

# 2 Strategy development

## Introduction

This session builds on the outline given in study session 1 page 1 by moving on to consider how strategy development happens in practice. It considers the concept of strategy lenses in further detail, before appraising strategy development processes which exist in organisations. An important aspect of this in public services relates to strategic freedom, which will be explored in some detail. Finally, the session looks at the overall implication of strategy making in public services.

## Prior knowledge

This session closely follows study session 1 page 1 and should not be attempted until the learning

objectives of study session 1 have been achieved. A broad understanding of organisational culture from the Leadership and Management module will also aid understanding, as will knowledge on the working and financing of public services drawn from the modules Governance and Public Policy, and Public Finance.

## Study time

This session should take approximately 10 hours to complete, excluding time spent on attempting questions in the question bank, with each learning objective taking between 2 and 3 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:

- 2.1 Discuss the theoretical concepts of strategy development including design, experience and ideas (page 59)
- 2.2 Explain observable processes in strategy development using theoretical ideas (page 60)
- 2.3 Appraise intended and realised strategy, strategic drift and the role of complexity and dynamism (page 61)
- 2.4 Analyse the impact of working in the public sector on an organisation's strategy development and strategic processes (page 61)

## 2.1 Theoretical concepts of strategy development including design, experience and ideas

Turn to Johnson and Scholes (2002) and read from Section 2.1 page 66 to the end of section 2.2.4 page 90. The lenses of strategy were introduced in study session 1 page 4, and this section builds on those foundations. Strategy as design tends to fit comfortably with accountants' professional training in that it uses a formalised and analytical approach to strategic management, but note carefully the authors' comments in the final paragraph on page 70.

Strategy by experience draws heavily on cultural theory, which you studied in the Leadership and Management module. You may find it useful to revisit your previous studies to revise the important aspects of organisational culture.

Strategy by ideas is exciting and innovative, using the words and vision that are often used by government ministers and academics in their enthusiasm for developing public services.

### Learning activity 2.1a

Read Illustration 2.2 in Johnson and Scholes (2002) page 76 and identify examples of institutionalised norms that exist in your organisation.

See page 62 for feedback on this activity.

### Learning activity 2.1b

Consider the structure and management of your current organisation, and appraise the extent to which it encourages 'ideas'. You may find it useful to consider this in relation to the concepts of entrepreneurship studied in the Leadership and Management module.

See page 62 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 2.1.

### Self assessment question 2.1

1. What term expresses the set of assumptions taken for granted in an organisation?
2. True or false?
  - (a) When strategy is developed by ideas, the role of top management should be to coach and champion.
  - (b) Strategy by design sees incremental development as the outcome of collective experience.

(c) Strategy by ideas sees organisations as mechanistic, hierarchical and logical.

3. Which of the following definitions best describes the concept of strategy by design?

- (a) Strategy develops with little forethought.
- (b) Strategy imposed by an outside element.

(c) Strategic decision making through structured analysis.

See page 63 for feedback on this question.

You should now be able to discuss theories on strategic development.

## 2.2 Observable processes in strategy development

Return to Johnson and Scholes (2002) and read from Section 2.3 at the top of page 90 to the end of Section 2.3 at the bottom of page 103. This section explores schools of thought on strategic development.

Read carefully Section 2.3.1 page 90 to page 94 on 'the planning view' which highlights many commonly held beliefs on how strategy is formulated. The dangers of this approach listed on page 92 and page 93 are particularly illuminating and you may recognise some of the scenarios.

'Logical incrementalism' is explained in Section 2.3.4 page 98 to page 100, with Exhibit 2.7 page 99 giving a clear summary representation of the theory. This school of thought is extremely popular at the moment, championed by leading academics including Mintzberg and Quinn.

Take special note of the explanation of 'imposed strategy' in Section 2.3.6 page 102. You will notice the links that the authors make to the public sector, and we will explore this later in learning activity 2.2b page 60.

Section 2.3.7 page 102 to page 103 starts off by clarifying that elements of all these explanations are likely to occur within an organisation. The groupings, characteristics and organisational contexts included in Exhibit 2.9 page 103 are especially useful in gaining an appreciation of this point.

### Learning activity 2.2a

So far this session has been quite theoretical, and it will help to reinforce learning if the explanations explored are applied to your workplace. Given your experience of your organisation, consider which of the explanations of strategy development best apply. Write down why you have reached your conclusions, and comment on the impact this has on your organisation.

See page 63 for feedback on this activity.

### Learning activity 2.2b

After completing learning activity 2.2a, you may be left with the impression that strategy is imposed on most of the public services, so why carry out strategic management? This raises the issue of 'strategic freedom', which we can explore further in this activity.

Strategic freedom is the subject of regular debate in *Public Finance* and in academic journals. The issue is often raised through government controls on funding, with issues around council tax capping, devolution and deregulation. There is always a dichotomy for governments in giving public organisations strategic freedom, which revolves around the issues of standards of service, ministerial accountability and local freedoms. These are often highlighted in the press with headlines referring to 'postcode lottery'.

Given your response to learning activity 2.2a, or to an example from the feedback on page 63, consider the extent to which the organisation being considered has the freedom to create strategic direction. Do not concern yourself now with potential customer reaction to a decision (that will be covered in a later session) but concentrate on what management could legally decide if it so wished.

See page 63 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 2.2.

### Self assessment question 2.2

True or false?

- (a) Logical incrementalism is enforced by the environment.
- (b) Cultural paradigms inform strategy in part by affecting issue awareness.
- (c) Most organisations follow a single explanation of strategic development.
- (d) Strategic leaders manage strategy alone.
- (e) A learning organisation is one capable of continual regeneration.
- (f) Strategy development through processes of bargaining and negotiation defines the political view.

See page 64 for feedback on this question.

You should now be able to discuss the processes of strategy development by way of different theoretical viewpoints.

## 2.3 Intended and realised strategy, strategic drift and the role of complexity and dynamism

Turn to Johnson and Scholes (2002) and read from Section 2.4 page 104 to the end of Chapter 2 page 115.

Note carefully the definitions of intended and realised strategy on page 104. Similarly, spend time on the concepts of punctuated equilibrium and the dynamics of paradigm change pictorially represented in Exhibit 2.11 page 107 and Exhibit 2.12 page 108.

The reality of strategic management differs depending on specific environmental conditions, a reality that is explored in Section 2.4.3 page 111 to page 113 and summarised in Exhibit 2.14 page 112. These are a useful link to study session 3 page 143 and study session 4 page 150 on the environment.

### Learning activity 2.3

Consider the nature of the environment within which you work. On the basis of this study session, how would you classify the environment in terms of complexity and dynamism? Justify your classification, and consider the most appropriate approaches to understanding that environment.

See page 64 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 2.3.

### Self assessment question 2.3

1. What are the two issues that make it most difficult to predict the environment?

2. Which of the following approaches would be most suitable for a static/simple condition?
  - (a) historical analysis and forecasting
  - (b) experience and learning
  - (c) scenario planning.
3. How do managers tend to cope with environmental complexity?
4. Which of the following is the correct definition of strategic drift?
  - (a) Strategic drift occurs when realised strategy is at variance with planned strategy.
  - (b) Strategic drift occurs when strategic direction is at odds with an organisation's cultural paradigm.
  - (c) Strategic drift occurs when an organisation's strategy gradually moves away from relevance to the environment.
5. What are the likely options for an organisation with major strategic drift?

See page 65 for feedback on this question.

You should now be comfortable with the terms intended and realised strategy and strategic drift, and appreciate the importance of environmental conditions.

## 2.4 Strategy development in public services

Having studied the theoretical aspects of strategic management, and considered how they could apply to your organisation, this section allows us to explore the findings of academic research in this area.

Now read Johnson and Scholes (2001) Chapter 2 page 122 to page 136. Note the six dimensions, which correlate to those outlined in your earlier reading; for 'command dimension', read 'strategic leadership'.

### Learning activity 2.4

Outline the key differences researchers found in strategic management between the public and private sectors. Analyse why these differences may exist.

See page 65 for feedback on this activity.

If you feel as though you have mastered this learning objective, try self assessment question 2.4.

### Self assessment question 2.4

1. Identify the three dimensions where strategy is an outcome of organisational processes.
2. Which dimension was seen as most important by public sector managers, but far less so by private sector managers?
3. True or false?
  - (a) Public service managers see the command dimension as more important than private sector managers see it.

- (b) NHS managers were found to rate the political dimension as more important than managers in any other public service sector.
- (c) In local government the culture and enforced choice dimensions were found to be greater than elsewhere.

- (d) As market influence increases, the command dimension becomes more important.

See page 65 for feedback on this question.

You should now appreciate the impact of working in the public sector on strategically managing an organisation.

## 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 115, of which the works of Quinn (1980) and Mintzberg et al. (1998) are particularly relevant.

## Summary

Now that you have completed this session you should understand the following key points:

- There are three theoretical lenses used to describe strategic development: design, experience and ideas.
- Observable processes in strategic development include planning, leadership, politics, logical incrementalism, learning and imposition.

- Intended strategies are desired, while realised strategies are those actually being followed.
- Strategic drift occurs as an organisation moves away from the demands of the environment.
- Compared to private services, public services see a more important role for imposition, culture and politics, and a less important role for command.

## 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 2.1a

Each organisation will be different, but you will find it useful to compare your answer with the examples provided here, prepared for a specific university and secondary school. These are not meant to be standard answers for all universities or schools, but purely illustrative – one of the complex aspects of culture is that every organisation is different!

University example paradigm:

- Our degrees are better than any others.
- Academic freedom is paramount.
- Application takes second place to new thinking.
- Research takes precedence over lecturing.
- Administrators are there to help academics.
- Finance is not an issue.
- Promotion is through academic reputation.

Secondary school example paradigm:

- Pupils should all progress to university.
- Achieving league table position is critical.
- Academic subjects have precedence over art and sport.
- Teachers are badly treated by parents and government.
- Teachers are badly paid.
- Parents do not give credit to teachers.

## Feedback on learning activity 2.1b

Encouraging strategy by ideas is contrary to the situation in many organisations, especially public service organisations, because it requires management to undertake a far less traditional role.

Once again all answers will be different, but you will find it useful to refer to the bullet points in Johnson and Scholes (2002) page 88. Many of the issues here will be familiar to you from your Leadership and Management studies on encouraging entrepreneurship and innovation. These are particularly difficult in many public services due to the extent of documentation required to fulfil stewardship responsibilities.

In answering this learning activity you should have addressed the following questions for your organisation:

- Do managers expect to plan new developments from the top down?
- Are managers internally focused, concentrating on reducing cost or increasing output?
- Do managers expect consistency and discourage variety?
- Do tight control mechanisms exist?
- Is there a formal planning process which is followed annually?
- Do managers prefer to direct rather than coach?

The extent to which you answer 'yes' to these questions should point to whether strategy is

developed by design in, or such an approach is realistic for, your organisation. The more of your answers that are 'yes', and the firmer the 'yes', the less likely it is that strategy is developed by ideas.

### Feedback on self assessment question 2.1

1. The term paradigm is used to describe the set of assumptions taken for granted in an organisation.
2. True or false?
  - (a) True.
  - (b) False – this is strategy by experience.
  - (c) False – this is strategy by design.
3. c.

### Feedback on learning activity 2.2a

Your answer to this learning activity will depend on the sector in which you work and on the organisation within that sector. Some examples are provided here of organisations in local government, health and education. Compare your answers to these and the examples in Johnson and Scholes (2002) Exhibit 2.9 page 103. There is no right or wrong answer, so you are not expected to recreate these, but it is important that you can explain your view and support it with clear examples.

