

1 Strategic management and strategic decisions

Introduction

This session introduces you to the subject of strategic management, defines much of the jargon employed in the area, briefly outlines the basic model of strategic management and explores its relevance to public services. In essence, this session provides an outline for the entire subject and the background for the detail in the forthcoming study sessions.

It is surprising that although strategic management has been a core area of business studies for many years, its applicability to public services has received scant coverage. This session introduces the complexities of public services and begins the process of appraising the applicability of private sector theory, which will be a running theme throughout this module.

Prior knowledge

There is no prior knowledge required for this session beyond a broad understanding of the implications of working in public services.

Study time

The session should take approximately 10 hours to complete, excluding time spent on attempting questions in the question bank, with each learning objective taking between 1 and 2 hours. You are advised to take breaks between each learning objective to both rest and reflect on your learning.

Learning objectives

After studying this session you should be able to:

- 1.1 Describe strategy and strategic decision making (page 1)
- 1.2 Discuss the importance of strategic management (page 2)
- 1.3 Understand the vocabulary of strategic management (page 3)
- 1.4 Explain the elements of the strategic management model (page 4)
- 1.5 Discuss the applicability of strategic management to public services (page 4)
- 1.6 Explain the different levels of strategy (page 5)

1.1 Strategy and strategic decision making

Strategy is a term that is often misused, and it is important that before the management of strategy is considered, you understand what strategy is and what strategic decisions are. This topic is covered in Johnson and Scholes (2002) and you should now read from the beginning of Chapter 1 on page 9 to the end of Section 1.1.1 on page 16.

The AOL/Time Warner mini-case included in Illustration 1.1 page 12 is a useful reference point for considering strategy, so take the time to consider it and answer questions 1 and 3 at the end. Many of the issues faced by AOL/Time Warner are mirrored in the public services, including cultural difference in organisations and the impact of technology.

Learning activity 1.1a

You should now consider your own organisation or one with which you are familiar. Identify some recent decisions taken by the organisation, for example outsourcing, restructuring and new IT systems. You will find it useful to refer to the organisation's plans or annual reports.

See page 6 for feedback on this activity.

Learning activity 1.1b

From the list of recent decisions you identified in learning activity 1.1a, reflect on your learning to date and determine whether you would consider each decision to be strategic. To aid your analysis, use the list of characteristics of strategic decisions described in Johnson and Scholes (2002) Section 1.1.1 page 10 to page 15.

See page 6 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 1.1.

Self assessment question 1.1

1. List five characteristics of a strategic decision.
2. Which of the following are true and which are false?
 - (a) Stretch is the leverage of resources and competences to provide competitive advantage.
 - (b) Strategic decisions are often complex and uncertain.

- (c) Fit is the development of strategy to meet the expectations of stakeholders.
- (d) Few organisations make strategic decisions.

See page 6 for feedback on this question.

You should now be able to describe strategy and the characteristics of strategic decision making.

1.2 The importance of strategic management and strategic decision making

Strategic decision making tends to be the preserve of the most senior in management, and outside of that circle it is often difficult to perceive either the importance or relevance of strategic management. This is especially true where the environment is fast changing, with new legislation regularly introduced. However, in reality the importance of strategic management is critical to the long-term success of an organisation.

In reading a quality newspaper each day, you will be aware of major successes and failures in private organisations which are a direct result of strategic decisions having been made. What is most striking about these organisations is that where strategic decisions have been successful, the result is improved profit, growth and/or market share. Where the organisation has made poor strategic decisions, the result can be catastrophic, with previously successful organisations losing their share value, often their independence, and large portions of their workforce.

Examples include United Biscuits, which in 1991 had sales of over £3 billion and profits in excess of £211.3 million. A strategy of increasing margins through increasing sales price and reducing marketing, and global expansion through purchasing businesses in Asia and ignoring competitor action, specifically Frito Lay and PepsiCo, saw United Biscuits' sales plummet to £1.7 billion and profits fall to just £110.1 million in 1998.

Similarly Marconi, which was one of the oldest defence companies, providing defence communications systems, saw a dramatic change of fortune. The board took a strategic decision in the early 1990s to concentrate on the lucrative communications market and sell off the less profitable defence business to an Italian company. This resulted in many short-term gains, with share value increasing to over £12 per share. However, in the late 1990s the communications bubble burst, Marconi's business shrank and its share price fell to a low of approximately one penny. The collapse resulted in large layoffs in the workforce and the removal of the board. In contrast, defence spending has grown considerably in the post-September 11th world, and the Italian company that purchased Marconi's defence arm is turning in excellent profits.

Another example is Yahoo, which decided to shift from obtaining the majority of its income (80%) from advertising to charging users directly for personalised services like audio subscriptions and web pages. The new strategy drove down the share price from a high of \$88.75 in late 2000 to a low of \$9.90 in late 2001.

Yahoo laid off approximately 1,000 employees in 2001, nearly 20% of its workforce.

It is worth following other organisations' strategies in the press. For example Ryanair, the low-cost airline, has seen colossal growth in recent years and HSBC bank, which lodged record annual profits in 2003 totalling over £7.7 billion, is also worth following for its global strategy.

It is clear that strategic decisions have a major impact on an organisation's success or failure. Unlike with operational and tactical decisions, the effects of which sometimes provide immediate feedback on whether the outcome is successful or not, the likely result of strategic decisions may not be evident for many years but could, when felt, result in the failure of the entire business.

The relevance of strategic decision making to public services will be explored in learning objective 1.5 page 4, but in the meantime complete learning activity 1.2.

Learning activity 1.2

It is often difficult to apply strategic theory to an organisation when you are caught up in the daily operational issues, and it is sometimes easy to assume that 'strategy is something that happens elsewhere'. Indeed, seeing the results of some form of corporate strategy can be difficult in some public service organisations, especially at times of great change. Hence, in this learning activity you should promote yourself to the position of CEO and outline some alternative ways to manage your organisation without formally managing strategy, and consider the advantages and disadvantages associated with these methods. When thinking through this activity, remember the definition of strategy.

See page 6 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 1.2.

Self assessment question 1.2

1. How do strategic decisions differ from operational decisions regarding feedback to the decision maker?
2. Identify alternative ways of approaching organisational strategy.

See page 7 for feedback on this question.

You should now have an appreciation of the importance of strategic management and strategic decision making for an organisation.

1.3 The vocabulary of strategy

A problem with studying strategy and strategic management is the amount of jargon used by both academics and practitioners. While exploring strategy in textbooks and applying it to your organisation, you are likely to come across the same term used with a range of different meanings, so it is appropriate that standard definitions of terms be used consistently throughout this module. For the sake of simplicity, the vocabulary as defined in Johnson and Scholes (2002) will be used for the remainder of the module.

Turn back to Johnson and Scholes (2002) and read through Section 1.1.3 page 18 to page 21. Give some thought to Illustration 1.2 page 20 on British Airways.

Learning activity 1.3a

Your organisation may already use many of the terms outlined in Johnson and Scholes (2002), and you may know your organisation's mission statement. It is also possible that your organisation does not use any of these terms, and so they may be new to you. Either way, it would be useful to apply the terms defined in Johnson and Scholes (2002) Exhibit 1.2. page 19 to your organisation.

For the purpose of this learning activity, promote yourself again to CEO, give yourself the power of councillors or executives, and:

- write down a prospective mission and vision
- write down some goals and objectives
- list your core competences
- outline your strategies, strategic architecture and methods of strategic control.

Try to be objective and honest about your organisation, as this learning activity will relate the theory to your workplace.

See page 7 for feedback on this activity.

Learning activity 1.3b

Access the Internet and search for the websites of major public service organisations. Techniques for finding public service sites and a section on useful sites are included in the Strategic Business Management assessment guide. When you have found relevant websites, try to identify each organisation's mission, vision, goals and strategies. Compare these with those of your own organisation and of British Airways, and reflect on the variations you find.

See page 7 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 1.3.

Self assessment question 1.3

1. What is the difference between a mission and a vision?
2. Identify a strategic term which could fit the following:
 - (a) Achieve a 5% efficiency saving by April of next year.
 - (b) Experienced staff and good reputation.
 - (c) Monitor costs and quality.
3. True or false?
 - (a) All organisations use the same jargon for describing elements of strategy.
 - (b) Strategies are a general statement of aim or purpose.

See page 7 for feedback on this question.

You should now be comfortable with some of the vocabulary used in the study of strategic management.

1.4 The strategic management model

Now that you have an understanding of strategy, its importance and the vocabulary used to discuss it, you can progress to consider a model by which strategy can be managed.

Return to Johnson and Scholes (2002) and read from Section 1.2 page 21 through to the end of Section 1.3 page 30.

Section 1.3 raises many interesting points, and introduces three different views on the strategic management process that could inform certain management behaviours and organisational cultures. It is of particular note that strategic management is not always a linear set of steps which leads to a predicted result. Don't spend too long rereading this section, for the issues are complex and not covered in depth at this point. This theme is developed and explored in further detail in study session 2 page 59.

Learning activity 1.4a

In our own lives we often apply strategic management principles to managing our personal development. In this learning activity you will take some time to consider your career choice in terms of the strategic management model.

Lay out your career decision in terms of the strategic management model: what was your strategic position, what were your strategic choices and how did you turn your strategy into action?

See page 7 for feedback on this activity.

Learning activity 1.4b

Turn back to Johnson and Scholes (2002) and read Illustration 1.3 page 31. Answer the question at the end, and reflect on the lenses of design, experience and ideas in your personal decision making.

See page 7 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 1.4.

Self assessment question 1.4

1. Identify the three elements of strategic management.
2. What is meant by 'the strategic position'?
3. According to which view is:
 - (a) strategy a logical process
 - (b) strategy based on adaptation of past strategies.

See page 8 for feedback on this question.

You should now have an understanding of the strategic management model and different views on where strategy comes from.

1.5 Strategic management in public services

This learning objective is designed to indicate how strategic management applies to the public services. It also highlights the elements of the strategic model which are of most importance to this type of organisation. Start off by reading about strategic management in different contexts in Johnson and Scholes (2002) from Section 1.4 page 30 through to the end of Section 1.4.7 page 38.

Now focus specifically on the implications of 'publicness' for strategic management by reading Johnson and Scholes (2001) Chapter 1 from page 43 through to the end of the Conclusion on page 55. Do not spend too long on the 'process' theories which will be reviewed in detail in study session 2 page 59.

Learning activity 1.5a

Consider your own organisation and identify how 'public' it is. Consider the main themes in your

reading regarding 'public value'. For your organisation, broadly identify:

- the principal outcomes
- the cast of actors
- diversity of resources (public power)
- diversity of capabilities.

See page 8 for feedback on this activity.

Learning activity 1.5b

Reflect on the impact of your findings in learning activity 1.5a on the strategic management process – thinking through the content theories. How does 'publicness' impact on responsibilities, powers and resources? Finally, taking this into account, does the concept of strategic management remain valid when applied to public services?

See page 8 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 1.5.

Self assessment question 1.5

1. Define the meaning of VFM, and differentiate between the 3 Es.
2. Achieving competitive advantage through adding value is a key strategic area for service organisations. What is likely to be a key area for public service organisations?
3. Which of the following definitions is appropriate for competitive advantage?
 - (a) Winning at all costs.

- (b) Getting a head start by any means at your disposal.
 - (c) Adding more value for customers than your rivals do.
4. From your reading in this section, list three ways in which public sector management differs from private sector management.

See page 8 for feedback on this question.

You should now be aware that strategic management is important to public services, but that the 'publicness' of each organisation needs to be taken into account.

1.6 Levels of strategy

Strategic decision making is complex and uncertain, especially in large organisations. This raises the question of how managers in large and diverse organisations can possibly strategically manage their organisations in any practical sense. Turn back to Johnson and Scholes (2002) and read Section 1.1.2 page 16 to page 18.

If you feel as though you have mastered this learning objective, try self assessment question 1.6.

Learning activity 1.6

Consider your own organisation and outline how levels of strategy could be set. You should identify possible strategic business units (SBUs), reflecting on who their market could be.

See page 8 for feedback on this activity.

Self assessment question 1.6

1. Which of the following is not a level of strategy?
 - (a) corporate
 - (b) operational
 - (c) tactical
2. What is an SBU?

See page 8 for feedback on this question.

Suggested further reading

No further reading is necessary for the examination, but for further details there is a list of recommended key readings in Johnson and Scholes (2002) page 39, of which the work of Mintzberg et al. (1998) is particularly relevant.

Summary

This session introduced the concepts of strategy, strategic decision making and the vocabulary of strategy. We explored the importance and relevance of strategic management to public services and outlined the formal strategic management model. Finally, we reviewed the issue of how strategy can be managed across large organisations.

Now that you have completed this session you should be able to:

- Describe strategy and define a strategic decision.
- Discuss the importance of strategic management.
- Understand the vocabulary of strategy.
- Outline the strategic management process.
- Discuss the application of strategy to the public sector.
- Explain levels of strategy.

Examination practice

If you are confident you have achieved the learning objectives for this session, you should turn to the question bank. Note from the key to questions in the assessment guide and question bank page xviii that many questions cover a range of learning objectives, so only attempt a question when you have studied all the relevant study sessions.

Feedback on learning activity 1.1a

The decisions you identified will differ depending on your organisation, but they may include:

- capital investments
- staff restructuring
- IT investment, including the use of e-commerce
- private finance initiative (PFI) agreements
- service reviews
- new general ledger package.

The content of your list should include the major organisational decisions over recent years, so you may wish to discuss your findings with others in your organisation. Alternatively, compare your list to the annual report or plan.

Feedback on learning activity 1.1b

You should consider each of the decisions on your list against the criteria outlined in the text: long-term direction, achieving advantage, the scope of an organisation's activities, matching of activities to the environment, major resource changes, affecting operational decisions and affected by values and expectations. You could set this out as a table, which could look something like the example shown in table 1.1.

Table 1.1 Characteristics of decisions

Criteria	PFI new build	New general ledger	IT outsource	Restructure
Long-term direction	Yes	No	Yes	Yes
Achieving advantage	Yes	Yes	Yes	Yes
Scope of activities	Yes	No	Yes	No
Matching activities to the environment	Yes	No	Yes	Yes
Results in major resource changes	Yes	Yes	Yes	No
Affects operational decisions	Yes	Yes	Yes	Yes
Affected by values and expectations	Yes	No	Yes	Yes

From your assessment, you should now reflect on the extent to which the decisions you identified are strategic. As you will have noticed in the example in table 1.1, some decisions are clearly strategic, meeting all criteria, while several meet some of the criteria. This gives some indication of the complexity of studying strategy – many areas are debatable! For the decisions assessed in our example, the extent to which they are strategic will depend on the level of the organisation we are considering, an issue that will be picked up in learning objective 1.6 page 5.

Feedback on self assessment question 1.1

1. A strategic decision is concerned with long-term direction, achieving advantage, the scope of an organisation's activities, matching of

activities to the environment and involving major resource changes.

2. True or false?
 - (a) True.
 - (b) True.
 - (c) False – fit is developing strategy by identifying opportunities in the environment and adapting resources and competences to take advantage of them.
 - (d) False – all organisations, regardless of size, make strategic decisions in some form.

Feedback on learning activity 1.2

This is a challenging activity, and you may have found it difficult to complete. In attempting to identify alternative ways of managing an organisation, other than by applying strategic management to formulate corporate strategy, you may have identified one of the following.

One approach would be for the organisation not to adapt in response to changes in its environment. After all, it is often said that whatever goes around comes around, and everything comes back into fashion if you wait long enough. Using this management method would have the advantages of using very little resource on management and everyone knowing what they were doing. The disadvantages, however, would be that customers would soon stop using your organisation's goods or services or would switch to an alternative supplier, as you would not be meeting their needs. Can you think of a single organisation that has not changed at all as its environment has changed? Even the MCC, long regarded by many as archaic in its regulation of British cricket, has changed recently! This approach could be named 'dinosaur': not reacting to changes to the environment could ultimately lead to extinction.

An alternative approach could be one where the organisation reacts to its environment when it is forced to change either through legislation or market forces. It has been argued that this 'freewheeling approach' is common in many organisations, and has the advantages of some stability and minimal resources used on strategic management. However, there are disadvantages in that change happens quickly and with little preparation, resulting in potential for huge upheaval and confusion. If you are reactive then you are forced to change in relation to initiatives from other organisations; in the public sector field this means you have no say in consultation documents or policy generation. If you don't enter the debate on policy change, then you must accept the changes forced upon you.

