major environmental changes and therefore needed a more structured approach to better deal with the potential effects of change. As they noted: "Enormous, almost calamitous change has taken place in the rate at which technological, social, political, and economic events occur." So, dynamic changes in surrounding market conditions and higher interdependencies in environmental relations combined with increasingly complex organizational contexts would call for

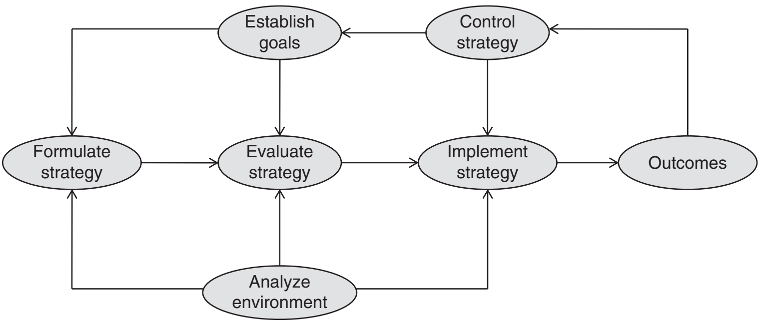

Figure 1.2 A model of the strategic management process. Source: adapted from Schendel and Hofer (1979)

more stringent environmental analysis as a necessary prerequisite to identify alternative strategic choices. Schendel and Hofer observed a need to consciously consider all those environmental factors that are beyond corporate control. In other words, the initial model had more of an external than internal emphasis even though strategy implementation was considered paramount for eventual success.

The areas of social responsibility and governance as well as strategic control were consciously toned down at the conference due to time constraints where only the more central elements of the strategic management process could be accommodated. It is interesting to note that these aspects of the strategic management model have remained relatively subdued areas of research in the strategy field. Different approaches to strategic control have frequently been addressed by scholars in management accounting whereas corporate governance and corporate social responsibility (CSR) gradually have evolved into rather specialized academic disciplines in their own right. However, the corporate strategy model promoted by Andrews (1987) already had a strong focus on purpose, ethics, and responsibility as central areas of concern. He argued: “The presidential functions involved include establishing or presiding over the goal-setting and resource-allocation processes of the company, making or ratifying choices among strategic alternatives, and clarifying and defending the goals of the company against external attack or internal erosion.” Similarly, the rational analytical model of the strategic management process outlined by Schendel and Hofer emphasized the importance of strategic control as a way to monitor and assess strategy development in a dynamic business environment. So, while these areas may have received relatively limited attention as the scholarly strategy field evolved, they constitute central elements of the overarching strategy framework.

Another outcome from the discussions at the strategy conference was to identify a clearer distinction between different levels of strategy that remains in use among many scholars today. This strategy framework distinguishes between four strategy levels: enterprise strategy dealing with the overarching role of business in society, corporate strategy dealing with the issue of what business activities the firm should engage in, business strategy dealing with questions about how to compete in a given product market, and functional strategies dealing with the specific strategic requirements imposed on different functional entities (Figure 1.3).

The systematic approach to the strategy-making process formed the basis for a generic strategic management model that continues to be taught in business schools around the world (Figure 1.4). Look to any MBA curriculum in strategic management and you will find this model as a core element of the course that figures prominently in all major strategy textbooks in some version or the other. That is, we typically teach strategy making as deriving from a systematic, orderly process where we first set ambitions and goals, then determine the best strategic position for the firm to achieve these objectives based on rational analytical efforts, stake out and plan the actions required to realize the aims, and then monitor outcomes and adjust actions as required to stay on course. The general perception is that the formal process will integrate all aspects of forthcoming decisions aimed to achieve the overarching goals, i.e., “strategy is a timed sequence of internally consistent and conditional resource allocation decisions that are designed to fulfill an organization’s objectives.” The process is seen as a way to coordinate future organizational activities and optimize the ability to achieve desired outcomes. Hence, “a strategic planning system (SPS) is a set of interrelated organizational task definitions and procedures for seeing that pertinent information is obtained, forecasts are made, and strategy

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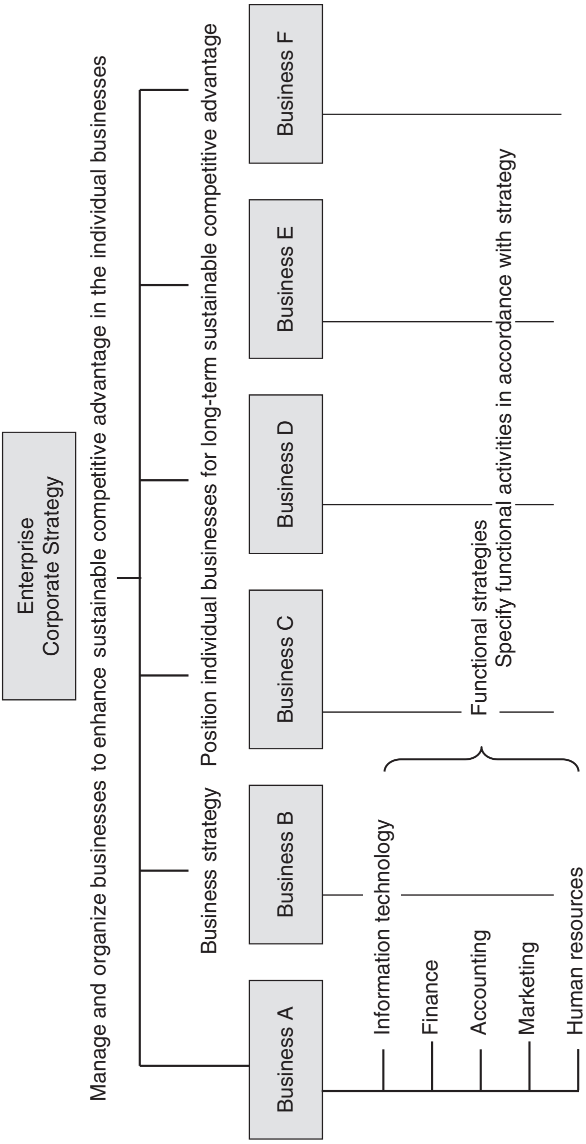

Figure 1.3 Different levels of strategy