#### Local authority

**Explanations:** Predominantly imposed with some political and cultural impact.

**Justification:** Government legislation on most services outlining what must be provided; little room for variation; tight financial control; increasing performance control.

Political and cultural impact due to historical role; pecking order of services; bureaucratic in nature; councillor and officer relationship.

**Impact:** Feeling of no freedom, local administration rather than local authority; strategy seen as being of little importance; internal squabbling; focus on process.

#### Health trust

**Explanations:** Planned process, in reality probably cultural and imposed.

**Justification:** Formalised strategic and business planning processes, although this is imposed by NHS Executive; plans produced but often overtaken by events; government strategies and priorities ride roughshod over trust strategies; high impact of cultural paradigm on development of strategy, including importance and freedom of consultants, free at the point of delivery, NHS carers.

**Impact:** Feeling of frustration with the planning process, strategy development not crucial as events overtake plans; fragmented service strategies driven by consultants; sudden changes in strategy due to political priorities.

#### New university

**Explanations:** Imposed, political and cultural.

**Justification:** Many strategies enforced by government policy on funding, student numbers and initiatives on research and recruitment; strong internal politics and pecking order on relative academic importance of subjects and research; strong cultural impact of academics having independence and academic freedom; slow development due to collegiate approach and general critical discussion of all decisions.

**Impact:** Strategies tend to follow government thinking and funding; direction is hard to achieve due to academic freedom, government's changing priorities and delay caused by excessive discourse.

### Feedback on learning activity 2.2b

Once again, this activity should stretch your imagination and creativity, depending on the organisation you have considered.

From your regular reading of *Public Finance* you will have identified major issues around strategic freedom. You may have picked up issues including:

- Councils' 'well-being' powers under the Local Government Act 2000 (*Public Finance*, 09 January 2004) which introduced a new function whereby councils promote economic, social and environmental well-being. Principally applied through new and improved housing, this legislation is seen as considerably increasing the strategic power of councils.
- Calls to 'free the health service' and create an arms-length NHS (*Public Finance*, 31 October 2003).
- The debate on changing the gearing on council funding by increasing the amount raised locally (*Public Finance*, 24 October 2003, 12 December 2003 and 20 February 2004).
- The news that the suggestion of returning business rates to town halls is gaining support (*Public Finance*, 23 January 2004).
- The promise of increased devolution of healthcare funding (*Public Finance*, 12 December 2003).
- The extent to which foundation trusts will be reviewed and controlled (*Public Finance*, 28 December 2003).

- The ongoing threat of capping council expenditure (*Public Finance*, 28 November 2003 and 16 January 2004).

Taking these recent developments into account – and you should keep monitoring these issues – some of the strategic decisions that could be made are listed below (you will note that many are common across organisations).

## Local authority

- Outsource all (become an enabling authority) or keep all in-house?
- Enter partnerships (such as private finance initiative – PFI) or work in isolation?
- Develop new ways of providing services or concentrate on what is known?
- Create new democratic processes (cabinet/mayor) or retain committee structures?
- Champion new initiatives (Best Value) or resist change?
- Determine resource allocation across services based on need or allocate based on applying government allocation formulae to local level?
- Chase new funding (European) or not risk the investment?
- Drive forward creative use of technology or watch others and follow when value for money is proved?

## Health trust

- Outsource all (become an enabling authority) or keep all in-house?
- Enter partnerships (such as private finance initiative – PFI) or work in isolation?
- Develop new ways of providing services or concentrate on what is known?
- Champion new initiatives or resist change?
- Chase new funding or not risk the investment?
- Drive forward creative use of technology or watch others and follow when value for money is proved?
- Specialise or generalise?
- Consolidate on single site or maintain traditional multi-site complex?

## New university

- Concentrate on research or teaching?
- Open access or elitist recruitment?
- Develop new subjects or concentrate on traditional classics?
- Encourage consultancy or purist research?
- Outsource all (become an enabling authority) or keep all in-house?

- Enter partnerships (with business) or work in isolation?
- Develop new ways of providing education or concentrate on what is known?
- Champion new initiatives (vocational) or resist change?
- Chase new funding or not risk the investment?
- Drive forward creative use of technology or watch others and follow when value for money is proved?

There are many additional examples, but this should give you some ideas. In all of these examples, some strategy is imposed on the organisation by the environment, but each organisation has some, or considerable in some cases, strategic freedom to take a strategic direction within those bounds.

## Feedback on self assessment question 2.2

- (a) False (b) True (c) False (d) False (e) True (f) True

## Feedback on learning activity 2.3

Your answer to this learning activity will depend on the type of organisation you selected. However, a selection of public service organisations is discussed here. Consider your responses in relation to these.

## Local government

Johnson and Scholes (2002) suggest that the nature of a local authority environment is 'complex', with varying degrees of static and dynamic units. Certainly a local authority has a vast environment because it undertakes such a range of activities, from education, social services, highways and refuse disposal in a county council to housing, leisure and refuse collection in a district or borough council, to name but a few. Clearly a London borough or a unitary authority will need to be aware of environmental changes in all of these service areas, therefore complexity is high. So the question is, how dynamic is that environment? Most of the services mentioned above tend towards the static end of the spectrum, although there are occasionally sudden major changes through legislation. It could be argued that services like leisure and environmental services currently have a more dynamic environment. Local government tends to deal with its complex environment by decentralisation and service-based strategic decisions. For those services which tend towards the static end of the spectrum, most authorities undertake forecasting to project need into the future, especially demand for school places and social support.

## Health

The complexity of healthcare and its huge range of stakeholders certainly points towards a complex environment. In terms of dynamism, many healthcare services have a fast-changing environment, while

others are reasonably static. Treatments for some patients in long-term care tend to be fairly static, while those for some acute conditions are extremely dynamic. Most health authorities and trusts will undertake historical analysis and forecasting to ascertain the potential demand for their services, suggesting a fairly static environment. Technology changes are threatening to have a huge impact on the health sector, with developments like NHS Direct and NHS On-Line leading the way. In response, scenario analysis may be an appropriate approach.

### Central government agencies

Depending on the size and purpose of the agency, the complexity of the environment will differ. Conditions tend to be fairly static for periods, but the political environment can result in sudden, major change. Hence scenario analysis would be useful.

### Further and higher education

There tend to be many environmental influences on the provision of education services, so the environment is reasonably complex. However, in recent years the environment has been relatively static in terms of the demand for, and provision of, courses. This may change with the increased use of technology to deliver education and the introduction of increased charges for places. Historical analysis, forecasting and scenario planning are likely to be the most-used approaches.

### Feedback on self assessment question 2.3

1. Complexity and dynamism make it most difficult to predict the environment.
2. a.
3. Managers tend to simplify and focus on factors that traditionally have been important.
4. c.
5. Paradigm change or demise are the likely options for an organisation with major strategic drift.

### Feedback on learning activity 2.4

You should have noted the following:

- Public sector managers saw the enforced choice dimension as being far more important than private sector managers. This is in line with the findings of learning activity 2.2a page 60 and learning activity 2.2b page 60 where you explored the extent to which public services have strategic freedom. This would seem to indicate that although some freedom exists, public sector managers take notice of, and are guided by, legislation and guidance to a greater extent than their private sector colleagues.

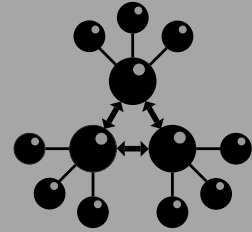
- Public sector managers saw the command dimension as far less important than private sector managers. The authors of Chapter 2 in Johnson and Scholes (2001) conclude that this may be the opposite to regarding the enforced dimension as having greater importance in that if strategy is enforced by government, the need for clear strategic leadership is removed. It is certainly fair to say that there has been a lack of focus on strategic managers in public services, supported by recent articles (such as *Public Finance*, 24 October 2003) which focus on the lack of local political leadership. However, the issue of leadership, in all its permutations, is growing, with good leadership being rewarded throughout the public services and examples of good leadership being reported, like the move of Anna Klonowski from London Borough of Hackney to North East Lincolnshire Council (*Public Finance*, 30 January 2004).
- From the detailed analysis within the public sector, including comparison with the recently privatised organisation, it was found that the importance of the enforced dimension decreased while that of command increased, which suggests that as regulation gives way to market forces, the role of the strategic leader grows in importance.
- Finally, the cultural and political dimensions scored slightly higher in public services. Again this would seem to support our earlier thoughts on culture (think back to the learning activities in learning objective 2.1 page 59) in that the paradigm that exists in many public service organisations is strong. Additionally, the importance of the political dimension can be seen in the diversity of services and stakeholders which exist in most public service organisations. Add to that the political bargaining that takes place when your strategic leaders are also political representatives, and bargaining within the organisation becomes far more critical in setting strategic direction.

### Feedback on self assessment question 2.4

1. Strategy is an outcome of organisational processes in the political, cultural and incremental dimensions.
2. Enforced choice was seen as most important by public sector managers, but less so by private sector managers.
3. True or false?
  - (a) False.
  - (b) True.
  - (c) True.
  - (d) True.

# 2

## Understanding Strategy Development



### LEARNING OUTCOMES

After reading this chapter you should be able to:

- Draw on different ways of thinking (or *lenses*) about how strategies develop: in particular understand that strategy development can be seen in terms of:
  - rational, analytic *design*;
  - the adaptation of prior strategy as a consequence of people's *experience*, taken-for-granted assumptions and ways of doing things;
  - the strategy which emerges from the variety and diversity of *ideas* in and around organisations.
- Use these different lenses on strategy development to explain observable *processes* in organisations such as:
  - strategic planning systems
  - strategic leadership
  - political activity
  - logical incrementalism
  - organisational learning
  - imposed strategy
- Explain the difference between *intended* and *realised* strategies.
- Explain the reasons for *strategic drift*.
- Consider how different processes of strategy development may be more or less suitable in different conditions.

### 2.1 INTRODUCTION

In Chapter 1 strategy was defined. This chapter provides explanations of how strategies come about in organisations. There are different explanations of this and these are discussed in terms of the three 'lenses' - or ways of seeing things - introduced in Chapter 1 (section 1.3), which employ and build on different organisational theories in order to enable the reader to consider strategy development processes critically.

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

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### Exhibit 2.1 Understanding strategy development



Exhibit 2.1 summarises the structure of the chapter, and begins with the different lenses.

- First the *design* lens, the idea that strategy is formulated by top management through careful analysis and planning and implemented down through the organisation.
- Next the *experience* lens is discussed. This section draws on research which shows how strategic decisions are made and strategies develop as the outcome of people's *experience and cultural processes* in and around organisations.
- The next section examines the *ideas* lens: how quite new strategies can be explained, why some organisations are more innovative than others and why and how some organisations seem to cope with a fast-changing environment better than others.

Following a discussion of these three lenses, they are employed to shed light on strategy development processes evident in organisations. These processes include *planning, strategic leadership* (which encapsulates *entrepreneurial processes and strategic vision*), *political processes, logical incrementalism,*

the idea of the *learning organisation* and that strategy might be *imposed* on organisations. In fact, it is rare to find organisations in which singular explanations are adequate to explain strategic decision making and strategy development: multiple explanations of strategy development are usually evident in organisations and these are illustrated at the end of this part.

The final part of the chapter builds on this review of processes to raise some *implications for strategy development*.