There are numerous combinations of these approaches which you may have identified, and consideration of their advantages and disadvantages will allow you to form an opinion on the importance and relevance of strategic management to the successful management of your organisation.

Feedback on self assessment question 1.2

1. Feedback on strategic decisions tends to be much slower, but can result in the success or failure of the organisation.
2. Alternative approaches to organisational strategy are freewheeling and dinosaur.

Feedback on learning activity 1.3a

Depending on your organisation, your answer to this learning activity could either be taken from your organisation's strategic and business plans or be completely hypothetical. Either way, this is a useful exercise. If you have extracted the information from your organisation, then it shows that the theory is being practised. If your answer is hypothetical, then you have shown how the theory could be related to your organisation.

Compare your answer to the definitions in Johnson and Scholes (2002) Exhibit 1.2. page 19 and the examples in Illustration 1.2. page 20 and ensure that your understanding of the jargon is reasonably accurate. We will meet all of these terms and apply them to your organisation in more detail throughout the remaining study sessions, at the end of which it would be useful to undertake this learning activity again to see if your views on the organisation have changed.

Do not be too concerned if your organisation applies the terms in a slightly different way – this tends to be the nature of strategic management. What is important is that you get a feeling for the meaning of the terms.

Feedback on learning activity 1.3b

You should not have had any difficulty accessing and reviewing the missions and visions of at least five public service organisations. Ascertaining strategies is often more difficult; few organisations clarify and publicise their approaches.

In comparing, you will once again have seen a range of differences in mission statements and visions. You could argue that this is surprising given the fact that most public service organisations exist for specific purposes, laid down by legislation, so their missions should be the same. However, it is possible that the differences in missions reflect the different local priorities and organisational contexts. Could this be an argument for the relevance of strategic management in public services? Hold this thought for learning objective 1.5 page 4.

Feedback on self assessment question 1.3

1. A mission is the overriding purpose, while a vision is a desired future state.
2. Appropriate strategic terms are:
 - (a) objective
 - (b) core competences
 - (c) control

3. True or false?

- (a) False – organisations apply their own interpretation.
- (b) False – strategies set the long-term direction.

Feedback on learning activity 1.4a

Answers to this learning activity will differ, depending on personal circumstances and preferences. Compare your answer to the example provided here:

- **Strategic position.** I am good with numbers, have a keen analytical outlook, and have the ability to study and pay attention to detail. I have a direct interest in the well-being of society and a high moral code, expecting the best for all and the best use to be made of public funding. There is a shortage of public service experts. I expect to have a good standard of living, with fairly secure employment, and the high social standing that professionals attain. I need funds now to support myself and want to begin gaining experience as soon as possible.
- **Strategic choices.** I want to enter a profession which offers a good salary and some security. This would suggest the options of accountant, planner, solicitor, barrister, social worker, teacher, and so on. My analytical skills narrow the field somewhat, and my attention to detail suggests that accountancy would be best for me. I could study this through any professional body part-time in the evenings and find an employer to support me, or I could support myself through a degree/higher degree to maximise exemptions before moving to a professional body. Given the options and my need to earn money now, my need to gain experience and my focus on public services, my best option would be to gain employment with an organisation that supports part-time CIPFA studies.
- **Strategy into action.** I prepare an appropriate CV, apply for all vacancies in my area with organisations that will commit to CIPFA training and practise interview skills. Having secured a suitable position, I enrol with CIPFA.

It is unlikely that you noted all these elements on making and implementing your personal strategic decision, but thinking back, did you follow a similar process in your mind, or possibly in discussions with friends or a careers adviser? Hopefully this highlights the fact that strategic management is neither new nor difficult. In essence, all it does is formalise the way in which we take major decisions.

Feedback on learning activity 1.4b

Your response to this question will depend on both the decision you chose and the way in which you choose to make your decision. We are all different, a factor we will explore further when considering culture, and we all have our own preferences when it comes to decision-making models. In selecting a

holiday, house, computer and partner, each individual uses some mix of the three lenses. Some will prefer design to think about the criteria for the decision and weight the alternatives; others will lean towards experience to guide their choice; and others will just follow an idea.

An example related to selecting a holiday could be:

- **Design** – I selected Majorca because I wanted a short flight, good weather and a child-friendly environment.
- **Experience** – I selected Majorca because I always have a good time there and it was recommended by my friend.
- **Idea** – I selected Majorca because I've never been there and it might be different.

Thinking through the strategic model in personal terms should assist in clarifying how it can be used practically to assist complex organisations.

Feedback on self assessment question 1.4

1. The three elements of strategic management are strategic analysis, strategic choice and strategic implementation.
2. The strategic position considers the environment, resources and competences, and expectations.
3. (a) Design.
(b) Experience.

Feedback on learning activity 1.5a

Each organisation is likely to be different, but compare your answers to the following broad findings for a police force:

The principal outcomes	– The elimination of crime
The cast of actors	– The public through politicians and media
Diversity of resources (public power)	– The public, local communities, volunteers, partners in voluntary organisations and other public bodies
Diversity of capabilities	– Police powers under various Acts

Feedback on learning activity 1.5b

Content theories:

Long-term direction	– Set by politicians
Positioning	– Guided by politicians
Fit	– Is the public priority our outcome?
Stretching	– Relates to our ability to motivate the array of volunteers and public groups

In other words, public organisations need carefully to combine their public responsibilities, powers and resources when undertaking strategic management. Hence the concept of strategic management remains valid but needs to be applied in an appropriate manner, with due regard to the specific freedoms, resources and capabilities of each public sector organisation.

Feedback on self assessment question 1.5

1. VFM is achieving:
 - economy – lowest-cost inputs to achieve the purpose.
 - efficiency – maximisation of returns from inputs (doing things right)
 - effectiveness – meeting the demands of stakeholders (doing the right thing).
2. A key area for public service organisations is striving for greater efficiency from limited resources.
3. c.
4. Legal framework, remedying market failure and the promotion of equity are three ways in which public and private sector management differ.

Feedback on learning activity 1.6

Every organisation is likely to be different, but consider your findings in relation to the following example of a county council:

- **Corporate level.** Overall County Council, outlining the overall purpose and values of the organisation.
- **Business unit level.** Learning Services, Community Services, Economic Services and Support Services. These represent each of the principal user groups and so each could be treated as a separate SBU.
- **Operational level.** Technology, Human Resources and Administrative Processes. How technology is managed will have a direct impact on the higher level strategies. In essence these are the ways that resources are managed to support the SBU strategies, and hence corporate strategies.

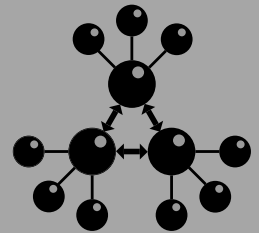
Feedback on self assessment question 1.6

1. Tactical is not a level of strategy.
2. An SBU is part of an organisation with a distinct external market for goods or services.

Reproduced from Johnson and Scholes (2002) *Exploring Corporate Strategy* 6th edition

1

Introducing Strategy

**LEARNING OUTCOMES**

After reading this chapter you should be able to:

- Describe the characteristics of strategic decisions.
- Define what is meant by strategy and strategic management.
- Explain the difference between strategy as 'fit' and 'stretch'.
- Explain how strategic priorities vary by level: corporate, business and operational.
- Understand what distinguishes strategic management from operational management.
- Explain what is meant by strategic business units (SBUs) in organisations.
- Understand the vocabulary of strategy.
- Explain the elements of the *Johnson and Scholes* strategic management model.
- Understand which elements of the strategy model are likely to be most important in different contexts.

In January 2001 the Federal Communications Commission in the USA approved a \$105 billion merger of AOL, the world's largest Internet service provider, with Time Warner - the multimedia empire. The intention to merge had been signalled by the two chief executives 12 months earlier. This was a defining moment for both companies. Business analysts hailed it as evidence that the previously separate sectors of computing, telecommunications and the world of media and entertainment were converging at a rapid rate. So it also had major implications for their competitors in each 'sector' and their customers and potential customers. Illustration 1.1 explains some of the background to the merger and the ways in which the new company intended to take advantage of the combined company.

The merger would clearly change the *direction* of the business, its justification was about developing a *long-term* position in the industry and it would have *far-ranging implications* for most parts of the business in terms of priorities and how the organisation would function. It also raised further challenges for the *future*. In short, this was a major *strategic* development.

All organisations are faced with the challenges of strategic development: some from a desire to grasp new opportunities, such as with AOL/Time Warner, others to overcome significant problems. This book deals with why changes in strategic direction take place in organisations, why they are important, how such decisions are taken, and some of the concepts that can be useful in understanding these issues. This chapter is an introduction and explanation of this theme, and deals with the questions of what is meant by 'strategy' and 'strategic management', why they are so important and what distinguishes them from other organisational challenges, tasks and decisions. In discussing these it will become clearer how the book deals with the subject area as a whole. The chapter draws on the AOL/Time Warner illustration for the purposes of discussion; and as the book progresses, other such illustrative examples are used to help develop discussion.

One other point should be made before proceeding. The term 'corporate strategy' is used here for two main reasons. First, because the book is concerned with strategy and strategic decisions in all types of organisation – small and large, commercial enterprises as well as public services – and the word 'corporate' embraces them all. Second, because, as the term is used in this book (discussed more fully in section 1.1.2), 'corporate strategy' denotes the most general level of strategy in an organisation and in this sense embraces other levels of strategy. Indeed Chapter 6, which looks at these higher-level issues, is entitled 'Corporate-level strategies'. Readers will undoubtedly come across other terms, such as 'strategic management', 'business policy' and 'organisational strategy', all of which are used to describe the same general topic.

1.1 THE NATURE OF STRATEGY AND STRATEGIC DECISIONS

Why are the issues facing AOL and Time Warner described as 'strategic'? What types of issues are strategic, and what distinguishes these from other types of issues in organisations – such as those that would be regarded as operational?

1.1.1 The characteristics of strategic decisions

The characteristics usually associated with the words 'strategy' and 'strategic decisions' are these:

- Strategy is likely to be concerned with the *long-term direction* of an organisation. The AOL/Time Warner merger set the new company on a path as a multimedia giant that would have lasting effects. Time Warner had already embarked on that path with its interests in film production, cable/television, music and publishing. Indeed, this empire had come together through a previous series of acquisitions and mergers. In contrast, AOL was a young company focused on Internet service provision so this was a big change in direction for them.

- Strategic decisions are normally about trying to achieve some *advantage* for the organisation over competition. For example, the AOL/Time Warner merger was justified in terms of providing 'content' (e.g. music or movies) to an Internet service provider – or (in reverse) giving a new distribution route to the content provider. It was also about moving before competitors did so and making it difficult for them to imitate. For example, the merger was expected to give major advantage in the music industry to the extent that it could transform the way in which music was sold and distributed and how artists received payments. In other situations advantage may be achieved in different ways and may also mean different things. For example, in the public sector, strategic advantage could be thought of as providing better value-for-money services than other providers, thus attracting support and funding from government. Strategic decisions are sometimes conceived of, therefore, as the search for effective *positioning* in relation to competitors so as to achieve advantage.
- Strategic decisions are likely to be concerned with the *scope of an organisation's activities*. For example, does (and should) the organisation concentrate on one area of activity, or should it have many? The issue of scope of activity is *fundamental* to strategy because it concerns the way in which those responsible for managing the organisation conceive the organisation's boundaries. It is to do with what they want the organisation to be like and to be about. This could include important decisions about product range or geographical coverage. The broadening of the scope of activities is an important reason for the AOL/Time Warner merger. This is particularly true for AOL managers who are likely to find themselves in the midst of the entertainment industry as against their previously narrower activities as an Internet service provider.
- Strategy can be seen as the *matching of the resources and activities of an organisation to the environment* in which it operates. This is sometimes known as the search for *strategic fit*.¹ The notion of **strategic fit** is developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these. Here it would be seen as important to achieve the correct *positioning* of the organisation, for example in terms of the extent to which it meets clearly identified market needs. This might take the form of a small business trying to find a particular niche in a market, or a multinational corporation seeking to place most of its investments in businesses which have found successful market positions or have identified attractive markets. In the fast-moving world of the media and IT, customers might value providers who can provide a range of services through a set of complementary channels (e.g. Internet as well as physical retail outlets). This was certainly starting to happen in the music industry in the early 2000s. So, creating the ability to 'bundle' together services that were previously fragmented and offering new ways for customers to access products were clear priorities for the merged AOL/Time Warner. The nature of the music and entertainment markets provided opportunities not necessarily found in other markets. Customer tastes and requirements were relatively common between countries (particularly in

Strategic fit is developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these

Illustration 1.1



AOL/Time Warner – the world's first Internet-powered media and communications company

Managing strategy requires the consideration of a wide range of factors, which shift and change over time.

On 11 January 2001 the Federal Communications Commission in the USA approved the \$105 billion merger of AOL – the world's largest Internet service provider (ISP) – with Time Warner (TW) – the media and entertainment empire with interests in magazines, film studios, cable TV and news and music production. The merger created a company with annual revenue of almost \$40 billion and 85,000 employees. It brought together AOL's 26 million Internet customers with TW's different customer base which included 44 million magazine and 12 million cable TV subscribers.

It was a year and a day since the intention to merge had been announced by Steve Case of AOL and Gerald Levin of TW. *Business Week* reported the planned merger as follows:

Case – who will become the chairman of AOL/TW – is making a huge bet that by melding the TW colossus with his Internet empire he will create a hybrid with unmatched advantages as the long-anticipated convergence of entertainment, information, communications and on-line services comes about in the next few years. It is a bid to define the future. By assembling more assets, audiences and advertisers for the new digital marketplace than anyone [else] . . . Case . . . sees a chance to move so far ahead that others won't catch up for years – the way that Alfred P. Sloan audaciously engineered the creation of General Motors in the 1920s – producing the corporation that dominated the auto age.

The merger brought together two quite different companies. AOL, only some 15 years old, had dominated the ISP market – being five times

bigger than the number two in the USA in terms of subscriber numbers and capturing an estimated 33 per cent of time online – three times as much as Microsoft or Yahoo!. It had become the *de facto* 'operating system' for the Internet – much to Microsoft's displeasure. It was much smaller than TW in terms of both revenue and employees (about one-fifth the size) and was an organisation that thrived on change. In contrast, TW went back to 1923 and had grown through a series of related diversifications (by mergers) and had enormous investments in movie, TV and music assets (such as best-selling TV shows (*Friends* and *ER*) and Madonna's CDs). It had a lot to lose from too much change.

AOL had a lot to gain from the merger – its stock had dropped substantially during 2000 in line with other high-tech stocks. TW might provide some solidity behind a dot.com image that was beginning to lose its initial gloss. It opened up the broadband cable network to an ISP – who were being held back technically by the slow speed of traditional telephone lines and, of course, there was all that TW content – movies, TV programmes and music. The TW customer base had not been 'exploited' in terms of selling a wider range of products and services. TW also had large advertising revenues through its magazines and TV channels.

Despite the fact that AOL made the running in the merger, there were benefits for TW too. They felt that they owned largely mature businesses with limited growth potential. TW's executives had consistently believed that technology would continue to transform the entertainment industry and that companies could not ignore major developments – like the Internet. They already had experience of how the Internet could disrupt

their current businesses in publishing, music and TV. For example, they were part of the music industry lobby that eventually succeeded in 2001 in blocking the US Internet company Napster from providing music online to customers. But TW's own Internet efforts had flopped - they were simply not familiar with how to make an Internet company succeed. So they were attracted by AOL's 'Internet savvy' and proven track record in building revenue and market share. They also saw opportunities to cross-sell TW subscriptions to the younger AOL customers.