- The differences between formal planning resulting in *intended strategy* and *realised strategy* arising from emergent strategy development processes are considered and the implications discussed.
- Patterns of strategy development are also discussed, showing the ways in which strategies are observed to develop over time in organisations. The conclusion is that strategic changes may take different forms, but do not usually occur as major, one-off changes in direction. Rather, they are more gradual, incremental developments, with only occasional, more ‘transformational’ change. This is explained in relation to the previous discussion in the chapter. There is then a discussion as to why there is a tendency in organisations for *strategic drift*, in which strategies lose touch with the changing environment of the organisation.
- The final part of this section considers the appropriateness of the different lenses and different processes of strategy development in relation to the environmental *context of organisations*; in particular, how different approaches to strategy development may be more or less well suited to *stable, dynamic or complex* environments.

The *summary* at the end of the chapter draws together the lessons from the chapter and briefly discusses implications for the structure and content of this book.

## 2.2 THE STRATEGY LENSES

Most people make sense of complex situations in more than one way. Think of everyday conversations or discussions. It is not unusual for people to say: ‘But if you look at it this way. . . .’ It is useful to take more than one view of an issue, especially if it is complex. Taking one view can lead to a partial and perhaps biased understanding. A fuller picture, which might give different options or solutions, can be gained from viewing the issue in terms of multiple perspectives or, as employed here, through different lenses. This part of the chapter considers how the development and management of strategy can be viewed through the lenses of *design, experience and ideas*.<sup>1</sup>

### 2.2.1 Strategy as design

Tutors often start a strategy course by asking students what they mean by ‘strategic management’. Typically the first few characteristics that come back from the class are: ‘planning’, ‘setting objectives’, ‘analysis’ and maybe

'evaluating options'. These are words associated with a *design* view of strategy.<sup>2</sup> Stated more fully, the assumptions underpinning a design approach to strategy development are these:

- Although the range of influences on an organisation's performance are many, they can be understood through careful analysis such as to identify those which are most likely to influence the organisation significantly. It may even be possible to forecast, predict or build scenarios about future impacts such that managers can think through the conditions in which their organisation is likely to operate. Strategy development is therefore seen as a process of systematic thinking and reasoning.
- This analysis permits the matching of organisational strengths and resources with the changes in the environment of the organisation so as to take advantage of opportunities and overcome or circumvent threats. The strategy of an organisation is, therefore, the result of decisions made about the positioning and repositioning of the organisation in terms of its strengths in relation to its markets and the forces affecting it in its wider environment.
- This analytic thinking precedes and governs action. So decisions about what the strategy should be in terms of its content come first and are cascaded down through the organisation to those who have to make things happen. Decisions about what the strategy should be are therefore separate from the implementation of that strategy.
- It is the responsibility of management – more specifically, top management – to plan the destiny of the organisation. So an assumption here is that an organisation is a hierarchy with top management who make important decisions, and lower levels of management, and eventually the population of the organisation, who carry out these decisions.
- All this is done logically. Objectives are clear and probably explicit, there is careful and thorough analysis of the factors internal and external to the organisation that might affect its future and inform management about the strategic position of the organisation, and a range of options for future strategic direction are considered and evaluated in terms of the objectives and the forces at work on the organisation. A strategic decision is then made on the basis of what is considered to be optimal, given all these considerations; and its implementation is planned in terms of how it will be cascaded down through the various functions and levels of the organisation.
- There are tools and techniques which enable managers to understand the nature and impact of the environment an organisation faces, the particular competences of that organisation, the influence of power within and around the organisation, the organisational culture and its links to strategy, the strategic choices an organisation has available to it, how decisions can be put into effect through project planning, and so on. In this book we explain many of them and discuss their usefulness.
- Associated assumptions are that since the complexity organisations face can be understood in this analytic way, logical conclusions will be reached by a rational group of top managers and people in the organisation will accept the consequent logic. The organisation is, then, seen as a rational system.

- This system can be controlled in a rational way too. The structure of the organisation should be suited to the strategy to be followed; and the various control systems, including budgets, variance analysis, management by objectives and so on will facilitate the control of strategic direction by providing means by which top management can assess whether or not others in the organisation are meeting expected objectives and behaving in line with the strategy.

Illustration 2.1 shows how such assumptions may take form; and Exhibit 2.2 shows data from a survey<sup>3</sup> which asked managers to report on how they saw strategies developing in their organisations. It shows that features of the design approach are seen as being present. However, it also shows that this differs in some important ways. For example, it differs by level of manager; and there are differences by context, with managers in more stable environments seeing more evidence of design than those in more uncertain environments. This perception of design processes managing strategy can be explained in a number of ways.

- First and most obvious is that objective setting, planning systems and the use of analytic and evaluative tools are found in most organisations. So there are visible signs of the design lens. However, the fact that such systems are present does not necessarily mean that they are actually the way in which strategy is managed (see below). There are other reasons why managers may perceive design as the means of strategy development.
- The design lens also provides the basis of an approach to managing complexity which is logical and structured. In this sense it helps provide a means of coping with such complexity.
- However, a third reason is to do with the desire to feel in control. Quite understandably managers, particularly CEOs, need to feel in control of the complex and often challenging situations they face. The assumptions, tools and techniques of design provide them with ways in which they can feel in control.
- Rationality is also deeply rooted in our way of thinking and in our systems of education over the past two thousand years. In this sense the design lens is deeply embedded in our human psyche. So, for example, even when managers do not report that strategy is actually developed in ways the design lens suggests, they often think it should be.
- It should be added, however, that managers typically do see other explanations. The elements of design are seen by them as *one* explanation, not as *the* explanation of how strategies develop in their organisations.

In summary, then, the **design lens** views strategy development as the deliberate positioning of the organisation through a rational, analytic, structured and directive process. The big question is whether this is an accurate or sufficient portrayal of strategic management. This book argues that the design lens is useful but not sufficient. Other explanations help a fuller understanding of the practice of strategic management and provide insights into how the complexity of strategic management can be handled.

The **design lens** views strategy development as the deliberate positioning of the organisation through a rational, analytic, structured and directive process

## Illustration 2.1



### The Management Charter Initiative (MCI)

*The strategic management competences identified by organisations often emphasise planning, analysis, evaluation and control.*

After independent reports suggested that UK companies needed to be better at management development, the MCI was established in 1988. It was a system of management competence standards, and was the combined idea of the Confederation of British Industry, the British Institute of Management, and several companies, including Shell and BP. Its highly structured format identified competences that were required by managers.

The following is an extract from Strategic Management Level 5:

- *External and internal operating environments* involves reviewing your organisation's external operating environment, evaluating your competitors and potential partners, developing good relationships with your organisation's stakeholders, and reviewing your organisation's structures and systems.
- *Establish strategies to guide the work of your organisation* is about strategic planning. It involves helping to create a shared vision and mission to guide the work of your organisation, helping to define its policies and values, formulating objectives and strategies, and gaining support for the strategies you are proposing.
- *Evaluate and improve organisational performance* is about managing the strategic performance and achieving necessary improvements. This involves developing measures and criteria to evaluate your organisation's performance, carrying out evaluations, and finding the reasons for success and failure in your organisation's strategy.
- *Secure financial resources for your organisation's plans* covers examining the way your organisation generates and allocates financial resources, evaluating proposals from others on expenditure, and obtaining the financial resources which your organisation needs.
- *Enhance your own performance* is about continuously developing your own knowledge and skills and optimising your use of your time and other resources so that you can meet your objectives.
- *Enhance productive working relationships* is about enhancing relationships with your managers and other colleagues. It involves providing guidance on your organisation's values and how to work in accordance with these values.
- *Develop management teams* is about improving the performance of your management team. This involves analysing the strengths and weaknesses of your team and its members, and then taking steps to improve your teams effectiveness.
- *Delegate work to others*. It involves giving responsibility and authority for substantial pieces of work - whole programmes of work, part programmes of work and important one-off tasks - to others. It also covers agreeing with them the targets they need to achieve, advising and supporting them in what they do, and promoting and protecting them and their planned activities.
- *Chair and participate in meetings* is about leading and contributing to meetings so that the objectives of the meetings can be achieved.
- *Use information to take critical decisions* covers obtaining relevant information, analysing this information and taking decisions which are critical to your organisation's performance. It also covers advising and informing other people.

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#### Questions

1. How do the MCI competences correspond to the explanation of the design lens?
2. Using the explanations of the experience and ideas lenses, suggest ways in which these competences may not be sufficient.

**Exhibit 2.2** Managers' perceptions of elements of the design lens

Perceptions that there exists:	LEVEL IN ORGANISATION		ENVIRONMENTAL STABILITY	
	CEO	Middle management	Higher	Lower
Precision of objectives	Yes	No	Yes	No
Detailed planning	Yes	No	Yes	No
Systematic analysis of environment	Yes	No	Yes	–
Careful evaluation of strategic options	Yes	No	–	–

These findings are based on a survey of perceptions of strategy development processes undertaken at Cranfield School of Management in the 1990s. The findings indicate statistically significant differences.

### 2.2.2 Strategy as experience

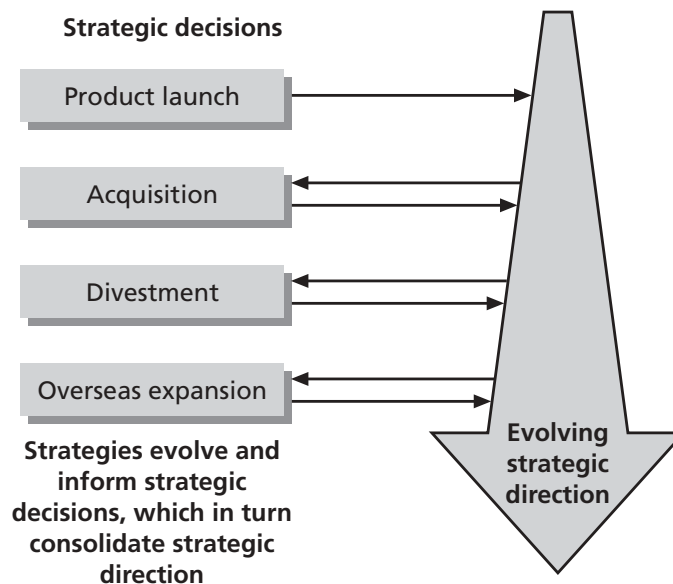
Since strategy is about the long-term direction of an organisation, it is understandable that it might be thought of in terms of major decisions about the future taken at a point in time at the top of the organisation and resulting in one-off major changes. However, much of the evidence from research carried out into how strategies develop in organisations gives a different picture. It suggests that, more typically, strategies develop in an *adaptive* fashion building on the existing strategy and changing gradually. Strategy is better understood in terms of continuity, or 'momentum':<sup>4</sup> once an organisation has adopted a particular strategy, it tends to develop from and within that strategy, rather than fundamentally changing direction.

An apparently coherent strategy of an organisation may not be pre-planned in some grand fashion. It can develop on the basis of a series of strategic moves each of which makes sense in terms of previous moves. Perhaps a product launch, or a significant investment decision, establishes a strategic direction which, itself, guides decisions on the next strategic move – an acquisition perhaps. This in turn helps consolidate the strategic direction, and over time the overall strategic approach of the organisation becomes more established. As time goes on, each move is informed by this developing pattern of strategy and, in turn, reinforces it. Exhibit 2.3 shows this. This could, of course, lead to a quite significant shift in strategy, but *incrementally*. In many respects, such gradual change makes a lot of sense. No organisation could function effectively if it were to undergo major revisions of strategy frequently; and, in any case, whilst change occurs in the environment, it is unlikely that it will be so great that this would be necessary. In a positive sense, incremental change could therefore be seen as adaptation to the opportunities which arise in a continually changing environment. However, it can also be seen as heavily influenced by experience. The **experience lens** views strategy development as the outcome of individual and collective experience of individuals and the taken-for-granted assumptions most obviously represented by cultural influences.

The **experience lens** views strategy development as the outcome of individual and collective experience of individuals and the taken-for-granted assumptions

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**Exhibit 2.3** Strategic direction from prior decisions**Experience and bias**

Human beings are able to function effectively not least because they have the cognitive capability to make sense of problems or issues they come across. They recognise and make sense of problems and issues on the basis of past experience and what they come to believe to be true about the world. More formally, **individual experience** can be explained in terms of the mental (or cognitive) models people build over time to help make sense of their situation. Managers are no exception to this. When they face a problem they make sense of it in terms of the mental models which are the basis of their experience.<sup>5</sup> This has major advantages. It means they are able to relate such problems to prior events and therefore have comparisons to draw upon. It means they can interpret one issue in the light of another; they therefore have bases for making decisions based on prior experience. If they did not have such mental models they could not function effectively; they would meet each situation as though they were experiencing it for the first time.

There are, however, downsides to this. The same mental models, the same experience, can lead to bias. People, managers included, make sense of new issues in the context of past issues; they are likely to address a problem in much the same way as they dealt with a previous one seen as similar. Moreover, they are likely to search for evidence which supports those inclinations. So some data will be seen as more important than other data and some may not be taken on board at all. For example, a profit downturn in a business might be interpreted differently by managers with different functional backgrounds.

**Individual experience:**  
mental (or cognitive) models  
people build over time to help  
make sense of their situation

A sales or marketing executive might see it as a result of increased competitor activity or a downturn in market demand, and may advocate increased promotional expenditure to put things right. The production manager may see it as a matter of quality or efficiency and advocate investment in more state-of-the-art manufacturing plant. The accountant may see it as matter of rising costs and advocate better cost control or reduction in expenditure. Such biases are not simply a matter of functional experience, however. They can result from any prior experience in organisational or personal terms. The important points are these:

- The interpretation of events and issues in terms of prior experience is bound to take place. The idea that managers approach problems and issues of a strategic nature entirely dispassionately and objectively is unrealistic.
- To some extent there will be different interpretations according to past experience; and this can give rise to bargaining and negotiation between influential individuals as to how to interpret issues and what to do about them. This is discussed more fully in section 2.3.3 below.
- Such interpretation and bias arise from experience of the past, not least in terms of what is seen to have worked or given rise to problems in the past. So the future is likely to be made sense of in terms of the past. This is one explanation of why strategies tend to develop incrementally from prior strategy.

However, managers do not operate purely as individuals; they work and interact with others in the organisation, and at this collective level there are also reasons to expect similar tendencies. This is now discussed.

### Collective experience: organisational culture and strategy development

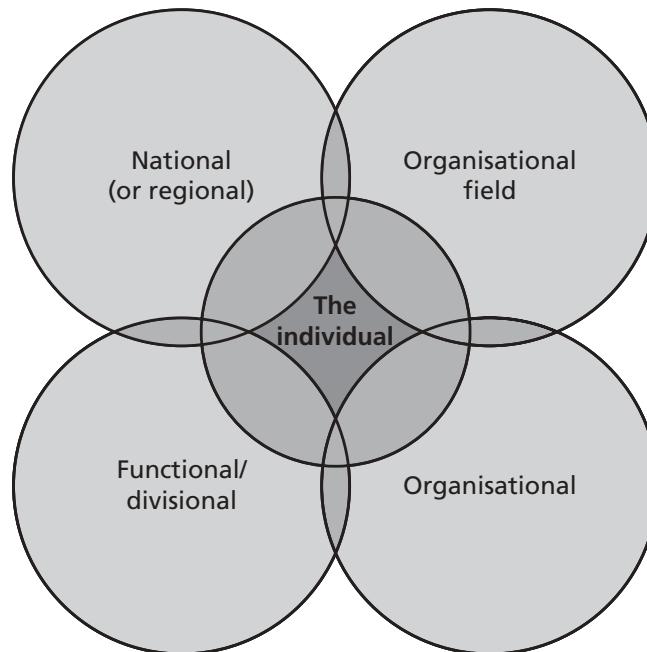
**Organisational culture** is the 'basic *assumptions and beliefs* that are shared by members of an organisation, that operate unconsciously and define in a basic taken-for-granted fashion an organisation's view of itself and its environment'.<sup>6</sup> The application of experience is rooted, not only in individual experience, as discussed above, but also in collective (group and organisational) experience reflected in organisational routines accumulated over time. So strategies can be seen as the outcome of the collective taken-for-granted assumptions and routines of organisations. It is therefore important to recognise the significance of organisational culture in strategy development.

This taken-for-grantedness is likely to be handed down over time within a group. Such groups might be, for example, a managerial function such as marketing or finance; an organisational unit such as a business; or more widely a professional grouping, such as accountants, an industry sector, or even a national culture. There are, then, several cultural frames of reference which influence managers: Exhibit 2.4 shows this graphically. Some of these, which are especially important in understanding how strategies develop, are now discussed.

**Organisational culture** is the 'basic *assumptions and beliefs* that are shared by members of an organisation, that operate unconsciously and define in a basic taken-for-granted fashion an organisation's view of itself and its environment'

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**Exhibit 2.4** Cultural frames of reference

**Organisational fields** are networks of related organisations which share common assumptions, values and ways of doing things

Institutional theorists<sup>7</sup> point to the similarities between organisations in terms of the assumptions and practices common between them and the strategies they follow: accountancy firms are similar, universities are similar, publishing firms are similar, and so on. Over time, similarities develop in terms of the way people in those organisation see their organisations and the environment in which the organisation operates, including the nature of customers, suppliers, competitors, and so on. Indeed, there develop **organisational fields** which are networks of related organisations which share common assumptions, values and ways of doing things so taken for granted, so *institutionalised*, that it is difficult for people to question or change them. Academics in traditional universities see academic research as the primary role of their organisation. Journalists see the reporting of news as the primary purpose of newspapers. Police see the maintenance of law and order as their primary purpose. They can come to be seen as *the* legitimate way to behave or think, so organisational strategies tend to develop within institutionally similar cultural parameters. The most obvious manifestations of this are professions such as accountancy, law and education; or similar firms within industries. Indeed, such institutionalised ways of thinking and behaving are sometimes called *industry recipes*. The implication of this is that, on the whole, managers think that they have more choice in developing strategies than they really do and that they tend to follow strategies similar to related organisations. Illustration 2.2 includes an example of institutional norms and practices in the accountancy profession.

**Illustration 2.2**

## Taken-for-grantedness at organisational and institutional levels

*Shared assumptions influence and may constrain the way business is done and strategy develops.*

### The paradigm at the organisational level

The managers from a large city-based newspaper were considering the future strategy of their organisation. They had analysed their competitive environment, concluded it was becoming more hostile and that substantial strategic changes were needed. In order to consider the challenge of strategic change they then considered what it was they tended to take for granted in their business. They realised that many of the assumptions and beliefs they held in common were rarely talked about but strongly influenced the way they approached their business. They tried to surface these and for each they considered what the assumption tended to discount or overlook. Here is their list:

'We assume that:

Our business is about news . . . although actually most of our revenue comes from the sale of advertising.

Our paid for daily newspaper will always be there . . . although free newspapers have made strong incursions into our market.

We are valued by the local community . . . although the demographics of that community have changed dramatically in the last 5 years so we're not sure what it is.

Ours is an immediate business: we re-make it every day. . . . What does this say about long-term strategic thinking and sustaining major change?'

### Institutional norms<sup>1</sup>

Most accounting firms have been organised and managed as 'partnerships', along principles

originating in law firms. Most managerial positions would be occupied by accountants, not by specialised managers, who spend only some of their time on managerial matters. Young accountants would join the firm and work towards partnership; after 7-10 years a decision would be made as to whether they would become a partner. If the decision were to be negative the candidate would be encouraged to leave the firm, irrespective of how productive he/she might be.

Firms were not required to govern themselves this way, they just did. Some firms found that this provided economic advantages: professionals were more content in partnerships and the up-or-out system enabled firms to continually replenish their talent pool. But others lost experienced professionals without being able to replace them. Partnerships are also difficult to manage, do not easily adapt to changing circumstances and find it hard to invest for the long term. So why did these arrangements become so widespread? The only explanation is that firms mimicked others and it became the expected way of doing things. Accountants came to believe that this was the way firms OUGHT to be managed.

<sup>1</sup> Source: Reprinted with permission of Royston Greenwood, University of Alberta, Canada.

### Questions

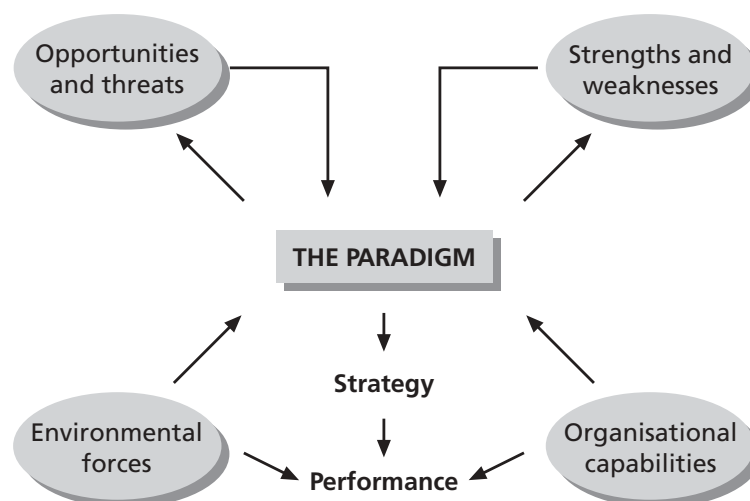
1. Explain why the managers of the newspaper business thought their paradigm might be a problem. Give specific examples of how these problems might show themselves.
2. What other examples of institutionalised norms can you think of? Again consider the benefits and problems associated with them.

A **paradigm** is the set of assumptions held relatively in common and taken for granted in an organisation

Such taken-for-granted assumptions are also likely to exist at the organisational level – the organisational *paradigm*<sup>8</sup> – and can be especially important as an influence on the development of organisational strategy. In this book the word **paradigm** is frequently employed to mean the set of assumptions held relatively in common and taken for granted in an organisation. For a group or organisation to operate effectively there has to be such a generally accepted set of assumptions; in effect, it represents *collective experience* without which people would have to ‘reinvent their world’ for different circumstances that they face. Rather like individual experience, the paradigm allows the collective experience gathered over years to be applied to a given situation to make sense of it, to inform a likely course of action and the likelihood of success of that course of action. Illustration 2.2 also gives an example of an organisational paradigm. This paradigm may reflect institutional influences; so it may be particularly strong if the transfer of staff between firms tends to be within that industry, or organisational field, as it often is in engineering, banking and many parts of the public sector, for example. It is also likely that an organisation with a relatively stable management, and a long-term momentum of strategy, will have a more homogeneous paradigm than one in which there has been rapid turnover of management and significant change forced upon it.

This all may seem to be very obvious but there are some important implications.