Not everyone was happy with the merger. Major rivals such as Disney, Microsoft and Yahoo! lobbied hard with the regulatory authorities to block the merger. In the end, all they achieved were some conditions. The most important was a requirement to make AOL's instant messaging service open to other providers. The regulators were trying to avoid a situation where AOL/TW customers found themselves in a 'walled garden' - benefiting from a wide range of services from AOL/TW but unable to communicate with non-AOL/TW customers or receive content from other providers. There were others who expressed concerns too - artists and composers in the music industry had campaigned in 2000 against the merging of TW and EMI music interests and they were further concerned that their interests would suffer from the stranglehold that AOL/TW would have on the music industry. For example, Roger Wallis, chairman of the Swedish Society of Popular Music composers, who claimed that Scandinavia would be particularly affected by the deal, said:

We are concerned that [it] will put more control in the hands of the big music companies and make it difficult for all individual artists and composers to use the Internet as a great opportunity to spread music around the world. What we are pressing for is some form of . . . separation between the ownership of distribution channels and the ownership of music copyrights.

The thing that excited many observers about the merger was the creation of a platform to develop 'next-generation' services - such as interactive TV and digital music. During 2000, when the merger was still pending, the companies had worked together to launch 'AOL by Phone' (telephone access to the Internet) and 'AOL TV' (Internet by cable TV).

Those journalists who had experienced previous mega-mergers that had failed to deliver their promise were also cautious about AOL/TW. They reminded readers that more than 70 per cent of mergers fail and the 1990 merger that created TW had itself got off to a rocky start. AOL had a corporate culture that was speedy and collaborative whilst TW was slow and decentralised. Its reward structure emphasised performance at business-unit level and (by implication) discouraged collaborative efforts. Each of the TW business units was a multi-billion dollar business headed by a CEO and usually a leader in its own markets. So the trick would be to gain advantage from the synergies that the merger promised without undermining those qualities that had created leadership in publishing, film, cable TV and music. Delivering next-generation products - digital music and interactive TV - were what these synergies were about. This was a tough agenda.

Main sources: Adapted from *Business Week*, 8 May 2000, p. 65; *The Times*, 7 September 2000, p. 27; *Fortune*, 8 January 2001, p. 72.

Questions

1. Why were the issues facing AOL/TW described as strategic?
2. Identify examples of issues that fit each of the circles of the model in Exhibit 1.4 on page 17.
3. To what extent would you describe the strategy for AOL/TW in its various markets as 'fit' or 'stretch' as described in Exhibit 1.1 on page 8?

Exhibit 1.1 The leading edge of strategy: fit or stretch

ASPECT OF STRATEGY	ENVIRONMENT-LED 'FIT'	RESOURCE-LED 'STRETCH'
Underlying basis of strategy	Strategic fit between market opportunities and organisation's resources	Leverage of resources to improve value for money
Competitive advantage through . . .	'Correct' positioning Differentiation directed by market need	Differentiation based on competences suited to or creating market need
How small players survive . . .	Find and defend a niche	Change the 'rules of the game'
Risk-reduction through . . .	Portfolio of products/businesses	Portfolio of competences
Corporate centre invests in . . .	Strategies of business units or subsidiaries	Core competences

Source: Adapted from G. Hamel and C.K. Prahalad, *Competing for the Future*, Harvard Business School Press, 1994.

the Internet where universal standards had been adopted - but also in the media), allowing for rapid globalisation.

- However, strategy can also be seen as *building on or 'stretching' an organisation's resources and competences* to create opportunities or to capitalise on them.² Strategy development by '**stretch**' is the leverage of the resources and competences of an organisation to provide competitive advantage and/or yield new opportunities. For example, a small business might try to change the 'rules of the game' in its market to suit its own competences - which was the basis on which many 'dot.com' companies entered established sectors. A large multinational corporation may focus its strategies on those businesses with development potential. Here the emphasis is not just on ensuring that resources are available (or can be made available) to take advantage of some new opportunity in the marketplace, but also on identifying existing resources and competences that might be a basis for creating new opportunities in the marketplace. So the AOL/Time Warner merger should be viewed in terms not only of improved competitiveness in current 'arenas' - such as in the distribution of music - but also of exploiting strengths to create new offerings or to compete in new arenas. For example, the combined company could offer new subscription packages covering TV, movies, telephone and Internet services. It could then exploit this customer base to generate income from advertisers or other providers of complementary products or services. Of course, in practice, organisations develop strategies on the bases of both 'fit' and 'stretch'. Exhibit 1.1 contrasts the two approaches.
- Strategies may require *major resource* changes for an organisation. For example, decisions to expand geographically have significant implications in terms of the need to build and support a new customer base. Sometimes this

'Stretch' is the leverage of the resources and competences of an organisation to provide competitive advantage and/or yield new opportunities

might be seen as high risk – for example for AOL/Time Warner, entering markets where there is no tradition of subscription and where ‘piracy’ is prevalent. Strategies, then, need to be considered not only in terms of the extent to which the existing resource capability of the organisation is suited to opportunities, but also in terms of the extent to which resources can be obtained and controlled to develop a strategy for the future.

- Strategic decisions are likely to *affect operational decisions*: for example, the AOL/Time Warner strategy required a whole series of decisions at the operational level – even to get the merger approved by the regulatory authorities. After the merger, new structures and management controls would be needed to deal with the much more diverse set of activities. Human resource policies and practices would also have to be reviewed. This link between overall strategy and operational aspects of the organisation is important for two other reasons. First, if the operational aspects of the organisation are not in line with the strategy, then, no matter how well considered the strategy is, it will not succeed. Second, it is at the operational level that real strategic advantage can be achieved. AOL was successful as an Internet service provider not only because of a good strategic concept, but also because of the detail of how the concept was put into effect in terms of the logistics of accessing and servicing customers, generating advertising revenue etc. Indeed, competence in particular operational activities might determine which strategic developments might make most sense. For example, AOL’s knowledge of how to provide service to the younger consumer was seen as particularly attractive to Time Warner as a major provider of popular music.
- The strategy of an organisation is affected not only by environmental forces and resource availability, but also by the *values and expectations* of those who have *power* in and around the organisation. In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have most influence on the organisation. Whether a company is expansionist or more concerned with consolidation, and where the boundaries are drawn for a company’s activities, may say much about the values and attitudes of those who influence strategy – the *stakeholders* of the organisation. In the merger the running was set by AOL, reflecting the influence of the AOL chief executive Steve Case. But he was constrained by regulatory authorities and lobby groups (including performers) – not only in the USA but also in other major markets such as Europe – and the ability to persuade both sets of shareholders that the deal made commercial sense and would increase the long-term value of the company.

In general, of course, there are other stakeholders who have influence: financial institutions, the workforce, buyers and perhaps suppliers and the local community. The beliefs and values of these stakeholders will have a more or less direct influence on the strategy development of an organisation.

Overall, if a *definition* of a strategy is required, the most basic might be ‘the long-term direction of an organisation’. However, the characteristics described above can provide the basis for a fuller definition:

Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* for the organisation through its configuration of *resources* within a changing *environment* and to fulfil *stakeholder* expectations

Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* for the organisation through its configuration of *resources* within a changing *environment* and to fulfil *stakeholder* expectations.

There are a number of consequences of these characteristics:

- Strategic decisions are likely to be *complex in nature*. It will be emphasised that this complexity is a defining feature of strategy and strategic decisions. This is especially so in organisations with wide geographical scope, such as multinational firms, or wide ranges of products or services. AOL/Time Warner needed to coordinate their activities over a wide geographical area.
- Strategic decisions may also have to be made in situations of *uncertainty*: they may involve taking decisions with views of the future about which it is impossible for managers to be sure. No one can really predict with much clarity where the industry convergence that AOL/Time Warner represent will lead or pace of change. This applies to the various sectors in which they are involved, such as music, cable TV and Internet service provision – the impact may not be the same or move at the same pace in each of these sectors.
- Strategic decisions are also likely to demand an *integrated* approach to managing the organisation. Unlike functional problems, there is no one area of expertise, or one perspective, that can define or resolve the problems. Managers, therefore, have to cross-functional and operational boundaries to deal with strategic problems and come to agreements with other managers who, inevitably, have different interests and perhaps different priorities. If AOL/Time Warner are to gain benefit from the merger then TW managers have to see the Internet as a major new distribution opportunity whilst AOL managers need to be more strategic as to how they might extend the portfolio of content offered to AOL customers.
- They may also have to manage and perhaps change *relationships and networks* outside the organisation, for example with suppliers, distributors and customers. AOL/Time Warner needed to decide to what extent their new internal relationship as content provider to Internet service provider should be exclusive. For example, should Time Warner customers be offered an alternative Internet service provider other than AOL and should AOL be able to source from other content providers such as Disney?
- Strategic decisions will very often involve *change* in organisations which may prove difficult because of the heritage of resources and because of culture. These cultural issues are heightened following mergers as two very different cultures need to be brought closer together – or at least learn how to tolerate each other. Indeed, this often proves difficult to achieve – up to 70 per cent of mergers fail to deliver their ‘promise’ for these reasons.

1.1.2 Levels of strategy

Strategies exist at a number of levels in an organisation. Individuals may say they have a strategy – to do with their career, for example. This may be

relevant when considering influences on strategies adopted by organisations, but it is not the subject of this book. Taking AOL/Time Warner as an example, it is possible to distinguish at least three different levels of organisational strategy. **Corporate-level strategy** is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation. This could include issues of geographical coverage, diversity of products/services or business units, and how resources are to be allocated between the different parts of the organisation. For AOL/Time Warner, the most important corporate issues were about how new opportunities could be created by the merged company. This was the fundamental rationale for the merger. The corporate centre needed to play a crucial role in determining how the organisation should be structured, how resources should be allocated in setting targets and reviewing performance. The corporate centre should also be asking whether there are other ways in which they can add value to the separate business units within the company. It might be argued, for example, that a new corporate brand should be created. Corporate-level strategy is also likely to be concerned with the expectations of owners – the shareholders and the stock market. Being clear about corporate-level strategy is important: it is a *basis* of other strategic decisions. It may well take form in an explicit or implicit statement of ‘mission’ that reflects such expectations.

The second level can be thought of in terms of **business unit strategy**,³ which is about how to compete successfully in particular markets. The concerns are therefore about how advantage over competitors can be achieved; what new opportunities can be identified or created in markets; which products or services should be developed in which markets; and the extent to which these meet customer needs in such a way as to achieve the objectives of the organisation – perhaps long-term profitability or market share growth. So, whereas corporate strategy involves decisions about the organisation as a whole, strategic decisions here need to be related to a strategic business unit (SBU). A **strategic business unit** is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU. In public sector organisations a corresponding definition of a SBU might be a part of the organisation or service for which there is a distinct client group. For example, ICI has a paints business that sells paints to various different types of customers, including industrial buyers and retail buyers. ICI Paints might choose to organise itself with an industrial division and a retail division. However, within those structural divisions there will be a need for different strategies according to different markets. Retailers could include huge multiple chain stores buying direct from ICI and small retailers buying through distributors. These are distinct markets that require different strategies, and are therefore different SBUs.

Confusion can often arise because an SBU may not be defined in terms of an organisational structure. It may not be a separate structural part of an organisation. For example, AOL/Time Warner had inherited separate companies structured around particular products (cable/TV, publishing, Internet service provision). Also, the customer bases of the two companies were different – particularly in terms of age profile. But the logic of the merger dictated that

Corporate-level strategy is concerned with the overall purpose and scope of an organisation and how value will be added to the different parts (business units) of the organisation

Business unit strategy is about how to compete successfully in particular markets

A strategic business unit is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU

'bundling' these services in different ways for different customer groups should be the basis of competitive advantage. So SBUs needed to be thought about in these terms – for example, businesses vs. households and by different demographic characteristics – such as age. The specific products that might be bundled into an attractive package for younger consumers and the extent to which the Internet is the dominant access and distribution channel will be very different from customers in older age groups. This emphasises the difference between an SBU and a division or a business within an organisation. An SBU is a unit of an organisation for strategy-making purposes. It may or may not be a separate structural part of the organisation.

The third level of strategy is at the operating end of an organisation. Here there are **operational strategies**, which are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. For example, in AOL/Time Warner it was important that film production, TV scheduling, publishing titles and subscriber recruitment efforts dovetailed into higher-level decisions about service bundling and market entry. For example, it was important that the acquisition and distribution of content was planned to match the needs of the various customer groups that they were targeting. Indeed, in most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. The integration of operational decisions and strategy is therefore of great importance.

Operational strategies are concerned with how the component parts of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people

1.1.3 The vocabulary of strategy

At the end of section 1.1.1, a definition of strategy was given. It can be dangerous to offer a definition, because lengthy semantic discussions can follow about whether or not it is precise enough, and whether everyone would agree with it. In fact, there are different definitions according to different authors. There are also a variety of terms used in relation to strategy, so it is worth devoting a little space to clarifying some of these.

Exhibit 1.2 and Illustration 1.2 employ some of the terms that readers will come across in this and other books on strategy. Exhibit 1.2 explains these in relation to a personal strategy readers may have followed themselves – becoming fit. Illustration 1.2 shows how these relate to an organisation – British Airways.

Not all these terms are always used in organisations or in strategy books: indeed, in this book the word 'goal' is rarely used. Moreover, it may or may not be that mission, goals, objectives, strategies and so on are written down precisely. In some organisations this is done very formally; in others it is not. As is shown in Chapter 2, a mission or strategy might sometimes more sensibly be conceived of as that which is implicit or can be deduced about an organisation from what it is doing. However, as a general guideline the following terms are often used.

- A *mission* is a general expression of the overall purpose of the organisation, which, ideally, is in line with the values and expectations of major

Exhibit 1.2 The vocabulary of strategy

TERM	DEFINITION	A PERSONAL EXAMPLE
Mission	Overriding purpose in line with the values or expectations of stakeholders	Be healthy and fit
Vision or strategic intent	Desired future state: the aspiration of the organisation	To run the London Marathon
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	Quantification (if possible) or more precise statement of the goal	Lose 5 kilos by 1 September and run the Marathon next year
Unique resources and core competences	Resources, processes or skills which provide 'competitive advantage'	Proximity to a fitness centre, supportive family and friends and past experience of successful diet
Strategies	Long-term direction	Associate with a collaborative network (e.g. join running club), exercise regularly, compete in marathons locally, stick to appropriate diet
Control	The monitoring of action steps to: <ul style="list-style-type: none"> ● assess effectiveness of strategies and actions ● modify strategies and/or actions as necessary 	Monitor weight, kilometres run and measure times: if progress satisfactory, do nothing; if not, consider other strategies and actions

stakeholders and concerned with the scope and boundaries of the organisation. It is sometimes referred to in terms of the apparently simple, but actually challenging question: '*What business are we in?*'

- A *vision* or *strategic intent* is the desired future state of the organisation. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organisation.
- If the word *goal* is used, it usually means a general aim in line with the mission. It may well be qualitative in nature.
- On the other hand, an *objective* is more likely to be quantified, or at least to be a more precise aim in line with the goal. However, in this book the word 'objective' is used whether or not there is quantification.
- *Unique resources* and *core competences* are the bases upon which an organisation achieves strategic advantage in terms of activities, skills or know-how which distinguish it from competitors and provide value to customers or clients.
- The concept of *strategy* has already been defined. It is the long-term direction of the organisation. It is likely to be expressed in fairly broad statements of the direction that the organisation should be taking and the types of

Illustration 1.2



British Airways and the vocabulary of strategy

Annual reports and public statements contain much of the vocabulary of this book.

Mission

To be the undisputed leader in world travel.

We are passionately committed to excellence and to the highest levels of customer service.

Goals

- *The customers' choice* – the airline of first choice in our key markets.
- *Strong profitability* – meeting investors' expectations and securing the future.
- *Truly global* – global network, global outlook: recognised everywhere for superior value in world travel.
- *Inspired people* – inspired teams of people, building and benefiting from the company's success.

Values

- Safe and secure
- Honest and responsible
- Innovative and team-spirited
- Global and caring
- A good neighbour

Competitive strategy

The airline's strategy is focused on a revised fleet strategy, aimed at targeting profitable passenger segments and on product developments for all its brands.

Elements of strategy

- Reducing aircraft size to reduce dependence on unprofitable transfer passengers and other low-yielding business.
- Product and network improvements to maintain share of key business markets.

- Cost cutting and efficiency programmes.
- Developing alliance relationships to strengthen the global network.
- Establishing the airline's low-cost subsidiary GO, which can serve a segment of the market that the mainline airline is not designed to meet.

Strategic initiatives

There are eight focus areas:

1. People: Employee numbers will reduce to reflect the reduction in capacity.
2. Distribution costs: Exploiting the opportunities offered by e-business and working with travel agents to manage the costs of distribution.
3. Gatwick: Review the destinations served from Gatwick and reduce costs.
4. Domestic routes: Select appropriate-sized aircraft; focus on point-to-point traffic and review of further product specification.
5. Product costs: Aim product offerings at customer needs to ensure value for money for the customer.
6. Aircraft utilisation: Improvements in aircraft use through changes to schedules, standby aircraft and maintenance downtime.
7. Subsidiaries: Review the role of subsidiary operations and their contribution to network revenue margin and group profitability.
8. Procurement: Work with suppliers to achieve cost savings through lower prices, more efficient methods of payment and optimum specification of items.

Prepared by Urmilla Lawson, University of Strathclyde.

Source: Adapted from BA Fact Book 2000 (from website).

Question

Find websites for other companies (including airlines) and compare their use of strategic vocabulary. What conclusions do you draw from the similarities and differences?

action required to achieve objectives: for example, in terms of market entry, new products or services, or ways of operating.

- It is, then, important to exercise some degree of *strategic control* so as to monitor the extent to which the action is achieving the objectives and goals.

As the book develops, many other terms will be introduced and explained. These are the basics with which to begin.

1.2 STRATEGIC MANAGEMENT

What, then, is *strategic management*? It is not enough to say that it is the management of the process of strategic decision making. This fails to take into account a number of points important both in the management of an organisation and in the area of study with which this book is concerned.

Strategic management is different in nature from other aspects of management. Exhibit 1.3 summarises some of these differences. An individual manager is most often required to deal with problems of operational control, such as the efficient production of goods, the management of a salesforce, the monitoring of financial performance or the design of some new system that will improve the level of customer service. These are all very important tasks, but they are essentially concerned with effectively managing resources already deployed, often in a limited part of the organisation within the context of an existing strategy. Operational control is what managers are involved in for most of their time. It is vital to the effective implementation of strategy, but it is not the same as strategic management.

Exhibit 1.3

Characteristics of strategic management and operational management

STRATEGIC MANAGEMENT	OPERATIONAL MANAGEMENT
<ul style="list-style-type: none"> ● Ambiguous/uncertain ● Complex ● Organisation-wide ● Fundamental ● Long-term implications 	<ul style="list-style-type: none"> ● Routinised ● Operationally specific ● Short-term implications

The scope of strategic management is greater than that of any one area of operational management. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organisation-wide rather than operation-specific implications. This is a major challenge for managers who are used to managing on a day-to-day basis the resources they control. It can be a particular problem because of the background of managers who may typically have been trained, perhaps over many years, to undertake

operational tasks and to take operational responsibility. Accountants find that they still tend to see problems in financial terms, IT managers in IT terms, marketing managers in marketing terms, and so on. Each aspect in itself is important, of course, but none is adequate alone. The manager who aspires to manage, or influence, strategy needs to develop a capability to take an overview, to conceive of the whole rather than just the parts of the situation facing an organisation. Because strategic management is characterised by its complexity, it is also necessary to make decisions and judgements based on the *conceptualisation* of difficult issues. Yet the early training and experience of managers is often about taking action, or about detailed *planning* or *analysis*. This book explains many analytical approaches to strategy, and it is concerned too with action related to the management of strategy. There is also, however, an emphasis on understanding concepts of relevance to the complexity of strategy which informs this analysis and action.

Nor is strategic management concerned only with taking decisions about major issues facing the organisation. It is also concerned with ensuring that the strategy is put into effect. It can be thought of as having three main elements within it, and it is these that provide the framework for the book. **Strategic management** includes *understanding the strategic position* of an organisation, *strategic choices* for the future and turning *strategy into action*.

The next sections of this chapter discuss each of these aspects of strategic management and identifies elements that make up each aspect. Exhibit 1.4 shows these elements and defines the broad coverage of this book. It is important to understand why the exhibit has been drawn in this particular way. It could have shown the three aspects of strategic management in a linear form – understanding the strategic position preceding strategic choices, which in turn precede strategy into action. Indeed, many texts on the subject do just this. However, in practice, the elements of strategic management do not take this linear form – they are interlinked. One way of understanding a strategy better is to begin to implement it, so strategic choices and strategy into action may overlap. Similarly, an understanding of the strategic position may be built up from the experience of strategies in action. It is for structural convenience only that the subject has been divided into sections in this book; it is not meant to suggest that the process of strategic management must follow a neat and tidy path. Indeed, the evidence provided in Chapter 2 on how strategic management occurs in practice suggests that it usually does not.

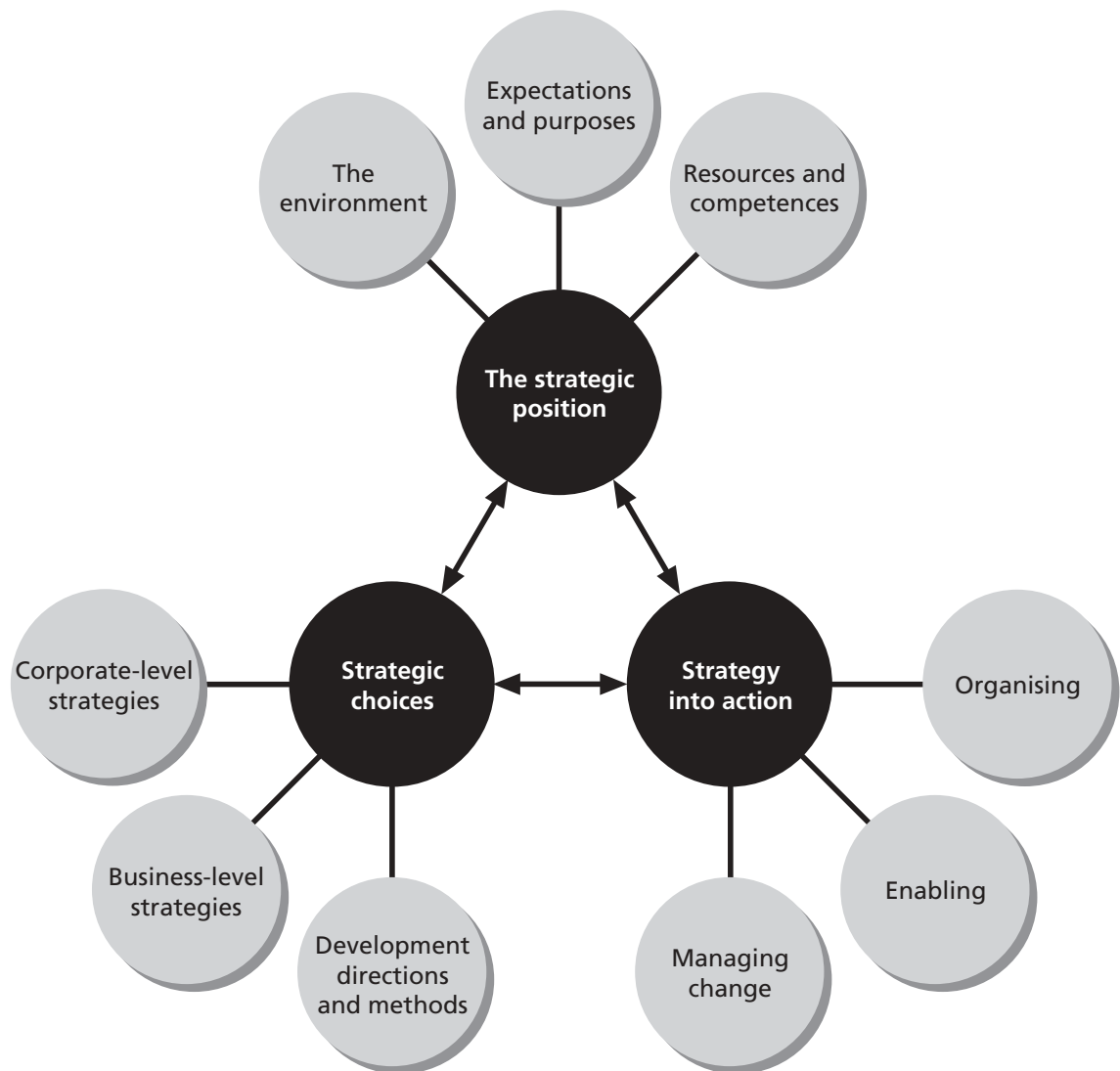
1.2.1 The strategic position

Understanding the **strategic position** is concerned with impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders. The sorts of questions this raises are central to future strategy. What changes are going on in the environment, and how will they affect the organisation and its activities? What are the resources and competences of the organisation and can these provide special advantages or yield new opportunities? What is it that those people and groups associated with the organisation – managers, shareholders or owners,

Strategic management includes *understanding the strategic position* of an organisation, *strategic choices* for the future and turning *strategy into action*

The **strategic position** is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders

Reproduced from Johnson and Scholes (2002) Exploring Corporate Strategy 6th edition

Exhibit 1.4 A model of the elements of strategic management

unions and others who are stakeholders in the organisation - aspire to, and how do these affect what is expected for the future development of the organisation?

These are clearly all important issues for AOL/Time Warner. Decisions to forge the merger no doubt required careful consideration about the convergence of technologies and consumer behaviour leading to views about future demand for new services in the market. An equally important issue was how the particular competences of the merged organisation might be configured to

provide competitive advantage – perhaps by developing new services such as interactive TV or digital music online. Also, the expectations of stakeholders need to be understood, for example the concerns being shown by musicians and composers about the stranglehold that AOL/Time Warner might have on the music industry. These groups could lobby regulatory bodies to place restrictions on the company's activities in the music industry. So the reason for understanding the strategic position is to form a view of the key influences on the present and future well-being of an organisation, and what opportunities and threats are created by the environment, the competences of the organisation and the expectations of stakeholders. These are discussed briefly below.

- The *environment*. The organisation exists in the context of a complex commercial, political, economic, social, technological, environmental and legal world. This environment changes and is more complex for some organisations than for others. How this affects the organisation could include an understanding of historical and environmental effects, as well as expected or potential changes in environmental variables. Many of those variables will give rise to *opportunities* and others will exert *threats* on the organisation – or both. A problem that has to be faced is that the range of variables is likely to be so great that it may not be possible or realistic to identify and understand each one; and therefore it is useful to distil out of this complexity a view of the key environmental impacts on the organisation. Chapter 3 examines how this might be possible.
- The *resources and competences* of the organisation make up its *strategic capability*. Just as there are outside influences on the organisation and its choice of strategies, so there are internal influences. One way of thinking about the strategic capability of an organisation is to consider its *strengths* and *weaknesses* (what it is good or not so good at doing, or where it is at a competitive advantage or disadvantage, for example). The aim is to form a view of the internal influences – and constraints – on strategic choices for the future. On occasions, specific resources – for example, the particular location of an organisation – could provide it with competitive advantage. However, competences which provide real advantage – in this book we refer to these as *core competences* – are more likely to be activities, know-how and skills which *in combination* provide advantages for that organisation which others find difficult to imitate. In AOL/Time Warner, it is not one particular resource or activity that was of importance but the combination of many and the ability to manage the linkages between the different parts of the enlarged business that might provide the company with its competitive advantage. Chapter 4 examines resources and competences in detail.
- There are a number of influences on an organisation's *purpose*. Chapter 5 explores these. Formally, the issue of *corporate governance* is important. Here the question is: who *should* the organisation primarily serve and how should managers be held responsible for this? The *expectations* of different *stakeholders* affect purpose and what will be seen as acceptable in terms of strategies advocated by management. Which views prevail will depend on which group has the greatest *power*, and understanding this can be of great importance in recognising why an organisation follows the strategy

it does. *Cultural influences* from within the organisation and from the world around it also influence the strategy an organisation follows, not least because the environmental and resource influences on the organisation are likely to be interpreted in terms of the assumptions inherent in that culture. Chapter 5 builds on the discussion in Chapter 2 to show how cultural influences on strategy can be examined. All of this raises *ethical* issues about what managers and organisations do and why. This array of influences also takes form in statements of *objectives*. These are also discussed in Chapter 5.

Together, a consideration of the *environment*, *strategic capability*, the *expectations* and the *purposes* within the *cultural* and *political* framework of the organisation provides a basis for understanding the strategic position of an organisation. Such an understanding needs to take the future into account. Is the current strategy capable of dealing with the changes taking place in the organisation's environment? Is it likely to deliver the results expected by influential stakeholders? If so, in what respects, and if not, why not? It is unlikely that there will be a complete match between current strategy and the picture which emerges from answering these questions. It may be that the mismatch is marginal, or it may be that there is a need for a fundamental realignment of strategy. Assessing the magnitude of required strategic changes and the ability of the organisation to effect such changes is another important aspect of the organisation's strategic position.

1.2.2 Strategic choices

Strategic choices involve understanding the underlying bases for future strategy at both the corporate and business unit levels (discussed above) and the options for developing strategy in terms of both the directions in which strategy might move and the methods of development.

- At the highest level in an organisation there are issues of *corporate-level strategy*, which are concerned with the scope of an organisation's strategies, the relationship between the separate parts of the business and how the corporate centre adds value to these various parts. For example, the corporate centre, as a parent to the business units, could add value by looking for synergies between business units, by channelling resources – such as finance – or through particular competences – such as marketing or brand building. There is a danger, of course, that the centre does not add value and is merely a cost upon the business units and is therefore destroying value. There are very different ways in which these issues might be resolved. For example, AOL/Time Warner could continue to operate as separate businesses with a very slim corporate centre simply 'policing' a market-like relationship between AOL and the separate business units within Time Warner as its content provider. In contrast, the corporate centre could integrate the businesses into a new single organisation and create divisions around target markets (e.g. geographically) or customer groups (e.g. by age group). These issues about the role of the centre and how it adds value are *parenting* issues and will be discussed in Chapter 6.

Strategic choices involve understanding the underlying bases for future strategy at both the corporate and business unit levels and the options for developing strategy in terms of both the directions and methods of development

- There are strategic choices in terms of how the organisation seeks to compete at *business level*. This requires an identification of *bases of competitive advantage* arising from an understanding of both markets and customers, and special competences that the organisation has; for example, whether AOL/Time Warner will take advantage of the reduced costs that should result from the merger to reduce prices in its separate business units such as music, cable TV and Internet service provision or whether it will focus on investing in ways of differentiating itself from competitors through innovative new services, such as interactive TV, that others cannot match. Or perhaps they will choose to do both of these. These issues of business-level strategies will be discussed in Chapter 7.
- Strategy may develop in the future in different *directions*. For example, historically Time Warner had developed through diversification into related fields (publishing, film, music and television). Indeed, the merger with AOL is just the latest example of the dominance of this particular development direction. This would contrast with other organisations that might concentrate in a narrower field and seek to grow market share and/or progressively develop the product features and enter new geographical markets. AOL had developed through such a combination of directions.
- Organisations also have choices of the *method* of strategy development. The development *method* used by Time Warner had been merger or acquisition (as against internal development or strategic alliances, which are favoured by many other organisations). These options for development directions and methods are important and need careful consideration: indeed, in developing strategies, a potential danger is that managers do not consider any but the most obvious course of action – and the most obvious is not necessarily the best. These issues are discussed in Chapter 8 together with a discussion of the success criteria that determine why some strategic choices are likely to be better than others. These include the *suitability* of the strategy – whether it addresses the strategic position of the organisation; whether the strategy is *feasible* in terms of resources and competences required to implement it; and, finally, whether the strategy would be *acceptable* to the stakeholders. For example, in considering strategic choices for AOL/Time Warner further mergers might seem attractive in terms of further securing their ability to offer a differentiated portfolio of services. But this might not be feasible in terms of the further resources required or, indeed, there may not be a suitable partner. It may not be acceptable to shareholders for the reason of raised financial risk nor to regulators because of monopoly considerations or concerns over the types of services. It could be argued that they would be better advised to concentrate on consolidating the merger and allowing the separate business units to compete strongly and gain market share in their own sectors.