- These are assumptions which are taken for granted; they are unlikely to be talked about as problematic. However, major problems arise if significant change in the organisation is needed or expected. Suppose universities come under pressure to raise revenue from teaching rather than concentrating on research. Suppose newspapers find their revenue coming mainly from advertising revenue rather than people buying the newspaper for the news. Suppose the government expects the police to concentrate more on prevention of crime than on ‘catching criminals’. The problem is that the core assumptions of the paradigm will be difficult to change precisely because they are taken for granted; and the organisation might therefore find itself unable to adjust to such pressures.
- At the organisational level at least, the paradigm is likely to be linked to other aspects of organisational culture, such as organisational *rituals*, *stories* and the everyday *routines* of organisational life. Section 5.5.5 discusses this more extensively. These taken-for-granted organisational processes can further add to the conservative influence of organisational culture.
- There is an important relationship between the paradigm and how strategies develop. Exhibit 2.5 helps explain this. The forces at work in the environment, and the organisation’s capabilities in coping with these, are made sense of in terms of the experience of managers and the collective assumptions within the paradigm. However, environmental forces and organisational capabilities, while having this indirect influence on strategy formulation, nonetheless impact on organisational performance more directly. For example, many commentators suggested that the problems that beset Marks and Spencer (M&S) in the late 1990s were the result of just such a situation. Their managers were accused of being over-wedded to M&S ways of thinking

**Exhibit 2.5** The role of the paradigm in strategy formulation

and behaving, resulting in an inability to identify or take seriously changes in consumer expectations and the incursions of competitors on their traditional customer base.

- The taken-for-grantedness of an organisation, be it in terms of the paradigm or the organisational processes associated with it, may, however, also comprise many of the strengths (or competences) of an organisation (see section 4.4) and potentially provide bases of competitive advantage (see section 7.4.2). So this cultural dimension of organisational experience can be working both for and against the strategic development of an organisation.
- The paradigm is not the same as the explicit *values* of an organisation, nor is it the same as the *strategy* of an organisation, though it is likely to influence both. So it should not be assumed that the drawing up of some sort of value statement or the publishing of a document explaining a strategic direction will of itself change the paradigm. The notion that reasoned argument necessarily changes deeply embedded assumptions rooted in collective experience is flawed; readers need only think of their own experience in trying to persuade others to rethink their religious beliefs, or indeed, allegiances to sports teams to realise this. This poses a problem, not least in managing strategic change; and this is picked up in Chapter 11.
- The taken-for-grantedness in organisations or industries is also one of the major problems in trying to develop innovative strategies in organisations. The influence of the paradigm is conservative. Innovation is likely to require the questioning and challenging of basic assumptions, which can be uncomfortable for those who attempt it and threatening for those who do not welcome it.

### 2.2.3 Strategy as ideas

The careful reader will have gathered that the two lenses described so far have said very little about innovation and new ideas. Although the experience lens offers an explanation of change, it is change based on past strategy and existing organisational assumptions and practices. In so far as new ideas or practices occur, they are more likely to be borrowed or imitated. For example, when a new CEO from a private sector company takes charge in a public sector organisation, he or she may introduce all sorts of ideas which are 'new' to that organisation; but they may be just what he or she is familiar with from the private sector context. Notionally a design approach could result in innovation, but in fact tends to so emphasise control that it is likely to result in conformity rather than innovation. This leaves a problem: how to account for innovative strategies. How did Ericsson become a mobile phone company; where did innovative products such as Post-Its® and the Sony Walkman® come from? How do organisations faced with highly turbulent environments and short decision horizons, such as those in high-technology businesses or e-commerce, cope with the speed of change and innovation that is required? The two lenses discussed so far do not adequately explain this.

The **ideas lens** sees strategy as the emergence of order and innovation from the variety and diversity which exist in and around organisations

The **ideas lens** sees strategy as the emergence of order and innovation from the variety and diversity which exists in and around organisations. New ideas and therefore innovation may come from anywhere in an organisation, or indeed from stimuli in the world around it. The evidence is that innovation comes, not from the top, but quite likely from low down in an organisation.<sup>9</sup> There are links here to the experience lens. Sensing of an organisation's environment takes place throughout an organisation, not just at the top. People interpret issues in different ways according to their experience and may come up with different ideas based on personal experience. Such ideas may not be well formed or well informed and, at the individual level, they may be diverse. The greater the variety of experience, the more likely there will be innovation. Organisations in industry sectors which are developing and fragmented are more innovative than those in mature and concentrated industries,<sup>10</sup> because of the diversity of ideas that exist in such dynamic conditions; and innovation in large organisations often comes from outside their boundaries, often from smaller businesses.<sup>11</sup>

However, such variety of potential new ideas faces forces for conformity. The culture of the organisation acts as a filter of ideas; formal processes of control, planning and evaluation act to regularise what ideas will and will not go forward; the self-interest of powerful managers may block ideas counter to their own. So pressures for conformity may see off the novelty. There is also evidence that certain strategies, for example the pursuit of high levels of diversification, tend to result in low levels of innovation<sup>12</sup> since organisational resources and priorities are channelled towards the pursuit of that strategy rather than innovation.

Researchers have begun to examine and develop useful insights into how organisations can be innovative in conditions of uncertainty. For example, Brown and Eisenhardt<sup>13</sup> studied high-technology firms in Silicon Valley. In so doing they turned to explanations built on complexity theory and evolutionary

theory, both of which are well established in the natural sciences but have hitherto received little attention in the social sciences or in management. The ideas lens draws on the principles of evolutionary theory and complexity theory because they help in the understanding of innovation and change.

### The importance of variety and diversity

Both complexity and evolutionary theories emphasise the importance of variety and diversity within and around organisations and place a great deal less emphasis on top-down design. Such variety and diversity potentially exist for all organisations in the form of an ever-changing environment, different businesses within a corporation, different groups within businesses, and the variety of different individuals and their experience and ideas within an organisation. So, variety may exist at different levels and in different forms; what matters is that there is variety and diversity, and that they are encouraged rather than over-controlled.

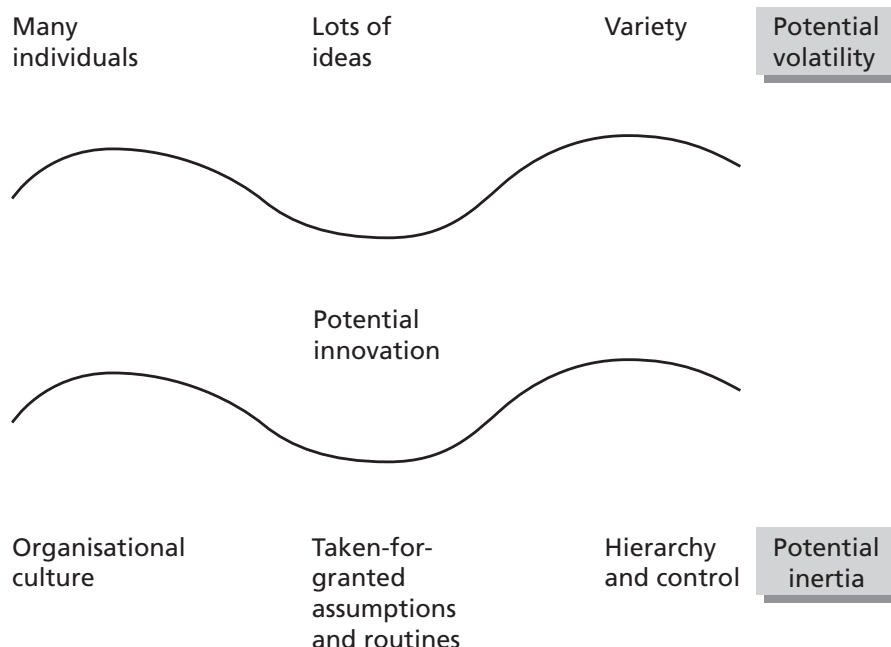
### How ideas are generated

Evolution explains how any living system, arguably including an organisation, evolves through natural selection acting upon variation and diversity. The basic principles are these.<sup>14</sup> Whether the concern is with species, as in the natural world, or people in societies, or indeed ideas in organisations, uniformity is not the norm; there exists variety. If an environment changes very little – as in the Amazonian rainforest – there is more stability than in environments that change a great deal. So the birds of the Amazonian rainforest have changed little over millennia, but other species, viruses are a good example, change much faster because their environments change a great deal. The parallel with organisations is that as their environments change, so too will the speed of change of organisations. However, this is not because of planning and design. In the natural world, change and newness come about because of what might appear to be imperfections – a mutation of a gene, for example – which may provide the basis for a ‘fitter’ organism in a changing environment. In organisations, ideas will be also copied imperfectly between individuals, between groups or between organisations and some of these will give rise to innovations better suited to the changing environment. An idea of the research chemist in the R&D laboratory may be taken up by a marketing executive, perhaps, but may be interpreted differently from the original idea; one organisation may seek to copy the strategy of another but will not do things in exactly the same way. Some of these imperfect copies will not be successful; but others may be. The famous exemplar of this is the Post-It<sup>®</sup>, which originated in an ‘imperfect’ glue being applied to paper but which resulted in a semi-adhesive for which the researcher saw market potential.

It is not possible to plan in detail or control for the ‘right’ amount of diversity, the content of the variety or what eventually emerges. The differences arise naturally and in an unpredictable way. However, there are conditions which foster such diversity, imperfect copying, change and therefore innovation and it may be possible for managers to design processes and make decisions

which build on the principles described above so as to foster new ideas and innovation.

- A *changing and unpredictable environment* will, of itself, generate a diversity of ideas and innovations because it will demand responses from organisations and they will vary. An organisation that seeks to ensure that its people are in contact with and responsive to that change is likely to generate a greater diversity of ideas and more innovation than one that does not. On the other hand, one that tries to insulate itself from its environment, for example by trying to resist market changes or by relying on a particular way of doing or seeing things – sometimes known as a ‘strong culture’ – will generate less variety of ideas and less innovation.
- Similarly, high degrees of control and strict hierarchy are likely to encourage conformity and reduce variety; so innovation is less likely the more elaborate and bureaucratic the top-down control.
- Implicit in the design lens is that *consensus* is a ‘good thing’ because it facilitates collective action and a clear understanding about strategy. The ideas lens suggests that the environment is too complex and rapidly changing for this to be likely or even desirable. It may not always be comfortable, but a lack of consensus and diversity of ideas and views may be of benefit because innovation requires just such variety and benefits from the challenging and questioning of taken-for-granted assumptions and the possibility of experimentation.<sup>15</sup>
- In line with this, new ideas are likely to advance most where they are allowed and encouraged to compete with each other.
- Complexity theorists also argue that innovation and creativity emerge when there is sufficient order to make things happen but not when there is such rigidity of control as to prevent such innovation. This is the idea of ‘adaptive tension’ or ‘edge of chaos’.<sup>16</sup> Innovations are most likely to occur when the organisation never quite settles down into a steady state or equilibrium and the volatility and diversity are given sufficient rein (Exhibit 2.6), though of course not to the extent that it cannot function.
- They also argue that in the context of uncertainty and complexity, too little recognition is given to the *intuitive capacity* of people:<sup>17</sup> that people have the ability to sense changes in and appropriate responses to changes in their environment; that this needs to be encouraged; and that the ideas that they come up with as a result usefully contribute to strategy development.
- The more the boundaries between the organisation and its environment are reduced, the more innovation is likely to occur. For example, for some high-technology businesses it is difficult to see quite what are their boundaries. They are networks rather than clearly bounded organisations (see section 9.4.3 in Chapter 9). These are organisations intimately linked to a wider environment; and as that environment changes, so do the ideas in the network. A good example of this is Formula One motor racing where the different teams are intimately linked with the wider motor industry as well as other areas of advanced technology; and indeed are so networked between themselves that new ideas get imitated (but changed) very rapidly.