1.2.3 Strategy into action

Translating **strategy into action** is concerned with ensuring that strategies are working in practice. A strategy is not just a good idea, a statement or a plan. It is only meaningful when it is actually being carried out. How this occurs is typically thought of in terms of:

Strategy into action is concerned with ensuring that strategies are working in practice

- *Structuring* an organisation to support successful performance. This includes structures, organisational processes, boundaries and relationships (and the interaction between these elements). These issues will be discussed in Chapter 9. For example, if AOL/Time Warner remains structured around its current business units (music, film/TV, publishing, Internet) it will need to establish new roles and processes to facilitate those separate business units in working together to create new services like online digital music. This is the rationale for the merger. It will have the difficult problem of building relationships between separate groups of people (for example, music and Internet specialists) that have different cultures and who are used to working in different ways.
- *Enabling* success through the way in which the separate resource areas of an organisation support strategies; and also the reverse of this - the extent to which new strategies are built on the particular resource and competence strengths of an organisation. Chapter 10 will consider this two-way relationship between strategy and four important resource areas (people, information, money and technology). Clearly a central issue for AOL/Time Warner is how they can continue to get market advantage in publishing, music and TV through the exploitation of IT - particularly the Internet. But this will have implications for the people and financial resources of the organisation too.
- Strategy very often involves *change*, and Chapter 11 looks at how organisations might manage change processes. This will include the need to change day-to-day routines and cultural aspects of the organisation, and overcoming political blockages to change. Following mergers, such as AOL and Time Warner, an inability to manage one or more of these change issues results in the performance expectations of the merger not being met. This is a very common outcome of mergers and acquisitions.

1.3 STRATEGY AS A SUBJECT OF STUDY

An explanation of the history of strategy as a subject of study is helpful in understanding how it will be presented in this book. It will also introduce the important idea of the different *lenses* through which strategy might be viewed - an issue that will be explained in depth in Chapter 2 and will run through all the parts of the book.

The origins of the study and teaching of strategy can be traced to a number of major influences:

- The first is to do with the *task of the general manager* and, perhaps most obviously, took form in the *business policy*⁴ courses run at universities such as Harvard going back to the 1960s. The continual question posed here was ‘what would you do if you took over as chief executive of such and such an organisation?’ It positioned strategy as the responsibility of the general manager (typically a CEO) and was based on the common-sense experience of executives and not so much on theory or research. Teaching was dominated by attempts to replicate real business situations in the classroom by the saturation exposure to case studies.
- In parallel there developed in the 1960s and 1970s the influence of books on *corporate planning*.⁵ Here the emphasis was on trying to analyse the various influences on an organisation’s well-being in such a way as to identify opportunities or threats to future development. It took the form of highly systematised approaches to planning. This analytic approach is a dominant legacy in the study of the subject. It assumes that managers can and should understand all they possibly can about their organisational world; and that by so doing they can make optimal decisions about the organisation’s future. It was a highly influential approach and, for example, gave rise to specialist corporate planning departments in organisations in the private and public sectors, especially in the 1970s.

In the 1980s both of these approaches came in for considerable criticism. There developed a growing body of research addressing many key strategic questions which started to become influential in how the subject was seen and how students and managers should learn about strategy:

- Typically this took the form of examining *evidence* about the links between financial performance and the strategies followed by organisations on, for example, product development, market entry, diversification and associated decisions about organisational structure.⁶ It was argued that managers benefit from lessons drawn from such research in order to make wiser strategic decisions. The continuing assumption was, of course, that strategic decisions should be driven by analysis and evaluation so as to make optimal decisions; but that an accumulation of research findings could provide evidence by which to do this.
- Others⁷ argued that the world was simply not that straightforward. Its complexity and uncertainty meant that it was impossible to analyse everything up front, predict the future; and that the search for optimal decisions was futile. It was necessary to accept the messiness of organisational life, that managers made decisions which were as much to do with collective and individual experience, organisational politics and the substantial influence of organisational history and culture as they were to do with strategy. As evidence of this, they pointed to the adaptive nature of how strategies developed in organisations.⁸ They argued that it would be fruitful to spend more time understanding *managerial processes* of decision making in dealing with the complexity of strategic management in the reality of their social, political and cultural contexts.

- The orthodox view has been that such social and political and cultural constraints on managers result in sub-optimal decisions, inertia and perhaps underperformance. In other words, that managers do need to be better at analysis and planning and can take optimal decisions but that their personal biases and the culture of their organisation get in the way. More recently, others have questioned this.⁹ They suggest that organisations are not so very different from living organisms. These organisms do not just plan and analyse, they live, they experience, they interpret and between them and within them there is sufficient diversity and variety for them to be able to change and innovate to deal with their changing environments. There has grown up an argument that organisations and managers are better understood not so much as living in the world of planning and analysis, but as using their skills and senses within the more complex world of *social interaction* in their organisation and, more widely, in the world around them. Moreover, that this will better explain how organisations cope with fast-changing environments, how new ideas and innovation come about and therefore how more significant strategic transformations come about.

This book argues that it is useful to draw on all of these views. The sort of analysis, conceptual models, research evidence, and planning systems and tools employed by those who seek to *design* strategies are useful. They help strategists think through problems and issues so as to challenge and question and, indeed, inform decision making. No doubt such an approach played a large part in the partners in the AOL/TW merger thinking through its benefits and its problems. However, it is also important to understand how the *experience* of managers and the culture of organisations inform and constrain the development of strategies; and how differences between people and groups are resolved. Moreover, by understanding such phenomena, important insights can be gained into the management of strategic change. It would be unwise of the top management of AOL/TW to believe that the sorts of change they have in mind are likely to happen without addressing such issues in the businesses that comprise the new portfolio of the merged corporation. There is also much to be learned from understanding how new *ideas* might emerge in organisations from the variety of experience and behaviours that are to be found across a huge corporation such as AOL/TW. It is unrealistic to believe that all such ideas can be planned from the top. Given the purpose of the merger – to search for new opportunities by bringing the different businesses together – thinking about how such potential innovation can be encouraged and tapped would be important. So all three ways of looking at strategy development are useful. They will be referred to in this book as the *lenses* through which strategy in organisations can be viewed:

- *Strategy as design*: the view that strategy development can be a logical process in which economic forces and constraints on the organisation are weighed carefully through analytic and evaluative techniques to establish clear strategic direction and in turn carefully planned in its implementation is perhaps the most commonly held view about how strategy is developed and what managing strategy is about. It is usually associated with the notion

that it is top management's responsibility to do this and that top management leads the development of strategy in organisations.

- *Strategy as experience*: here the view is that future strategies of organisations are based on the *adaptation* of past strategies influenced by the experience of managers and others in the organisation, and are taken-for-granted assumptions and ways of doing things embedded in the cultural processes of organisations. In so far as different views and expectations exist, they will be resolved not just through rational analytic processes, but also through processes of bargaining and negotiation. Here, then, the view is that there is a tendency for the strategy of the organisation to build on and be a continuation of what has gone before.
- *Strategy as ideas*: neither of the above lenses is especially helpful in explaining innovation. So how do new ideas come about? This lens emphasises the potential variety and diversity which exist in organisations and which can potentially generate novelty. If we are to understand how innovations and innovative strategies come about, it is necessary to understand how this potential diversity contributes to it. Here strategy is seen not so much as planned from the top but as *emergent* from within and around the organisation as people cope with an uncertain and changing environment in their day-to-day activities. New ideas will emerge, but they are likely to have to battle for survival against the forces for conformity to past strategies that the experience lens explains. Drawing on explanations from evolutionary and complexity theories, the ideas lens provides insights into how this might take place.

These 'lenses' will be introduced more fully in Chapter 2 and referred to regularly throughout the book – particularly in the commentaries, which are at the end of each part of the book. It is important to understand these different explanations because all three provide insights into the challenges that are faced in managing the complexity of strategy.

Illustration 1.3 shows an example of the three lenses as it might apply to decisions of individuals.

1.4 STRATEGIC MANAGEMENT IN DIFFERENT CONTEXTS¹⁰

The AOL/Time Warner merger has been used in this chapter to illustrate different aspects of strategic management. To a greater or lesser extent, all these aspects are relevant for most organisations. However, it is likely that different aspects will be more important in some contexts and in some organisations than in others. For example, the need to understand the convergence of previously separate industries (such as media and the Internet), to develop new 'routes to market' and to maintain a dominant market share in its various markets was of particular importance to AOL/Time Warner. This is a different emphasis from that of a steel or glass manufacturer supplying commodity-like materials into mature markets or a public sector service provider tailoring services to the needs of a local community within statutory requirements.

Illustration 1.3**Choosing a new car**

The strategy lenses also apply to the personal strategies followed by individuals.

A manager was considering buying a new car. He had driven Jaguars for some time. However, he thought it would be a good idea to review the options systematically (*the design lens*). He obtained the brochures for a range of luxury car makes, identified the major factors that were important to him and considered all the performance indicators for each of the cars against these. He even allocated a weighted score to the factors that meant most to him. The analysis told him that a BMW or a Mercedes might be a better choice than a Jaguar.

This surprised him; and he didn't much like the answer. He had always driven a Jaguar, he was used to it, felt it had an especially English character and that it suited his personality (*the experience lens*). He was also looking forward to having the new model. So his inclination was to buy another Jaguar.

Actually he ended up buying an open-top Mercedes sports. This was because his wife thought he needed to liven up his image and liked the idea of driving it on holidays (*the ideas lens*). With some reluctance he bought the new Mercedes. This proved to be a good decision. They both liked the car and it depreciated in value much more slowly than a Jaguar.

So what are the lessons? The planning and analysis was there; and if it didn't end up informing the decision directly, it did indirectly. His wife justified the purchase of the Mercedes in part on the basis of that analysis. He would

have ended up with another Jaguar; a continuity of what he was used to. He actually chose what (to him) was a novel, innovative option that, in the long run, significantly changed his approach to car buying. Of course, if his wife had not intervened, his inclination to the Jaguar based on past experience would probably have prevailed. This depended on him and his circumstances – the context. Some ideas get through, some do not, depending how attractive the ideas were to him. Or it could have been that the power of analysis had been such as to overcome this. So it is with organisations. All these three lenses are likely to be there. The nature and context of the organisation are likely to determine which one prevails.

It is also difficult to say which lens was best. Who is to say that the analysis actually provided the optimal result? Maybe it was important that he should feel comfortable with his past.

Question

Choose a decision from your own personal life and consider how the three lenses impacted on the final choice that you made.

However, in AOL/Time Warner these current priorities are likely to shift over time as the industry convergence progresses and more parts of the market mature. Even within the one company, different business units may face quite different market conditions - Internet service provision and publishing are in different phases of technological and market development. It would, then, be wrong to assume that all aspects of strategic management are equally important in all circumstances. This section reviews some of the ways in which aspects differ in different contexts.

1.4.1 The small business context¹¹

Small businesses are likely to be operating in a single market or a limited number of markets, probably with a limited range of products or services. The scope of the operation is therefore likely to be less of a strategic issue than it is in larger organisations. It is unlikely that small businesses will have central service departments to undertake complex analysis and market research; rather, it may be senior managers themselves, perhaps even the founder of the firm, who has direct contact with the marketplace and whose experience is therefore very influential. Indeed, in small firms the values and expectations of senior executives, who may themselves be in an ownership position, are likely to be very important, and even when current management are not owners, it may be that the values and expectations of the founders persist. It is also likely that, unless the firm is specialising in some particular market segment, it will be subject to significant competitive pressures; so issues of competitive strategy are likely to be especially important for the small firm. However, decisions on competitive strategies are likely to be strongly influenced by the experience of those running the business, so the questions posed and concepts discussed about the nature of competition in Chapter 3 and bases of competitive strategy in Chapter 6 are likely to be especially relevant.

Small firms are also likely to be private companies. This significantly affects their ability to raise capital. Combined with the legacy of the founder's influence on choice of product and market, this may mean that choices of strategy are limited. The firm may see its role as consolidating its position within a particular market. If it does not, and is seeking growth, then the raising of finance is crucial, so building or maintaining relationships with funding bodies such as banks becomes a key strategic issue.

1.4.2 The multinational corporation¹²

The key strategic issues facing multinationals such as AOL/Time Warner are substantially different from those facing the small business. Here the organisation is likely to be diverse in terms of both products and geographical markets. It may be that they have a range of different types of business in the form of subsidiary companies within a holding company structure, or divisions within a multidivisional structure. Therefore, issues of structure and control at the cor-

porate level and relationships between businesses and the corporate centre are usually a major strategic issue for multinational companies. Indeed, a central concern is the extent to which the corporate centre adds to or detracts from the value of its businesses (see Chapters 6 and 9). At the business unit level, many of the competitive strategic issues will, perhaps, be similar to those faced by smaller firms – though the strength of the multinational within a given geographical area may be greater than for any small firm. However, for the multinational parent company, a significant issue will be how corporate business units should be allocated resources given their different, and often competing, demands and how this is to be coordinated. The coordination of operational logistics across different business units and different countries may become especially important. For example, a multinational manufacturing company such as Toyota or General Motors has to decide on the most sensible configuration of plants for the manufacture of cars. Most have moved from manufacturing a particular car at a particular location, and now manufacture different parts of cars in different locations, bringing together such components for the assembly of a given model in a given location. The logistics problems of coordinating such operations are immense, requiring sophisticated control systems and management skills far removed from those in the smaller firm. An important choice that a major multinational has to make is the extent to which it controls such logistics centrally, or devolves autonomy to operating units. It is, again, an issue of structure, management processes and relationships – the subject of Chapter 9 of this book.

1.4.3 Manufacturing and service organisations

Whilst differences exist between organisations providing services and those providing products, there is also an increasing awareness of similarities. For an organisation that competes on the basis of the services it provides – for example, insurance, management consultancy and professional services – there is no physical product. Here competitive advantage is likely to be much more related to the extent to which customers value less tangible aspects of the firm. This could be, for example, the soundness of advice given, the attitude of staff, the ambience of offices, the swiftness of service and so on. For manufacturing organisations the physical product itself has been regarded as central to competitive strategy and services are needed simply to support the product (such as product information, back-up service and so on). Managers in manufacturing organisations may therefore believe they exercise more direct control over competitive strategy than can be exercised in a service organisation. However, the computer hardware industry demonstrates that in a competitive commodity-like world the physical products of competitors are very similar, and competing by providing more functionality (storage and processor speed) fails to win new customers. Increasingly it is service that determines the winners – speed to market with new products, simplicity of the ordering process and effective helpline support make the difference. So, most have come to understand that, since physical products are often perceived by customers

as very similar, other features such as service or brand image are just as important in achieving competitive advantage. Bases of competitive advantage related to resources, organisational competences and value to customers are discussed in Chapters 4 and 6.

1.4.4 The innovatory organisation¹³

There are an increasing number of organisations that claim to depend substantially on innovation for their strategic success, and still others that argue the importance of becoming more innovatory. Certainly businesses in the field of high technology products or those dependent on research and development, for example in the pharmaceutical industry, have long experienced the extent to which innovation is important. Innovation is seen as the ability to 'change the rules of the game'. The rapid developments in information technology have thrown up opportunities for organisations that can do business in new ways – the dot.com companies of the e-commerce revolution. The success of all these innovatory organisations is likely to be built on a willingness to challenge the status quo in an industry or a market and an awareness of how the organisation's resources and competences can be 'stretched' to create new opportunities. The need to see and act strategically against very short time horizons is another key feature of the innovatory context. Although the same strategic issues exist as with other companies, it is unlikely to be the formal procedures that matter so much as the type and quality of the people, the sources of knowledge in the organisation and the extent to which the prevailing culture encourages the transfer of knowledge and the questioning of what is taken for granted. Innovation will also be influenced by how people are managed and how they interact. For example, organisational structures that encourage interaction and integration, rather than formal divisions of responsibility, may encourage innovation.

Although the ideas lens is especially important in understanding strategy in innovatory organisations, there has been evidence that some of the difficulties of the dot.coms has been a failure to look at their development in other ways – particularly through the design lens – for example, to understand some of the basic ideas about competition and strategic capability.

1.4.5 Strategy in the public sector¹⁴

The concepts of strategy and strategic management are just as important in the public sector as in commercial firms. However, like the private sector, the public sector is diverse, as some examples show.

- *Nationalised companies* may be similar in many respects to commercial organisations; the differences are associated with the nature of ownership and control. Postal services in many countries are in, or moving towards, this position. There is likely to be a good deal of direct or indirect control or influence exercised from outside the organisation, by government in particular. A commercial enterprise that is state controlled may find not only

planning horizons determined more by political than by market conditions, but also constraints on investment capital and therefore on bases of financing, and on the latitude that managers have to change strategies. It is for these reasons that there has been large-scale privatisation of previously state-run enterprises over the past 20 years – steel, telecommunications, rail services, airlines and many more. Understanding the power of different stakeholders (Chapter 5) and constraints on change (see Chapters 2 and 11) may be especially important here.

- A *government agency* has a labour market, and a money market of sorts; it also has suppliers and users or customers. However, at its heart lies a political market that approves budgets and provides subsidies. It is the explicit nature of this political dimension which managers – or officers – have to cope with which particularly distinguishes government bodies, be they national or local, from commercial enterprises. This may in turn change the horizons of decisions, since they may be heavily influenced by political considerations, and may mean that analysis of strategies requires the norms of political dogma to be considered explicitly. However, although the magnitude of the political dimension is greater, the model of strategic management discussed here still holds.
- *Public service* organisations – for example, health services and many of the amenities run by local government – face difficulties from a strategic point of view because they may not be allowed to specialise, and may not be able to generate surpluses from their services to invest in development. This can lead to a mediocrity of service where strategic decisions mainly take the form of striving for more and more efficiency so as to retain or improve services on limited budgets. Careful deployment and appropriate development of resources becomes very important (see Chapters 4 and 10).
- In the public sector, the notion of competition is usually concerned with competition for *resource inputs*, typically within a political arena. The need to demonstrate *best value* in *outputs* has become increasingly important. Many of the developments in management practices in the public sector, such as internal markets, performance indicators, competitive tendering and so on, were attempts to introduce elements of competition in order to encourage improvements in value for money. More recently there has been a shift of emphasis to cooperation and inter-agency working in an attempt to address *outcomes* of social importance. Examples would be tackling the drugs problem, crime and disorder or mental health, all of which require cooperative efforts to improve outcomes. This means that being able to build and sustain strategic alliances is a priority – as discussed in Chapter 8.
- Overall, the role of ideology in the development of strategy in the public sector is probably greater than that in commercial organisations. Putting it in the terminology of this book, the criterion of *acceptability to stakeholders* of strategic choices is probably of greater significance in the public sector than in the commercial sector.

1.4.6 The voluntary and not-for-profit sectors¹⁵

In the voluntary sector it is likely that underlying values and ideology will be of central strategic significance and play an important part in the development of strategy. This is particularly the case where the *raison d'être* of the organisation is rooted in such values, as is the case with organisations providing services traditionally not for profit, such as charities.

In not-for-profit organisations such as charities, churches, private schools, foundations and so on, the sources of funds may be diverse and are quite likely not to be direct beneficiaries of the services offered. Moreover, they may provide funds in advance of the services being offered – in the form of grants, for example. There are several implications. Influence from funding bodies may be high in terms of the formulation of organisational strategies. Competition may be high for funds from such bodies; but the principles of competitive strategy (see Chapter 7) nonetheless hold. However, since such organisations are dependent on funds which emanate not from users but from sponsors, there is a danger that they may become concerned more with resource efficiency than with service effectiveness (see Chapter 4). The fact that multiple sources of funding are likely to exist, linked to the different objectives and expectations of the funding bodies, might also lead to a high incidence of political lobbying, difficulties in clear strategic planning, and a requirement to hold decision making and responsibility at the centre, where it is answerable to external influences, rather than delegate it within the organisation.

1.4.7 Professional service organisations

Traditionally based values are often of particular importance in professional services such as medicine, accountancy, law and other professions. Private sector professional firms may also have a partnership structure. Partners may be owners and perhaps bear legal responsibility for advice and opinion offered by the firm; they may therefore carry considerable power; and there may be many of them – each of the top four accountancy firms now aspires to global strategies, but each may have thousands of partners. Traditionally, although interacting with clients and exercising actual or potential control over resources, these partners may not have regarded themselves as managers at all. As a partner in a major accountancy firm put it: 'We see ourselves as the largest network of sole traders in the world.' The problems of developing and implementing strategy within such a context are, therefore, heavily linked to the management of internal political influences (see Chapter 5) and the ability to take account of, and where necessary to change, organisational culture (see Chapters 5 and 11). Another factor is the pressure that those in the professions find themselves under to be more 'commercial' in their approach. Such pressure may come from government, as in the case of doctors; or it may be a function of size, as has been found in the growing accountancy and law firms. This has meant that

Illustration 1.4**Strategic issues in different contexts**

The strategic issues faced by managers in different organisations depend on their business context.

Global organisations

Many companies today are struggling to achieve a globally integrated organisation that retains the capability for local flexibility and responsiveness. Virtually no company has achieved a totally satisfactory solution. . . . The task is achievable if managers break it down into digestible pieces and if they relate changes in organisation to the specific changes in global strategy.

G. Yip, *Total Global Strategy*,
Prentice Hall, 1995, pp. 161-162

A multi-business company

The business units of multi-business companies create value through direct contact with customers. They compete in their markets to satisfy customer needs and to generate revenues and profits. In contrast the parent [company] . . . acts as an intermediary influencing the decisions and strategies pursued by the businesses and standing between the businesses and those who provide capital for their use.

M. Goold, A. Campbell and M. Alexander,
Corporate Level Strategy, Wiley, 1994, p. 12

Professional services

The players [in accountancy] are broadly similar in size and in their range of resources, consequently there is no natural leader to direct and structure the market. Even where the professional offerings are similar . . . the ability to co-ordinate and integrate people to create a real benefit for the client can be a distinguishing factor. The result is that teamwork, relationship management and integration are the competences that may distinguish one firm from the pack.

Colin Sharman, Senior Partner,
KPMG, 1998

Not-for-profit sector

If your mission is, say, to eliminate poverty or save the planet, then almost anything you do can be justified. If management is weak and without legitimacy (which is too often the case), this means staff often set their own personal agendas. To a greater extent than most private organisations, there are also multiple stakeholders, and managers can find themselves buffeted by warring factions both outside and inside the organisation. Young staff often join with a view that they are going to change the world, and find out that many jobs are pretty routine. There is a great danger that they then invest their energy in trying to create their vision of the world within the organisation.

Sheila McKechnie, Director of
Shelter until 1995

Public sector

Efficient and effective public services are an essential part of a healthy democratic society. Many local authorities recognise this and successfully achieve high standards, often in difficult circumstances. Others are less successful, and provide services that fall well short of the best that can be achieved within the resources that are available. The Government's proposals for best value . . . will require councils to meet the aspirations of local people for the highest quality and most efficient services at a price that people are willing to pay.

'Modernising Local Government',
DETR, 1998, p. 5

Question

Refer to Exhibit 1.4 and answer the following question separately *in relation to each of the contexts*:

Which element of the strategy model is being emphasised? Why?

such organisations have had to be concerned with competitive strategy (see Chapter 7).

Illustration 1.4 shows some examples of the different emphasis of strategy in different contexts.

SUMMARY

- Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* for the organisation through its configuration of *resources* within a changing *environment* and to fulfil *stakeholder expectations*. So all organisations are faced with the challenge of managing strategy.
- Strategic decisions may be about a search for strategic 'fit' - trying to find ways to match the organisation's resources and activities to the environment in which it operates. Strategic decisions could also be based on trying to 'stretch' the resources and competences of the organisation to create new opportunities.
- Strategies will also be influenced by the values and expectations of stakeholders in and around the organisation, and the extent of the power they exert. The culture within and around an organisation will also influence its strategy.
- Strategic decisions are made at a number of levels in organisations. Corporate-level strategy is concerned with an organisation's overall purpose and scope; business level (or competitive) strategy with how to compete successfully in a market; and operational strategies with how resources, processes and people can effectively deliver corporate- and business-level strategies.
- The formulation of business-level strategies is best thought of in terms of strategic business units (SBUs) which are parts of organisations for which there are distinct external markets for goods or services. However, these may not represent formal structural divisions in an organisation.
- Strategic management is distinguished from day-to-day operational management by the complexity of influences on decisions, the fundamental, organisation-wide implications that strategic decisions have for the organisation, and their long-term implications. It can be problematic for managers not least because their strategic horizons are likely to be limited by their experience and organisational culture and most of their training may have been in operational management.
- Strategic management can be conceived of in terms of understanding the *strategic position*, *strategic choices* for the future and translating *strategy into action*. The strategic position of an organisation is influenced by the external environment, internal resources and competences, and the expectations and influence of stakeholders. Strategic choices include the underlying bases of choices at both the corporate and business levels and the directions and methods of development. Strategic management is also

concerned with understanding which choices are likely to succeed or fail. Translating strategy into action is concerned with issues of structuring, resourcing to enable future strategies and managing change.

- How organisations develop strategies can be explained in different ways. A design view sees the process as planned from the top. An experience view sees it as the product of individual experience and organisational culture. The ideas view sees strategy as emerging from ideas within and around an organisation.
- Organisations in different contexts are likely to emphasise different aspects of the strategic management process. For some organisations the major challenge will be developing competitive strategy; for others it will be building organisational structures capable of integrating complex global operations; for yet others it will be understanding their competences so as to focus on what they are especially good at; and for still others it will be developing a culture of innovation. Strategic priorities need to be understood in terms of the particular context of an organisation.

RECOMMENDED KEY READINGS

It is useful to read about how strategies are managed in practice and some of the lessons that can be drawn from this which inform key themes in this book. For example:

- For readings on the concepts of strategy in organisations, John Kay's book, *Foundations for Corporate Success: How business strategies add value*, Oxford University Press, 1993, is a helpful explanation from an economics point of view. For a wider theoretical perspective, see R. Whittington, *What is Strategy and Does it Matter?*, 2nd edition, Routledge, 2001.
- It is also useful to read accounts of where the management of strategy in organisations has made an

impact on organisational performance. Reference is also often made in this book to G. Hamel and C.K. Prahalad, *Competing for the Future*, Harvard Business School Press, 1994, which draws extensively on examples of successful strategies in organisations. Readers are encouraged to keep up to date with developments and strategies in organisations through newspapers, business magazines and dedicated business websites (such as FT.com).

- For a discussion of strategy in different types of organisations, see H. Mintzberg, J. Quinn and S. Ghoshal (eds), *The Strategy Process: Concepts, contexts and cases*, 4th edition, Prentice Hall, 1998.

REFERENCES

1. In the 1980s much of the writing and practice of strategic management was influenced by the writings of industrial organisations economists. One of the most influential books was Michael Porter, *Competitive Strategy*, Free Press, first published 1980. In essence, the book describes means of analysing the competitive nature of industries so that managers might be able to select among attractive and less attractive industries and choose strategies most suited to the organisation in terms of these forces. This approach, which assumes the dominant influence of industry forces and the overriding need to tailor strategies to address those forces, has become known as a 'fit' view of strategy.
2. The notion of strategy as 'stretch' is perhaps best explained in G. Hamel and C.K. Prahalad, *Competing for the Future*, Harvard Business School Press, 1994.
3. The term 'SBU' can be traced back to the development of corporate-level strategic planning in General Electric in the USA in the early 1970s. For an early account of its uses, see W.K. Hall, 'SBUs: hot, new topic in the management of diversification', *Business Horizons*, vol. 21, no. 1 (1978), pp. 17-25.
4. See for example: C. Christensen, K. Andrews and J. Bower, *Business Policy: Text and cases*, 4th edition, Irwin, 1978.

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5. For example, J. Argenti, *Systematic Corporate Planning*, Nelson, 1974 or H. Ansoff, *Corporate Strategy*, Penguin, 1975.
6. One of the important books that marked this shift was: D. Schendel and C. Hofer, *Strategic Management: A new view of business policy and planning*, Little, Brown, 1979.
7. See: C. Lindblom, 'The science of muddling through', *Public Administration Review*, vol. 19 (Spring 1959), pp. 79-88; J. Quinn, *Strategies for Change*, Irwin, 1980; A. Pettigrew, *The Awakening Giant*, Blackwell, 1985; H. Mintzberg, 'Crafting strategy', *Harvard Business Review*, vol. 65, no. 4 (1987), pp. 66-75.
8. See Quinn (reference 7 above).
9. See: R. Stacey, *Managing Chaos: Dynamic business strategies in an unpredictable world*, Kogan Page, 1992; S. Brown and K. Eisenhardt, *Competing on the Edge: Strategy as structured chaos*, HBR Press, 1998.
10. For an extensive discussion of strategy in different types of organisations, see H. Mintzberg, J. Quinn and S. Ghoshal (eds), *The Strategy Process: Concepts, contexts and cases*, 4th edition, Prentice Hall, 1998.
11. For strategy development in small businesses, see C. Barrow, R. Brown and L. Clarke, *The Business Growth Handbook*, Kogan Page, 1995.
12. There are now many books on managing strategy in multinationals. In this book we will refer often to C. Bartlett and S. Ghoshal, *Managing Across Borders: The transnational solution*, 2nd edition, Random House, 1998; and G. Yip, *Total Global Strategy*, Prentice Hall, 1995.
13. A good review of aspects of innovation and their organisational implications can be found in J. Tidd, J. Bessant and K. Pavitt, *Managing Innovations: Integrating technological, marketing and organisational change*, 2nd edition, Wiley, 2001.
14. See: G. Johnson and K. Scholes (eds.), *Exploring Public Sector Strategy*, FT/Prentice Hall, 2001, in particular J. Alford, 'The implications of publicness for strategic management theory' (Chapter 1) and N. Collier, F. Fisnwick and G. Johnson, 'The processes of strategy development in the public sector' (Chapter 2). Also: D. McKeivitt and A. Lawton, *Public Sector Management: Theory, critique and practice*, Sage, 1994.
15. See J.M. Bryson, *Strategic Planning for Public and Nonprofit Organizations*, Prentice Hall, 1995.

WORK ASSIGNMENTS

* Refers to a case study in the Text and Cases edition. * Denotes more advanced work assignments.

- 1.1 Using the characteristics discussed in section 1.1.1, write a statement of strategy for Corus* or an organisation with which you are familiar.
- 1.2 Note down the characteristics of strategy development at AOL/Time Warner, or Microsoft/Netscape which would be explained by the notion of (a) strategic management as 'environmental fit', and (b) strategic management as the 'stretching' of capabilities.
- 1.3 Using Exhibit 1.2 and Illustration 1.2 as a guide, note down and explain examples of the vocabulary of strategy used in the annual report of a company of your choosing.
- 1.4* Using annual reports, press articles and the Internet, write a brief case study (similar to the AOL/Time Warner illustration or the Corus* case), which shows the strategic development and current strategic position of an organisation.
- 1.5 Using Exhibit 1.4 as a guide, note down the elements of strategic management discernible in the Corus* case or an organisation of your choice.
- 1.6* Using Exhibit 1.4 as a guide, show how the different elements of strategic management differ in:
 - (a) a multinational business (e.g. AOL/Time Warner, The News Corporation*)
 - (b) a professional services firm (e.g. KPMG*)
 - (c) a public sector organisation (e.g. CSA*)
 - (d) a small business (e.g. Coopers Creek*)
 - (e) a high technology business (e.g. Microsoft, Netscape, Amazon* or Freeserve*).

CASE EXAMPLE

Battle of the browsers: rounds one and two

In June 2000 a federal court judge upheld the US Justice Department's contention that the Microsoft Corporation was guilty of breaking the law by using its monopoly to stifle competition and crush its rivals. The court stated that Microsoft had violated anti-trust laws by using its position to monopolise the web browser market. They were accused of imposing 'technological shackles' on other software companies. The company was ordered to be split into two separate businesses - one owning the 'Windows' operating system and the other owning software applications and Internet browser developments. The company's shares had fallen by 50 per cent during the court hearings and Bill Gates, the Microsoft chairman, warned that this ruling would lead to disaster for Microsoft and America and immediately indicated that the company would appeal against the decision.

The seeds of the court case started some six years earlier in 1994 when Marc Andreessen, a 24-year-old from Silicon Valley, launched a new way to search and retrieve information from the Internet. His company Netscape invented the Navigator Internet browser. The world's press hailed the arrival of a cyber-genius, and predicted he would create a new computer standard that could make him as powerful as Bill Gates. Netscape grabbed 80 per cent of the booming browser market. It began building intranets, providing systems for companies to create their own web-like networks. It became the platform and promoter of Sun Microsystem's Java, a new software language that challenged Microsoft's Windows operating system for personal computers (PCs). When Netscape was listed on the stock market in August 1995 its shares took off like a rocket. Before the company had made a net profit it was valued at \$2.7 billion (£1.7 billion).