**Exhibit 2.6** Conditions of adaptive tension

- Similarly, within organisations what matters is appropriate interaction and cooperation to encourage variety and the spread of ideas. There is evidence of the 'strength of weak ties',<sup>18</sup> by which is meant that it is the variety of informal contacts rather than formally structured contacts that gives rise to new ideas. For example, it is not unusual to hear people say that they find the informal electronic networks they themselves set up for knowledge sharing and exchange in organisations to be more valuable than those set up formally by the organisation.
- Since speed of change is important, some writers<sup>19</sup> have emphasised the importance of 'time pacing' of new ideas in organisations. They point to the fact that in some organisations with high rates of innovation of new products, these new products are not brought on stream when old products become redundant; rather the rate of new product innovation is paced such that new products and ideas are coming to the fore even when existing ones are successful.

Illustration 2.3 shows how some of these principles take form in Digital Animations Group.

### How new ideas take root in organisations

Evolutionary theory suggests that the extent to which ideas manifest themselves at an organisational level as a new product, service or process will be

**Illustration 2.3****Managing by ideas**

*Managing new ideas and the development of ideas in situations of change and uncertainty is central to future success in some organisations; and may require top management to rethink the approach to strategy development.*

Digital Animations Group (DAG) is a global player in the application of digital technology to the future of everyday life. It became widely known as the company behind Ananova, the virtual newscaster, sold to Orange in 2001, but has many more applications and characters in its development pipeline. Based in Scotland, its growing workforce includes animators and programmers who work together, merging creativity with leading-edge use of hardware and the development of conceptually advanced software. The company brings what is possible in the virtual world into the real world in the form of life-like digital motion video of apparently real-life but impossible stunts. However, in development terms it spends more time bringing the real world into the virtual world in the form of Avatars: digitally created but life-like, and, in the future, intelligent people. It plays within the two worlds of reality and virtuality, recombining them digitally into exciting new mixtures at the human/computer interface.

DAG patents its ideas, since the worth of such intangibles is now legally recognised. However, the company is aware that, whilst patents play a role in securing sustainable competitive advantage, the major part of the game is constant reinvention and recombination: and that managing this intellectual property company involves managing ideas by managing the conditions and climate in which they are exchanged.

Senior management know that in such a fast, novel field, the organisation needs to be

strategically flexible and adaptable. They actively encourage both the cross-over of ideas and the competition of ideas, knowing the result in some cases will be pure fun and silliness whereas in others the outcome will have great potential commercial value. Sometimes silly ideas can turn into sensible ones if allowed to struggle to survive next to others. What counts is both diversity of ideas and the competition of those ideas.

By promoting the recombination of ideas between animators and programmers and between the different national cultures of the highly skilled, globally sourced staff, variety and a competitive selection environment are created. Staff are also allowed to take a month off each year and play with any idea that is lurking in their minds. According to the CEO some of the best ideas arise from this period.

Having the ability to generate the space for such idea creation and the sensitivity to discern the market opportunities that arise from it is how strategy develops. Ask management for a conventional strategic plan and they will not be able to provide you with one. Ask them to talk about how their ideas are generated and allowed to evolve, and they will not stop for breath.

Source: Company.

**Questions**

1. Which characteristics of the ideas lens described in section 2.2.3 do you see in DAG?
2. What problems might the CEO find in managing the strategy of the business?



dependent on *selection mechanisms*. These selection mechanisms may take different forms but are all to do with how attractive the ideas are and how capable they are of surviving, or overcoming, the obstacles in their way.

- At the *organisational level* a key selection mechanism is the market; a strategy will develop and prosper according to whether it is more attractive to customers than the strategies of other organisations. This is, of course, a conventional measure of strategic success to do with competitive strategy (see Chapter 7). Whilst this is often discussed in terms of the economics of markets and may, therefore, appear to be all very rational, it is important to emphasise that customer preferences are not always to do with economic attractiveness. Customers may be attracted to one product over another for highly subjective, personal and emotional reasons.
- At the level of the *strategic initiative* within an organisation, a selection mechanism could, of course, be a project evaluation, planning or budgetary process; but the political and cultural context of the organisation will also act as a selection mechanism. Some initiatives will be sufficiently attractive to enough people to overcome cultural inertia and political barriers; and others will not (see section 2.3.3 below).
- At the level of the *idea* it is the extent to which one idea is more or less attractive than other ideas to individuals or groups of people. This could be for rational reasons, demonstrated analytically; or it might be for more subjective, emotional reasons. In line with this, complexity theory emphasises the need for sufficient support or 'positive feedback'. For example, a new product idea in a science-based research-intensive company received widespread support because it addressed 'green' issues; research scientists were attracted to the idea that their work was being put to good use; and senior managers, who were also scientists by background, admitted that it was also attractive because, unusually for their business, its application and potential benefits were the sort of thing that interested their colleagues in other divisions, their friends and their families. The new product idea persisted despite strong evidence of its lack of commercial viability. Of course, in time this positive feedback at this level would probably not be enough for it to persist because it would run into market selection mechanisms; but emotional attraction had carried the idea forward within the organisation.
- This also illustrates that *communities of interest* - groups with similar interests - such as the scientific community in the example above are important for the promotion of ideas and initiatives. The new product idea may continue to develop within that science-based community but be unattractive to the executives at corporate level or to customers.
- However, it is unlikely that an innovation at whatever level will initially find widespread support; so it may matter that there exists *sufficient initial support*. For example, in the marketplace this might take the form of a niche market; for the innovative entrepreneur, it may be the backing of a risk-taking venture capitalist; for the innovative scientist in the R&D lab, it may be sufficient support from a senior manager as champion of the idea against the objections of other senior management colleagues.

- At whichever level, however, the idea of selection suggests that there may be a *fight for survival*; so it may well be that conflict is inevitable in the marketplace, between individuals or between ideas.

### How innovative strategies come about

Complexity theory and evolutionary theory explain strategy development as emerging patterns of strategic direction from within organisations. For example, using an example from the natural sciences, the ordered pattern and direction of a flock of birds does not exist because of some plan set down by a leader and communicated through a hierarchy. Complexity theorists argue that so it is in organisations: ideas and patterns of behaviour form strategies, but not necessarily through top-down plans and control.

Organisations consist of many individuals with the capacity to take different directions, undertake different activities, think different thoughts and so on: they are complex systems with potentially very high diversity. Ordered patterns of behaviour come about not because of tight and specific control, but because of a limited number of 'order-generating rules'. For example, the flocking of birds can be simulated on a computer with just three such rules:

- maintain minimum distance from other birds and objects in the environment;
- match velocity with other birds;
- move towards the centre of mass of the surrounding birds.<sup>20</sup>

So in organisations, patterns of behaviour which may be seen as consistent strategic direction can emerge because of a number of guiding principles or rules. Research is now beginning to establish the nature of these.<sup>21</sup> Exhibit 2.7 summarises the types of rules which have been identified as important in organisations facing fast-changing environments; and gives some examples from such organisations of how they take form and their effects. A number of observations can be drawn from the research:

- As suggested earlier, the number of rules does not need to be many to result in consistent patterns of behaviour. It appears that the number may be between 2 and 7.
- It is argued that older, more established organisations may need fewer rules than younger organisations with less experience.
- It may be that top managers deliberately seek to establish such rules (as in Illustration 2.4), or it may be that they form within the organisation.

Complexity theorists also like to talk about 'strange attractors'. These are patterns that, whilst not entirely predictable, are recognisable in their form. The flocking of birds never takes on quite the same form, but is recognisable. Similarly, patterns of behaviour of organisations that we call strategies may never be entirely the same, but are recognisable and tend to be similar between organisations. In this sense there is a similarity with the explanations given by institutional theorists. Strategies for organisations within an organisational field (see page 46 above and section 5.5.2) tend to be similar; and this should be expected because the 'rules' within that field have come to be similar.

**Exhibit 2.7** Simple rules

Turbulent markets require strategic flexibility to seize opportunities – but flexibility can be disciplined. Different types of simple rules help.

TYPE	PURPOSE	EXAMPLE
<b>How-to rules</b>	Spell out key features of how a process is executed – ‘What makes our process unique?’	Dell focuses on the process of rapid reorganisation around focused customer segments. A key how-to rule for this process is that a business must be split in two when its revenue hits \$1 billion.
<b>Boundary rules</b>	Focus managers on which opportunities can be pursued and which should not	Miramax has boundary rules that guide their movie-picking process: first, every movie must revolve around a central human condition, such as love ( <i>The Crying Game</i> ) or envy ( <i>The Talented Mr Ripley</i> ). Second, a movie’s main character must be appealing but deeply flawed – the hero of <i>Shakespeare in Love</i> is gifted and charming but steals ideas from friends and betrays his wife. Third, movies must have a very clear story line with a beginning, middle and end. Finally, there is a firm cap on production costs.
<b>Priority rules</b>	Help managers rank the accepted opportunities	Intel’s rule for allocating manufacturing capacity: allocation is based on a product’s gross margin. Without this rule, the company might have continued to allocate too much capacity to its traditional core memory business rather than seizing the opportunity to dominate the nascent and highly profitable microprocessor niche (see Illustration 2.8).
<b>Timing rules</b>	Synchronise managers with the pace of emerging opportunities and other parts of the company	Nortel, the Internet service company, has rules for product development. First, project teams must know when a product has to be delivered to the leading customer to win, which keeps Nortel in touch with cutting-edge customers, who represent the best opportunities. Second, product development time must be less than 18 months, which forces Nortel to move quickly into new opportunities.
<b>Exit rules</b>	Help managers decide when to pull out of yesterday’s opportunities	Danish hearing aid company Oticon has a rule which avoids its getting trapped in project developments which are ‘yesterday’s opportunities’. If a key team member – manager or not – chooses to leave the project for another within the company, the project is killed.

Source: Adapted from K.M. Eisenhardt and D.N. Sull, ‘Strategy as simple rules’, *Harvard Business Review*, January 2001, pp. 107–116.

## Illustration 2.4



## Boundarylessness and success at GE

*Leaders of complex organisations may focus on a limited number of guiding principles or 'rules'.*

GE has been one of the fastest-growing, most profitable and highly rated conglomerates in the world, with a market capitalisation in the range of US\$250 billion. GE has constantly outperformed its rivals and has consistently topped the polls as the world's most admired company.

At a time when many firms have focused on only a few core businesses, it is highly diverse. Between 1981 and 1997, GE made 509 acquisitions totalling \$53 billion, and 310 divestitures of \$16 billion. In 1999 there were 108 acquisitions worth US\$21 billion. Its businesses are as varied as light bulbs, home appliances, jet engines and financial services. GE has also successfully managed multiple brands simultaneously and chosen to maintain separate identities for their acquired brands, such as Hotpoint, NBC and RCA.

Many commentators have tried to explain the success of GE. Most agree that major factors are the management style of the CEO, Jack Welch, and the importance of the mission and principles which guide the businesses and the managers. These principles are few:

- Be number one or two in the market in every business, or exit it. In most of its businesses, GE is no.1, not just in market share, but in expanding the scope of its markets.
- Share and adopt successful new ideas across businesses; the pursuit of 'boundarylessness'. A business CEO is expected to try out ideas successful in other GE businesses and to promote the sharing of successful ideas from his/her own business. Groups of employees from all levels regularly meet to propose means of improving efficiency and solving problems. And pay and promotion are tied to boundaryless behaviour via the sharing of

ideas and transfer of knowledge. GE's success appears to be rooted in this movement of ideas and also management talent around a diverse corporation.