Gates initially dismissed the Internet and Netscape as unimportant. But Netscape's surging sales, and the phenomenal growth and popularity of the Internet, quickly forced him to change his tune. Marshalling the vast resources of Microsoft,

and spending hundreds of millions of dollars on research and development, he had 2,000 of his best programmers rush out a browser of his own, the Explorer, and then bombarded the public with free copies. Microsoft's share of the browser market soared from 2.9 per cent at the end of 1995 to more than 40 per cent by the end of 1997, while Netscape's share fell to 54 per cent. Netscape's financial performance suffered badly too. Some analysts believed that the company might be in terminal decline and might not be able to survive - at least as an independent company.

So Netscape looked for help from the US Justice Department, which in October 1997 charged Microsoft with using its monopolistic 90 per cent control of all PC operating systems to force computer manufacturers to install its browser on their machines. In December, Judge Thomas Jackson issued a preliminary injunction to force Microsoft to make available two versions of Windows to PC manufacturers, one including the browser and one without. The Justice Department wanted Microsoft to remove the Explorer icon that automatically appeared on the computer screen when a user started the Windows programme. Microsoft denied it used unfair business practices, and claimed that it was simply exercising its right to enhance its operating system. It said that an Internet browser was an integral part of its Windows software.

But Microsoft realised they were playing for big stakes. In May 1995, Bill Gates wrote: 'The Internet is the most important single development to come along since the IBM PC was introduced in 1981. It has enough users that it is benefiting from the positive feedback loop of the more users it gets, the more content it gets; and the more content it gets, the more users it gets.' He went on to say that it presented a huge threat to Microsoft, because rival companies, such as Netscape and Sun, were trying to use it to 'commoditise the underlying operating system'. In other words, Netscape might gain control of the desktop with its browser becoming an alternative to Windows.

This first battle of the browsers also brought to the surface some fundamental policy issues for governments about the fostering of technological development. It was a reminder that free-market forces do not necessarily guarantee the success of the best product in high-technology fields, as they usually do in other areas of commerce. Whenever a company gets ahead (in high technology) it had an increasing advantage over its rivals, made increasing returns, and was able to use its position to dominate other markets. So many 'inferior products' had beaten superior ones, such as the VHS video beating Betamax and Dos beating Apple's operating system. So the critical issue was to establish a user base more quickly than competitors. The more people that used a given technology, the more likely that technology was to beat its competitors. In the computer industry the first company to establish an industry standard and a large installed base of products invariably dominated its market, as Microsoft dominated PC operating systems. Moreover, it puts it in a position to expand into other markets and dominate them in the same way.

Microsoft was dismissive of such theories, which they claimed missed the realities in the computer industry. In particular the fact that life cycles were short and leaders vulnerable to their products being made obsolete by superior products from competitors. They argued that there were many examples of great successes that became failures, such as Word Perfect, dBase, Lotus 1-2-3, and it was simply to do with people taking their eye off the ball.

As the legal proceedings rolled on through 1999 and 2000 developments in browsers moved on at a rapid pace – in ways that perhaps made the court hearings look like 'yesterday's battle'. A new browser war was under way as software firms started to compete to provide browsers for 'information devices' such as set-top boxes (e.g. for digital cable or satellite TV), handheld computers and third-generation ('smart') mobile phones. These devices were widely expected to eventually outnumber PCs. This second browser battle was shaping up very differently from the first one. The main difference being that Microsoft's ability to include browser software as part of the device's operating

systems (as it could do with Windows on PCs) was no longer the case. Their cut-down version of Windows for these devices had failed. In the meantime Netscape had become part of AOL and was strongly in the running – but alongside dozens of new rivals such as Opera, OpenTV, Lineo, QNX and Plixo. Also, with these new devices the choice of browser was made by the appliance manufacturer and the service provider (such as the cable company) rather than, in the case of PCs, by the operating system supplier (Microsoft) or the individual user (downloading from the Internet). So the new rivals were courting the appliance manufacturers and service providers rather than targeting consumers. With so many potential suppliers it seemed much less likely that just one browser would dominate. Also, this resulting diversity meant that an important selling point for a browser was its conformity to the technical standards agreed by the World Wide Web Consortium. The existence of these standards would also reduce the switching costs for appliance makers if they decided to change browsers – a very difficult thing to achieve with the old browsers on PCs. Netscape seemed to have learnt lessons from its bruising encounter with Microsoft in the first browser battle. It was actively supporting these standardisation measures as a means of preventing a re-run – even though it left Netscape's new software (Gecko) facing more competitors.

Sources: Adapted from *The Sunday Times*, 11 January 1998; *The Economist*, 16 December 2000.

Questions

1. Refer to section 1.1 and explain why the issues facing Netscape and Microsoft were strategic.
2. List the main factors that you would identify in the strategic position of Netscape and Microsoft (separately and under the three headings of environment, resources and expectations).
3. Think about the strategic choices for the future for each company in relation to the issues raised in section 1.2.2.
4. This case example concerns global competition in an innovative industry. Refer to section 1.4 and decide how this particular context 'shapes' the relative importance of the elements of strategy – as shown in Exhibit 1.4.

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The implications of 'publicness' for strategic management theory

By John Alford

Editor's introduction

As the purpose of this book is to illustrate how strategic management theory is applicable to public sector organisations and, in reverse, what theory has to learn from public sector practice, John Alford's chapter sets the scene for what is to follow. His arguments connect to the issues raised in Chapters 1 and 2 of *Exploring Corporate Strategy* about both the content and process of strategic management and how they need to be interpreted and applied differently by sector. The major theme of this chapter is that managers should not regard the public/private contexts as a dichotomy but rather as a continuum from 'pure private' to 'pure public'. So it is the degree of publicness that matters in customising strategic management ideas – of both content and practice – to the specific circumstances that an organisation faces.

1.1 Introduction

Given that most of the tools and concepts of strategic management were developed in the private sector, is it valid to apply them to public sector organisations?

Certainly, governmental reformers around the world over the past three decades have thought so. Their efforts to introduce more business-like management and market discipline into the public sector have included the fostering of strategic management techniques. The 1970s and early 1980s saw the adoption of devices such as corporate planning and objective-setting, program budgeting and management by results, for example in the Financial Management Initiative (FMI) in the UK, and similar initiatives elsewhere (Pollitt, 1990; Boston et al., 1991; Alford, 1998b). A further wave in the 1990s saw efforts to create intra-governmental arm's-length relationships between purchasers and ser-

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vice-delivery agencies, subjecting the latter to the discipline of 'quasi-markets' (Lowery, 1998), and enabling them to adopt longer-term strategic outlooks, and focus on their missions. This was the logic of the 'Next Steps' Initiative in the UK and of the *Reinventing Government* movement in the US and elsewhere (which called for 'mission-driven government' and 'separating steering from rowing') (Osborne and Gaebler, 1992; Alford and O'Neill, 1994; Jordan and O'Toole, 1995).

However, some scholars and practitioners of the public sector have questioned the validity of corporate management approaches in a governmental context, arguing that the two sectors are different, and therefore call for different management approaches (Pollitt, 1990; Hood, 1991; Frederickson, 1997). Echoing an extensive literature (Rainey et al., 1976; Allison, 1980; Gunn, 1987; Perry and Rainey, 1988), they point to the distinctive political, ethical and organisational dimensions of public administration, and question whether concepts useful for business are also valid in government.

In reality, as many of the debate's protagonists would acknowledge, the public and private sectors are not two distinct and internally homogeneous domains. Very few organisations are purely public or purely private – most sit somewhere on a continuum between these two extremes. Indeed, the governmental reforms have been designed to install private sector mechanisms into agencies precisely in order to mitigate their public service orientations.

Moreover, only one particular type of strategic management has typically been at issue in this debate: rational planning towards clearly defined coherent goals. This is largely what has informed the government reformers in their official prescriptions and enabling legislation (although many public sector organisations tried more diverse approaches). It has formed an obvious target for its critics, beginning with Lindblom's (1959) famous articulation of 'the science of muddling through'.

In fact, there are many strands of strategic management theory (for a survey, see Johnson and Scholes, 1999, Ch. 1). Some of them, primarily prescriptive in nature, are about the *content* of strategy, and are concerned with what an organisation is to do. They include: the idea of strategy as 'setting long-term direction'; strategy as 'positioning' or 'scope'; strategy as securing a 'fit' or alignment between the environment, organisational capabilities and value or purposes; and strategy as stretching the organisation's distinctive competences to deliver better value and anticipate environmental demands. Others are concerned with enhancing our understanding of the strategy *process*, that is, with how strategies are formulated and implemented. The rational planning model cited above is one of these, but others include 'logical incrementalism', chaos theory, institutional theory and population ecology – to be discussed further below.

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All these strands are constructed from particular conceptions of or assumptions about one or more of three elements:

- the value produced or purposes pursued by the organisation; and/or
- the environment in which the organisation operates; and/or
- the resources and capabilities with which value is created or purposes are pursued.

The theoretical strands vary according to how they comprehend the nature or dynamics of these elements, or the relative significance they attach to them, or the relationships among them. Because they deal with one or more aspects of what an organisation is to do, 'content' theories have something to say about value/purposes and/or environment and/or resources/capabilities. For example, strategy as 'setting long-term direction' is clearly concerned with framing organisational purposes, whereas 'positioning' and 'scope' are primarily to do with defining the value to be produced. 'Strategic fit' embraces all three elements, as does the notion of strategic 'stretch'. 'Process' theories vary, *inter alia*, in their conception of how amenable to managerial action these elements are. At one end of the scale, rational planning assumes that the organisation and the value it produces are susceptible to management choice or control, whereas at the other, population ecologists see organisational cultures as immutable, with their survival dependent on whether they suit their environments (Hannan and Freeman, 1989). In between are: 'logical incrementalism', which envisages management as adapting its path towards a defined purpose in response to changing circumstances (Quinn, 1980); complexity and chaos theory, in which managers are intuitively sensitive to changing patterns in their complex worlds; and institutional theory, in which strategy development is constrained by institutionalised ways of doing things (Scott, 1995). All of these models entail specific conceptions of purposes, environments or capabilities.

This chapter argues that these elements (value, environment, etc.) have particular attributes in more 'public' organisations, which require modification of the different strands of strategic management, or alter their relevance. The chapter identifies those attributes, then explores their implications for those strands.

1.2 The private sector model

Although, as acknowledged above, organisations sit on a public-to-private continuum, we can identify the notional characteristics of the ideal-types at each end of that continuum – the 'purely public' and 'purely private' organisation – recognising that their actual incidence will vary in each specific case.

Public and private sector management are analogous in that they

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both entail producing *value* for actors in their *environments*, utilising *resources* and *capabilities*. But they differ in the nature of that value, and of those resources, capabilities and environments, in ways which have implications for the making and implementation of strategy. Let us start with an ideal-type of private sector management. It can be conceptualised as in Exhibit 1.1, in which the manager's functions are:

- 1 to use organisational capabilities (e.g. staff, buildings, equipment) to produce particular goods and services;
- 2 to sell these goods and services to those in the organisation's environment who desire them, namely, customers; and
- 3 to obtain resources (i.e. money) from these customers (and from other funds-providers, i.e. investors) in order to maintain or acquire organisational capabilities.

In this pure private sector model, the manager's task is to perform these functions as effectively as possible, by: (1) producing the kinds of goods and services desired by customers (i.e. the most useful, the best quality, etc.); (2) producing as much of them as desired; and/or (3) doing so at minimal cost and hence at the lowest price to customers.

This model assumes that competition in the marketplace acts as a constant incentive for managers to maximise their performance in these respects. Resources will only flow to the organisation if it is producing what the customers want at the prices they are willing to pay. In other words, the measure of value of the goods and services produced is *exchange-value* in markets.

At the strategic level, therefore, the private sector executive seeks to position or 'define the business' (i.e. decide to produce particular products for particular markets) in a way which aligns with the environment, in that it maximises the flow of resources from cus-

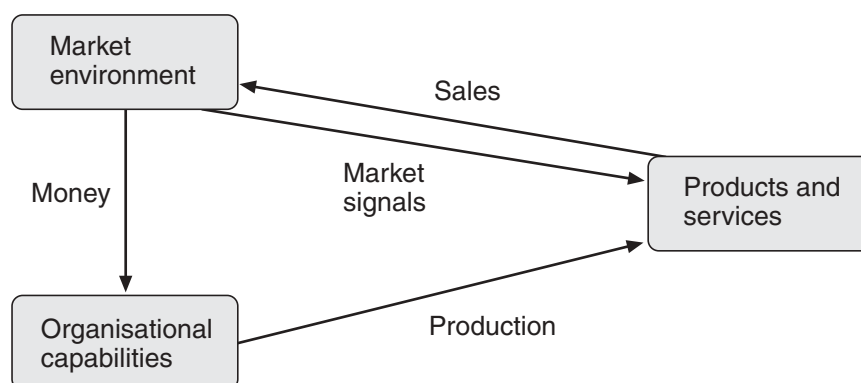


Exhibit 1.1 Management in the private sector

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tomers (i.e. from the excess of sales revenue over expenditure) and from investors, who perceive that this positioning is one that will earn them a good return on their investment. Thus, the money the manager obtains from customers and investors is not only a resource with which to purchase productive capabilities, but also a signal that he or she is producing the right kind and amount of value. If customers do not get what they regard as 'value for money' they take their money elsewhere. Alternatively, the manager may seek to enhance the organisation's capabilities to produce more or better value.

1.3 *How public sector management differs*

How do the circumstances of (ideal-typical) public sector management compare? In a word, they can be seen as similar in form but more diverse in content. They are similar in that the public sector manager is also engaged in a process of converting resources into tangible or intangible things of value. But they are more diverse in that each part of the process embraces a wider array of possible elements than in the private sector: in the range of values produced, the productive capabilities deployed, the resources called upon, the composition of the environment in which they occur, and the nature of their interactions with that environment.¹ Each public manager faces a different mix of these elements, but they include inescapably public features, to a greater or lesser extent.

Firstly, the public sector manager is responsible for ensuring the production of not only private but also *public* value – that is, value which is consumed by the public collectively (Moore, 1995; Stewart and Ranson, 1988). Of course, there is much debate about what public value is and should be. But the mainstream political consensus is that it includes:

- the provision of the legal framework which underpins law and order as well as providing the preconditions for the operation of the market, such as reinforcing property rights and contracts: this is the core of the free-market libertarians' 'minimal state' (Nozick, 1974);
- remedying various kinds of market failure, through the provision of public goods, and intervening to counter negative externalities, to minimise transactions costs, or to curb excessive market power (Stokey and Zeckhauser, 1978, Ch. 14);
- the promotion of equity: there is much disagreement about what equity means and how it can best be advanced, but broad consensus that it is important and needs to be facilitated (Stone, 1988).

Public value often tends to be perceived in different terms to private value. The latter usually takes the form of *outputs*, that is, of products and services, whereas the former usually registers in the public mind

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in the form of *outcomes*, that is, in terms of impacts on social groups or conditions. For example, the public is more likely to be concerned about the incidence of crime (an outcome) than about the number of police patrol-days (an output). Not surprisingly, public value is often harder to define and measure, and the focus of contending views about what it means – a problem aggravated by the non-comparability of values (e.g. AIDS treatment vs. preventing breast cancer).

This leads to the second difference: public managers produce this value for a more complex cast of actors in their environments. Public value is ‘consumed’ by the *citizenry* rather than by paying customers, who consume private value. The citizenry expresses its needs and wants through the complex deliberations of the political process, which is subject to the influences of a diverse array of stakeholders, who convey their preferences by the mechanism of voice rather than exit (Hirschman, 1970). Thus, the public manager faces an *authorising* environment rather than a market one, which is often turbulent (Lax and Sebenius, 1986; Moore, 1995). Moreover, this authorising environment is relatively short-term in nature, most notably because of the electoral cycle that is an inevitable feature of a democratic polity.

Moreover, some of the consumers of *private* value are not paying customers, but rather either beneficiaries (who receive private value but don’t pay for it, e.g. welfare recipients) or obligatees (who have consumer-like interactions with the agency but in the process are being subjected to legal obligations, backed by the coercive power of the state, e.g. prisoners). These consumers violate the normally understood parameters of customer transactions (Flynn, 1990; Walsh, 1991; Patterson, 1998).