- Challenge and question the status quo. Welch regularly meets with his managers and insists that they challenge him about his policies and initiatives; this is filtered down the corporation by sessions of lower-level employees questioning their managers face-to-face.

These principles provide challenging, even ambiguous, demands on management. A business CEO may naturally wish to focus on that business rather than spending time and effort sharing ideas across businesses, experimenting with the ideas of other businesses, or being challenged about bases of success. However, it is not enough for the CEO to point to high business performance; sharing is seen as equally important even if potentially time consuming. Nor can managers claim that the requirement for sharing is an excuse for poor performance of their business; Welch's management control systems require high levels of performance in terms of market share, financial targets and shareholder value.

*Prepared by Urmilla Lawson, Graduate Business School, University of Strathclyde.*

*Sources: Jack Gordon, 'My leader, myself: faux freethinkers and the new cult of the CEO', Training, Nov. 1998, v.35 i.11; Henry Beam, 'Jack Welch and the GE way' (Review), Business Horizons, May-June 1999, v.42, i.3; 'The house that Jack built', GE Company Profile, The Economist (US), 18 Sept. 1999; Presentation by Professor Bill McKelvey at The Fifth International Conference on Competence Based Management, Helsinki, June 2000.*

### Questions

1. Complexity theorists suggest that adaptive tension (or edge of chaos) helps generate new ideas (see page 52). What elements and sources of adaptive tension are to be found in GE's management style?
2. Would you like to be a CEO of a GE business? Why?

### Implications for management

The implications of complexity theory and evolutionary theory as applied to innovation in the context of strategic management are these:

- It is not possible for top management to know or understand and plan the future. The future will emerge. Nor is it realistic to expect new ideas and innovations to be planned in a top-down fashion.
- It does matter, however, that management needs to be aware of and sensitive to the wider environment which will affect the organisation and will itself throw up new ideas and challenges. Management also need to find ways of encouraging the variety within the organisation that will generate new ideas.
- This will not be achieved by determining 'tight' strategies and control systems. It is more likely to be managed by creating forms of organisation and cultures of organisation which encourage variety, diversity and informal networking. Evolutionary theorists, in particular, emphasise the importance of imperfections in the development of new ideas; very different from emphasising regularisation through control and tight planning.
- There is, then, a de-emphasis of formal planning and systems; and a greater emphasis on the day-to-day aspects of organisational life and organisation design which encourages the social interaction of people and their intuitive sensing and awareness of what is going on around them. Emerging stimuli in the organisational world and ideas within the organisation are less likely to be developed through formal analysis and objectivity and more likely to be developed by a reliance on 'pattern recognition' based on experience and intuition.
- There is a recognition that strategic change will normally take place incrementally, but that occasionally change may be sudden and more dramatic as new ideas surface and take organisational form (see section 2.4.2 below).
- Complexity theory emphasises the importance of order-generating rules. There are, however, differences in the extent to which these just emerge or to which managers can proactively influence them. One view emphasises the inevitability of the adaptive tension or 'edge of chaos' that exists in organisations, stressing that this results in the emergence of order-generating rules and that innovation, itself, is emergent. It de-emphasises the role of top management in all this.<sup>22</sup> The role of management here is not to do with trying to establish clarity of direction or intervene in creating order-generating rules; rather it is to be sensitive to emergent patterns in organisations, to foster these by acting in a more coaching role. Strategic management is, then, about identifying order as it emerges rather than directing that order.
- Others take a more managerial view. They argue that it is the role of top management to ensure that adaptive tension exists, for example by seeking to establish the sort of rules that will generate such adaptive tension,<sup>23</sup> as in Illustration 2.4. They argue that managers may usefully generate the sort of overarching mission, intent or vision explained in Chapter 1 and provide a few guiding 'rules' or principles. However, they need to understand that too

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much order is dangerous; that the creation of ambiguity may be important as a means of creating adaptive tension; and that they have a role to play here (again see Illustration 2.4). In so far as top management can exercise control, this may be limited to monitoring some key measures, perhaps linked to the overall mission of the organisation or the few key guiding rules. For example, how many new products have been developed, accounting for what additional percentage of revenue or profits? How many new networks or new joint ventures have been formed, and so on?

### 2.2.4 A summary of strategic lenses

Exhibit 2.8 summarises the three lenses discussed above. In many respects it has to be recognised that the design lens, especially in its emphasis on analysis and control, is the orthodox approach to strategy development most commonly written about in books, taught at business schools and verbalised by management when they discuss the strategy of their organisations. As explained in Chapter 1, it is also a convenient lens by which to structure this book. However, the other lenses are important because they raise significant challenges in thinking about and managing strategy. The experience lens is rooted in evidence of how strategies develop incrementally based on experience and the historical and cultural legacy of the organisation; and suggests that it is much more difficult to make strategic changes than the design lens might imply. The ideas lens helps an understanding of where innovative strategies

**Exhibit 2.8** Three strategy lenses

	STRATEGY AS:		
	DESIGN	EXPERIENCE	IDEAS
<b>Overview/ Summary</b>	Deliberate positioning through rational, analytic, structured and directive processes	Incremental development as the outcome of individual and collective experience and the taken for granted	Emergence of order and innovation through variety and diversity in and around the organisation
<b>Assumptions about organisations</b>	Mechanistic, hierarchical, logical	Cultures based on history, legitimacy and past success	Complex systems of variety and diversity
<b>Role of top management</b>	Strategic decision makers	Enactors of their experience	'Coaches', creators of context and 'champions' of ideas
<b>Implications for change</b>	Change = implementation of planned strategy	Change incremental with resistance to major change	Change incremental but occasionally sudden
<b>Underpinning theories</b>	Economics; decision sciences	Institutional theory; theories of culture; psychology	Complexity and evolutionary theories

come from and how organisations cope with dynamic environments. It also poses questions about whether or not top management really have control over strategic direction to the extent the design lens suggests. In the rest of the book the three lenses are employed in commentaries at the end of Parts II, III and IV in particular to examine critically the coverage of each part.

## 2.3 STRATEGY DEVELOPMENT PROCESSES IN ORGANISATIONS

The previous sections have dealt with different explanations of how strategies develop. These are not mutually exclusive explanations. They are different lenses through which it is possible to understand and explain what goes on in organisations. People who work in, or observe, organisations (for example, consultants or students) are likely to see a variety of processes occurring which contribute to strategy development. These lenses help provide a means of understanding and interpreting the causes and the effects of such processes. The sections which now follow consider some of these observable strategy development processes and use the different lenses to explain them.

### 2.3.1 Strategic planning systems

Often, strategy development is equated with strategic planning systems. In many respects they are the archetypal manifestation of the design approach to managing strategy. Such processes may take the form of highly systematised, step by step, chronological procedures involving many different parts of the organisation, as shown in Illustration 2.5. Organisations which have sophisticated and extensive planning systems may well be populated with managers who believe that strategies can and should be developed in such ways and who may argue that a highly systematic approach is *the* rational approach to strategy formulation. The evidence of the extent to which the formalised pursuit of such a systemised approach results in organisations performing better than others is, however, equivocal<sup>24</sup> – not least because it is difficult to isolate formal planning as the dominant or determining effect on performance. This is not to say that formalised planning does not have its uses.

- It can provide a structured means of *analysis and thinking* about complex strategic problems, at its best requiring managers to *question and challenge* the received wisdom they take for granted.
- It can encourage a *longer-term view* of strategy than might otherwise occur. Planning horizons vary, of course. In a fast-moving consumer goods company, 3–5-year plans may be appropriate. In companies which have to take very long-term views on capital investment, such as those in the oil industry, planning horizons can be as long as 14 years (in Exxon) or 20 years (in Shell).
- It can be used as a means of *control* by regularly reviewing performance and progress against agreed objectives or previously agreed strategic direction.

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**Illustration 2.5**

## Strategic planning systems in BT: BT's business planning cycle 2000/01

*Planning cycles in large corporations can involve iteration between different organisational levels over many months.*

In BT the development of corporate and business plans, supporting operating plans and budgets, started at Group level but iterated between the corporate level (Group), lines of business (e.g. BT Wireless) and business units within lines of business (e.g. BT Cellnet) over a 12-month period.

	GROUP <sup>1,2</sup>	LINE OF BUSINESS (LoB)	BUSINESS UNIT (BU)
April	Broad strategic direction (with press announcement)		
June	Board review of strategy		
August	Strategic planning guidance and financial goals issued	Planning guidance and goals to BUs	
September			Draft BU strategic plans
October		Draft LoB strategic plans to Group	
November	Group review of LoB strategic plans Updated strategic direction (press announcement)		
December	Complete Group strategic plan	Finalise LoB strategic plans	Finalise BU strategic plans Prepare draft operational plan and budget
January	Board meeting to agree strategic plan	Submit draft operational plan and budget to Group	
February	Complete Group operational plan and budget		
March	Board meeting to agree operational plan and budget	Finalise LoB budget and operational plan	Finalise BU budget and operational plan

1. The Group Investment Committee meets monthly to agree capital expenditure and investment proposals which exceed the LoBs' delegated authority.

2. The Group Executive Committee meets three times a month to consider strategic and operational issues.

Source: Company (with permission).

### Questions

1. What might be the benefits of such a planning system?
2. What might be the problems and disadvantages?

- It can be a useful means of *coordination*, for example by bringing together the various business unit strategies within an overall corporate strategy, or ensuring that resources within a business are coordinated to put strategy into effect.
- Strategic planning may also help to *communicate* intended strategy.
- It can be used as a way of involving people in strategy development, therefore perhaps helping to create *ownership* of the strategy.
- Planning systems may provide a sense of security and logic for the organisation and, in particular, management who believe they *should* be proactively determining the future strategy and exercising control over the destiny of the organisation.

Whilst, on the face of it, planning is most obviously explained through the design lens, it can also be explained through the other lenses, and these suggest other possible benefits.

- The experience lens suggests that strategy actually develops on the basis of more informal sensing of the environment on the basis of people's experience or through the cultural systems of the organisation, as described in the previous section. Here, planning is not seen as directing the development of strategy so much as drawing together the threads of a strategy which emerges on the basis of that experience and, perhaps, post-rationalising it. So the strategy comes to look as though it has been planned. Of course, even if the formally stated strategy of an organisation is post-rationalised, it may nonetheless be important to ensure effective communication of it, and this can be aided by a systematic planning system.
- The ideas lens also emphasises the emergence of strategy from within the organisation rather than from the top; so again planning may be seen here as making sense of that emergent strategy. Planning systems also provide a selection mechanism by which new ideas can be evaluated. Plans typically embody the strategy as it is generally accepted, so, in a sense, new ideas and innovations have to compete for their survival, or prove their worth, against such plans and planning processes.

There are, however, dangers in the formalisation of strategic planning,<sup>25</sup> and some of these can be understood by reference to the different lenses.

First, looking through the design lens itself, there are evident problems in the way in which strategic planning systems are put into effect in some organisations.