Of course, the public manager has an overriding responsibility to the citizenry. But in any provision of value to the public as a whole, other people are somehow affected or involved, as customers, beneficiaries or obligatees. Every alternative deployment of productive capabilities means a different distribution of values among the public and the other consumers, with differing impacts on their interests. This is important, because often the consumers are organised as stakeholder groups having disproportionate effects on the political signals legitimising the organisation’s definition of its ‘business’. One important consequence of this is that even where a manager has an apparently clear mandate from an elected political master, this may be at odds with the needs or wishes of other stakeholders, who may succeed in undermining or overturning that mandate, sometimes precipitately.

Thirdly, public sector managers use more diverse resources. In the pure private sector model, resources are unambiguously *economic*, that is, money provided as revenue or investments. Aside from its function as a signal, this money provides the means of

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acquiring or renewing labour, equipment and raw materials. In the public production process, however, not only is public money a resource, but so too is *public power*. Public managers use the legitimate authority of the state, as well as money, in order to carry out their tasks (Lasswell and Kaplan, 1950; see also Moore, 1995; Hood, 1983; Heymann, 1987). They are empowered by citizens through the political process to deploy the force of the state in pursuit of governmental objectives.

At first glance, it may seem strange to think of public power as a resource, but less so if resources are regarded as 'available means' (see Pfeffer and Salancik, 1978; Pfeffer, 1992). This is most obvious in the archetypal regulatory function, the police force. Moore and Trojanowicz (1988) cite an official study of policing in a US city:

The police are entrusted with important public resources. The most obvious is money. ... Far more important, the public grants the police another resource – the use of force and authority. These are deployed when a citizen is arrested or handcuffed, when an officer fires his weapon at a citizen, or even when an officer claims exclusive use of the streets with his siren.

This resource is used not only by regulatory agencies, such as in corporate affairs, environmental protection and consumer affairs, but also in a wide variety of other governmental functions. Just as significantly, it underpins the use of public money, in that public power is used to compel the collection of taxes.

There is another important consideration here as well: each of these resources has a cost as well as a potential beneficial effect (Moore, 1995). In the case of public money, this cost is measurable in dollar terms. In the case of public power, however, the costs have to do with how that power is used. They include misuse or abuse of power, waste, and unintended side-effects of government intervention (Bardach and Kagan, 1982; Wolf, 1988). The task of the public manager, therefore, is to maximise benefits for the public while minimising resource costs – not only dollar costs but also the costs of using public power. Thus, creating value can be seen as a calculus embracing both economic and non-economic values, including procedural ones.

Finally, public sector managers typically utilise a more diverse range of productive capabilities. Private sector managers utilise *organisational* capabilities (labour, equipment, buildings, raw materials, etc.): they are controlled by owners or managers, or can be purchased by them with money. They are at the manager's disposal, to be deployed in a variety of ways to optimise production.

Public management, however, often entails tapping a wider range of productive capabilities – not only the capabilities available within the organisation but also those available from outside it.

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Accomplishing the objectives of a government programme can often call for some of the work to be done by people or organisations other than the producing unit, such as the target group being regulated, or the programme’s clients, or other public sector agencies, or citizens generally. This is called *co-production* (Brudney and England, 1983; Osborne and Gaebler, 1992; Alford, 1998b).²

Take a simple example: a fire brigade. One way of looking at its work is to see it as engaged in putting out fires, using fire fighters, engines and stations as productive capabilities. Thus, good management is about ensuring the maximum crew readiness, quickest response time and most effective fire-dousing with minimum financial resources. Another perspective, however, is to see it as seeking to minimise human risk and property damage from fire. This calls for some additional capabilities to be deployed: fire safety and prevention work by building owners and occupiers. This work can be induced by: educational, advisory and promotional activities on the part of fire officers; subsidies or tax incentives to property owners; or regulatory power, backed up by inspections and prosecutions.

Thus the value for the public – reducing the negative externalities of fires – can be created through the use of any of several resources. One is public money: fewer or more quickly controlled fires would constitute ‘value for money’. Another is public power: thus the fire reduction could be seen as ‘value for public power’. Still another is the voluntary effort of the building owners in response to education and persuasion. In this context, good management is about ensuring the minimum fire damage using the most economical and effective mix of money, power and persuasion.

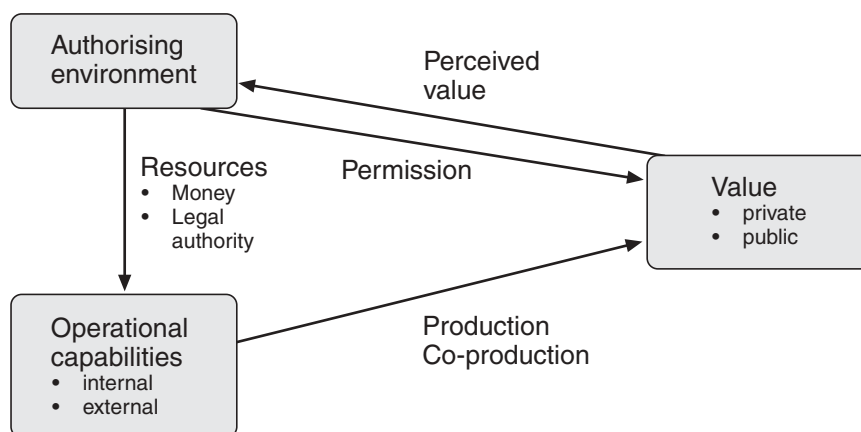


Exhibit 1.2 Management in the public sector

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These characteristics of ideal-typical public management are brought together in Exhibit 1.2. Each element is more complex than in the purely private management process. The government organisation produces not only private but also public value; it faces not only a market environment but also a political one; its key resource is not only money but also public power; and it harnesses not only organisational but also external capabilities. In the real world, as already noted, public sector organisations will exhibit different permutations of environments, resources, capabilities and values, depending on where they are located on the continuum between 'pure private' and 'pure public'.

1.4 Implications for 'content' theories of strategic management

These differences have important implications for the key concepts of strategic management. Firstly, they call for adaptation of the 'content' models, to take account of the more complex textures of value, environment, resources and/or competences present in public sector management:

- *Strategy as setting long-term direction.* The more the organisation is subject to the vagaries of the authorising environment, the more problematic it is to establish and hold to a long-term direction, especially in the context of the electoral cycle. Thus, a core department of state will be less able to maintain a long-term direction, whereas a relatively autonomous nationalised enterprise, producing clearly identifiable products or services, will be more able to do so.
- *Strategy as positioning or scope.* The more purely public the organisation, the less it is positioned in terms of the outputs (products) it produces and the markets it serves. Rather the value it produces will be conceived in terms of outcomes, defined by contrast with alternative outcomes it could have pursued, and its 'market' will be the authorising environment in which it operates. Indeed, core government enterprises will more likely need to look to the political environment to signal the appropriate positioning. This positioning may be more or less abstract, depending on the nature of the value and the environment. Similar points can be made about scope.
- *Strategic fit* is conceived not as whether the product-market strategy fits the opportunities and threats of the market environment and the strengths and weaknesses of the organisation, but rather as whether the organisation's purposes attract permission and resources from the authorising environment and can be achieved by the internal and external capabilities of the organisation. At the strategic level, the public manager seeks to define the organisation's mission in terms that maximise value to citizens and stakeholders while still attracting sufficient consent to provide both permission and resources for that

mission. In more purely public organisations this will sometimes involve difficult trade-offs between what is valuable for the public and what is acceptable to those who have predominant influence in the political environment, since the two are not necessarily synonymous in a world of unequally distributed wealth and power. Public managers therefore have a special role to play in imagining value-creating purposes which are both politically acceptable and operationally feasible.

- *Strategy as stretching distinctive competences.* To the extent that an organisation relies on either the commitment of its employees or the 'co-productive' contribution of clients, volunteers or other organisations, stretching distinctive competences entails tapping their consent, and the application of indirect influence, rather than simply the purchasing and commanding of productive capabilities. Put another way, public managers may need to enhance the contribution of not only internal producers but also external co-producers in order to 'stretch' operational capabilities, and this will entail attracting support from them, which in turn will mean that the purposes pursued by the organisation must be attractive to those external contributors.

1.5 Implications for 'process' theories

Second, the incidence of these 'purely public' characteristics qualifies the relative applicability of the different 'process' models in the public sector. Most importantly, the more public the organisation, the less relevant is the very model which has featured most prominently in the prescriptions of government reformers: the rational planning model. A 'purely public' organisation is less likely to have a clearly defined, unitary goal, its political mandate is more likely to be contested and changeable, it is more likely to be subject to argument about the use of resources (especially legal authority), and it is less likely to have direct control over the productive capabilities it needs to perform its work – all of which are at odds with the requisite conditions for employing the rational planning model. Thus, the model may be relevant for an autonomous agency delivering outputs within a settled mandate, but less so for a core policy department responsible for outcomes. That, of course, is why the reformers seek to shift more 'public' activities along the continuum towards the more private end, for example by creating separate service-delivery agencies. But it may be that in some of these cases, 'publicness' is inherent in the organisation's activities, and cannot be reorganised out of existence.³

How then should we characterise strategic processes in more 'public' agencies? In terms of description (or 'positive' theory), any of the other process models may have some validity, depending on the circumstances, although they may need to be modified to take account of 'publicness'. For example, it is true that at certain junctures, as

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population ecologists aver, particular government organisations no longer suit the demands of their environments, and become defunct. When this occurs in private sector organisations, the result is usually that the firm simply disappears along with the market demand for its products. This sometimes happens in the public sector, but more often the government organisation transmutes rather than disappears, for example through privatisation, contracting out or corporatisation. The reason is that the underlying value it provides is inescapably necessary, and the citizenry expects it to be delivered, precisely because the market fails to provide it.

It is also true that, as institutional theorists argue, organisations in the public sector seek to enhance their legitimacy by conforming to social prescriptions derived from the institutional context, and that these may be similar to those in comparable organisations. However, this 'institutional isomorphism' (Meyer and Rowan, 1977) is manifested in different ways in government.

Some prescriptions are transmitted into public agencies via mechanisms similar to those operating in the private sector (DiMaggio and Powell, 1983). Government organizations are themselves subject to regulation – by central bodies such as the Prime Minister's Department or the Treasury – which has a significant impact on practices, exemplified most notably by the waves of system-wide management reforms imposed by governments since the 1970s, amplified by mimetic processes across and between governments (see Boston, 1996). Because they employ many professionals, ranging from foresters to doctors to social workers, public bodies are also subject to occupational norms deriving from professional socialisation. Some of these normative influences are sector-specific: the values of public service, such as avoidance of partisan politics, the duty of care, and the form of briefing notes. These values sometimes lend weight to the popular stereotype of an embedded, procedurally oriented public service culture, artfully embodied by Sir Humphrey in *Yes, Minister*. Other normative influences cross-cut the sector. For instance, a public works body employing engineers may have more in common with private construction companies than with other government agencies.

But there is another type of legitimacy which is mostly specific to the public sector, namely, that deriving from interest groups in the authorising environment. These entities do not transmit social prescriptions through coercive, normative or mimetic processes (DiMaggio and Powell, 1983). Rather they do so by the mechanism of *voice* (e.g. letters to editors and MPs, public meetings, campaigns), through which stakeholder concerns are raised, but also through which underlying social prescriptions can be transmitted – for example, the relative weight to be given to achieving results vs. observing procedural probity. What makes this complex is that differ-

ent stakeholders often have conflicting demands, which can change significantly within relatively short time horizons, as can their relative influence. There is therefore a less clear-cut and more fluid set of prescriptions than might emerge from regulation or professional norms, and securing legitimacy is more complex.

Thus institutional theory makes sense of some public sector circumstances but not of others. This perhaps explains why some government organisations are examples of hidebound bureaucracy, but others exemplify significant positive change – and in some cases radical transformation – which is demonstrably attributable to managerial ‘thinking outside the loop’ and consequent action (for examples, see: Barzelay, 1992; Moore, 1995; Cooper and Wright, 1992; Kelman, 1992).

Logical incrementalism also has much to offer, in terms not only of description but also of prescription. It suits the ambiguity, uncertainty and changeability of purely public situations. If purposes or value are not clearly defined, at least in the short term, then part of the manager’s job is to help discover what should be those purposes, through a process of putting forward interim goals and gauging reactions to them. If there is uncertainty as to how those purposes might be achieved, the manager can usefully engage in trial and error, or what Behn (1988) terms ‘management by groping along’. If the political environment’s expectations or the available capabilities change, the manager needs to change tack to accommodate this change. All of these managerial behaviours can be sensibly understood as those implicit in logical incrementalism. None of this is to suggest that managers do not have some picture of where the organisation is heading. Rather it is to suggest that such pictures are tentative, more like working drafts than tablets of stone.

Complexity theory is also useful descriptively, but less so in prescriptive terms. It acknowledges that many public sector issues are ‘wicked’ (rather than ‘tame’) problems (Rittel and Webber, 1973), in that not only is the solution hard to identify, but also the very nature of the problem. Income inequality, long-term unemployment, global warming and the drug problem are examples. However, in some cases, there is more that managers can do than simply be sensitive to deviations from the normal patterns prevailing in their chaotic contexts and respond to them. One of the ways in which problems are complex is that they are beyond the capacity of any one manager’s mind to comprehend. Rather, the knowledge and capacity to generate insights into these problems is distributed across those who have some stake in it, including those the manager leads. In such circumstances, the task of the manager is not so much to name the problem, find the solution and present it for implementation, as to lead others in identifying and deliberating about it. Heifetz (1994) calls this managerial task ‘mobilising adaptive work’. It entails challenging others to confront uncom-

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fortable realities, framing issues, and providing an environment within which deliberation can occur, and if necessary orchestrating but containing conflict.

This, of course, throws up an image of the public manager quite different from the traditional stereotype of the obedient, faceless civil servant, who faithfully implements policy instructions handed down by political masters. Rather it suggests that managers in more 'purely public' contexts play a role in facilitating the process whereby the polity defines what is valuable. As Robert Reich (1988: 5–6) puts it:

The core responsibility of those who deal in public policy – elected officials, administrators, policy analysts – is not simply to discover as objectively as possible what people want for themselves and then to determine and implement the best means of satisfying these wants. It is also to provide the public with alternative visions of what is desirable and possible, to stimulate deliberation about them, provoke a re-examination of premises and values, and thus to broaden the range of potential responses and deepen society's understanding of itself.

1.6 Conclusion

Strategic management theory largely evolved in the corporate sector, and in the business schools which trained that sector's managers. Organisations vary in the extent to which they approximate private corporations, and as a consequence the applicability to them of the various strands of strategic management theory also varies. In the case of 'content' theories, greater 'publicness' of an organisation calls not so much for their abandonment as their modification. Notions such as 'long-term direction', 'positioning', 'fit' and 'stretch' still have use in managing more public organisations, but their content needs to be adapted to take account of the specific types of values, environments and capabilities those organisations entail.

In the case of 'process' theories, the complexity and turbulence facing more public organisations tends to vitiate the relevance of rational planning. Instead, strategy making tends to be more open-ended and less subject to managerial control. As a result, being strategic means imagining alternative visions and attracting support for them internally and externally, or on occasion mobilising others to deliberate about what those visions should be.

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Notes

- 1 To talk of it as a 'production process' is not to conceive of public sector management in terms of Taylorist assembly-lines. Production simply means any conversion of resources into what is valued.
- 2 Some private sector organisations also make use of co-production (e.g. supermarkets, self-service petrol stations) but its incidence in private business is not as extensive or as varied as in government. This is not surprising, given that much of government is in the business of intervening in social processes for collectively agreed purposes.
- 3 This seems to have been the case, for example, with the 1995 dispute between the UK Home Secretary and the head of the Prison Service – a separate 'executive agency'. The latter was blamed for two serious prison escapes and dismissed. He subsequently sued the government successfully for full compensation and costs, arguing that the ministerial policy framework was partly responsible for the escapes. This framework included prisoners' rights and prisoner allocation policy, which embodied different values to the performance criterion of effective containment under which he was dismissed. See Barker (1998).