- The managers responsible for the implementation of strategies, usually line managers, may be so busy with the day-to-day operations of the business that they cede responsibility for strategic issues to specialists. However, the specialists do not have power in the organisation to make things happen. The result can be that strategic planning becomes an *intellectual exercise* removed from the reality of operation. As General William Sherman said in 1869 in the context of the American Civil War: 'I know there exist many good men who honestly believe that one may, by the aid of modern science, sit in comfort and ease in his office chair and, with figures and algebraic symbols, master the great game of war. I think this is an insidious and most dangerous mistake.'<sup>26</sup>

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- The process of strategic planning may be so cumbersome that individuals or groups in the firm might contribute to only part of it and *not understand the whole*. This is particularly problematic in very large firms. One executive, on taking over as marketing manager in a large multinational consumer goods firm, was told by his superior: 'We do corporate planning in the first two weeks of April, then we get back to our jobs.'
- There is a danger that strategy becomes thought of as *the plan*. Managers may see themselves as managing strategy because they are going through the processes of planning. Strategy is, of course, not the same as 'the plan': strategy is the long-term direction that the organisation is following, not a written document on an executive's shelf. This highlights the difference between *intended* and *realised* strategies (see section 2.4.1 below).
- Strategic planning can become over-detailed in its approach, concentrating on extensive analysis which, whilst sound in itself, may miss the major strategic issues facing the organisation. For example, it is not unusual to find companies with huge amounts of information on their markets, but with little clarity about the strategic importance of that information. The result can be *information overload* with no clear outcome.

The experience lens also highlights dangers.

- Planners can *overlook the importance of the experience of those in an organisation* and see centrally planned strategy as determining what goes on in an organisation. As was explained in discussing the experience lens, the individual and collective experience of an organisation will influence its strategy; and the experience of those responsible for strategy implementation will affect how a strategy is implemented. If formal planning systems are to be useful, those responsible for them need to ensure that they draw on such experience. This may account for why more and more organisations are changing to more inclusive ways of developing strategy, involving different levels of management. However, the sorts of danger highlighted next, remain.
- The strategy resulting from deliberations of a corporate planning department, or a senior management team, may not be *owned* more widely in the organisation. In one extreme instance, a colleague was discussing a company's strategy with its planning director. He was told that a strategic plan existed, but found it was locked in the drawer of the executive's desk. Only the planner and a few senior executives were permitted to see it!
- Strategies are more or less successfully implemented through people. Their behaviour will not be determined by plans. So the *cultural and political dimensions* of organisations have to be taken into account. Planning processes are not typically designed to do this.

The ideas lens also adds to an understanding of the pitfalls of formal planning.

- Formal systems of planning, especially if linked to very tight mechanisms of control, can result in an inflexible, hierarchical organisation with a resultant *stifling of ideas and dampening of innovative capacity*.

- Planning can become obsessed with the search for a definitively *right strategy*. It is unlikely that a 'right' strategy will naturally fall out of the planning process. It might be more important to establish a more generalised strategic direction within which there is the sort of flexibility that the ideas lens would emphasise. As Mintzberg puts it: 'If you have no vision, but only formal plans, then every unpredicted change in the environment makes you feel your sky is falling in.'<sup>27</sup>

Certainly there has been a decline in the use of formal corporate planning departments. For example, a study of corporate planning in the oil industry found that, between 1990 and 1996, corporate planning staff had declined from 48 to 3 in BP, 60 to 17 in Exxon, 38 to 12 in Mobil and 54 to 17 in Shell.<sup>28</sup> On the other hand, there has been a growth of *strategy workshops* where participants remove themselves from day-to-day responsibilities to tackle strategic issues facing their organisation. Such events may well use the sorts of techniques of analysis and planning described in this book. However, rather than just relying on these to throw up strategic solutions, a successful workshop process works through issues in face-to-face debate and discussion, drawing on and surfacing different experiences, assumptions, interests and views. In this respect it is seeking to tackle the design of strategy, whilst facing up to the realities of the cultural and political processes of the organisation. Whilst such events are typically for groups of senior managers, perhaps the board of an organisation, organisations are beginning to see benefits in similar events across other levels of management.

### 2.3.2 Strategic leadership

Strategy development may also be strongly associated with an individual. A **strategic leader** is an individual upon whom strategy development and change are seen to be dependent. They are individuals personally identified with and central to the strategy of their organisation: their personality or reputation may result in others willingly deferring to such an individual and seeing strategy development as his or her province. In other organisations an individual may be central because he or she is its owner or founder; often the case in small businesses. Or it could be that an individual chief executive has turned round a business in times of difficulty and, as such, personifies the success of the organisation's strategy.

A **strategic leader** is an individual upon whom strategy development and change are seen to be dependent

Again the three lenses help explain and raise questions about how such individuals develop their ideas about strategy, and how they influence strategy development.

- The design lens suggests that individuals have thought this all through analytically. Whilst a plan may not exist as a written document, it exists in terms of analysis and evaluation carried out by that individual. This could be by using the sorts of technique associated with strategic planning and analysis; or it might simply be that the individual has consciously, systematically and on the basis of their own logic worked through issues their organisation faces and come to their own conclusions.

- The experience lens suggest that the strategy advanced by the individual is formed on the basis of that individual's experience, perhaps within the organisation or perhaps from some other organisation. The strategy advanced by a long-established chief executive may strongly reflect or be informed by his or her organisation's paradigm; and the strategy advanced by a chief executive new to an organisation may be based on a successful strategy followed in a previous organisation.
- The strategy of an organisation might also be associated more symbolically with an individual, for example the founder of a business. Such a figure may come to embody the strategic direction of the organisation. In effect the strategy and the individual become embedded in the history and culture of that organisation. This is often the case in family-controlled businesses.

The ideas lens provides additional insights to the role of the strategic leader:

- Evolutionary theorists emphasise the way in which strategies develop from competing ideas, so tend to diminish the role of so-called strategic leaders. However, the potential importance of an overall vision, mission or intent and the (perhaps few) guiding rules associated with these are recognised as important; and some writers see this as *the* role of the strategic leader.<sup>29</sup> Indeed, it is a role for which successful strategic leaders are often applauded because such a vision can provide sufficient clarity within which the discretion of others in the organisation can be exercised.
- However, some complexity theorists would argue for the importance of recognising the importance of high intuitive capacity and would accept that strategic vision can be associated with an executive with such a capacity, who sees what others do not see and espouses new ways of working.
- Others point out that new businesses or business activities are usually created by individual entrepreneurs. They may be correct, but evolution suggests that for every successful entrepreneur there are likely to be many who fail. The few that succeed will, indeed, be applauded as innovatory and creative, but they were the product of a diverse population of ideas most of which did not succeed.

### 2.3.3 Organisational politics

Managers often suggest that the strategy being followed by the organisation is really the outcome of the bargaining and power politics that go on between important executives. Such executives are continually trying to position themselves such that their views prevail or that they control the resources in the organisation necessary for future success. The **political view**<sup>30</sup> of strategy development is, then, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders). This is the world of boardroom battles often portrayed in film and TV dramas. What do the lenses have to say about this?

The design lens suggests that such political activity gets in the way of thorough analysis and rational thinking. On the whole it is seen as an inevitable

The **political view** of strategy development is, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders)

but negative influence on strategy development. Certainly, the interests of different stakeholders and the protection of those interests can get in the way of strategy development, as Illustration 2.6 shows.

It is, however, the experience lens which most helps explain the likelihood of political activity and some of the implications that flow from this.

- If people in organisations are rooted in their experience, it is not surprising that, in approaching problems – often major problems – from that point of view, they seek to be protective of their views in the face of different views based on different experience. This may be linked to the exercise of power. It is not surprising that the conductor in Illustration 2.6 takes a different position from the marketing director and others in the organisation: they are approaching the problem with different experience bases and are interested in preserving or enhancing the power of their positions.
- The outcome of such political processes may well be the sort of inertia shown in Illustration 2.6. So political activity may then be seen as one explanation of incremental, adaptive strategy development. There are at least two reasons for this. First, if different views prevail in the organisation and different parties are exercising their political muscle, compromise may be inevitable. Second, it is quite possible that it is from the pursuit of the current strategy that power has been gained by those wielding it. Indeed it may be very threatening to their power if significant changes in strategy were to occur. In such circumstances it is likely that a search for a compromise solution which accommodates different power bases may well end up with a strategy which is an adaptation of what has gone before.
- The experience lens also suggests that the analytic processes that go into planning may not be entirely based on objective and neutral facts. Views of the world – of the marketplace, of technological development, of organisational competences and so on – that are stated and regarded as important in a plan will have been espoused and supported by a group of managers. The fact that that a view is accepted and is in the plan may be the result of the powerful influence they have and may, in turn, provide them with added power. The objectives which are set may reflect the ambitions of powerful people. Information is not politically neutral, but rather can be a source of power for those who control what is seen to be important; so the withholding of information, or the influence of one manager over another because that manager controls sources of information, can be important. Powerful individuals and groups may also strongly influence the identification of key issues and indeed the strategies eventually selected. Differing views may be pursued, not only on the basis of the extent to which they reflect environmental or competitive pressures, for example, but also because they have implications for the status or influence of different stakeholders. Planning is, in this sense, political, or at least has a political dimension.
- All of this suggests that political activity has to be taken seriously as an influence on strategy development. The problems of the orchestra are unlikely to be resolved by relying on a formalised planning system; whatever thinking goes into the strategy will need to go hand in hand with activity

**Illustration 2.6****ASO: UK Symphony Orchestra**

*Stakeholders' interests and expectations can create problematic circumstances for the development of strategy.*

Developing an artistic strategy for the ASO was a complex process, due largely to the interests and involvement of its numerous stakeholders. The process was prompted by a critical report from the Arts Council, the orchestra's main funder, in late 1996. Commenting on the 'audience resistance to new initiatives' brought in by the Conductor, the report argued that the organisation needed 'clearer artistic and audience focus'. It called for a change in strategic leadership, recommending 'that the CEO should take overall responsibility for the artistic direction'. The Conductor defended his previous decisions, arguing that he had been criticised both for having programmes that were too conservative and too adventurous. At the same time, his Artistic Advisor suggested the confusion over strategic focus was partly due to a 'clash of ideals' with the previous Marketing Director, who 'went off in her own direction'.

Other individuals expressed concerns about the orchestra's artistic direction, including members of the management, board, and the orchestra itself. The musicians' representative, for example, expressed the need for a change from 'churning out Tchaikovsky', but felt they had now gone too far the other way, playing lesser known repertoire which was neither the orchestra's strength, nor popular with their audiences.

Despite the widely shared concern over the orchestra's artistic direction, developing a strategy proved difficult. In late 1997, the CEO responded to the widespread disquiet with an announcement that he intended to appoint an Artistic Director who would 'own the artistic policy in future'. In the meantime, the Chairman commented, 'We haven't got an artistic strategy

... the people struggling to find one are the conductor, the CEO, the Artistic Advisor, and the band.' He said that some months earlier he had also produced a 'strategic framework' document, which he had discussed with the orchestra because 'it was terribly important that it was owned by everybody'. The Board of Directors sought to contribute their views too and so an Artistic Sub-committee was formed. When the Artistic Director was appointed some months later, however, he decided that it was impractical to involve a committee in repertoire issues and instead worked with the Conductor on artistic planning.

Because of the number and diversity of stakeholder groups seeking input to the artistic strategy, the process was drawn out, with some difficult dynamics. Six months after his appointment, the Artistic Director still believed the big issue was 'to get the policy together', and at the Board's away-day in early 1999, he announced, 'I've been here for one year and I don't think I've made any impression at all.' At the same meeting, the Chairman said, 'We're accused of losing coherence in what we do and who we are. A compromise of what the Conductor wants and what's financially possible is what happens. It's impossible to create good concerts and certainly a long term strategy.' He concluded, 'We need agreement, even if it's not exactly to everyone's liking.'

*Source:* Adapted from S. Maitlis and T. Lawrence, 'Orchestral manoeuvres in the dark: discourse and politics in the failure to develop an artistic strategy', *Proceedings of the EIASM Workshop on Microstrategy and Strategising*, Brussels, 2001.

**Questions**

1. Write a brief report to the chief executive explaining what the problem is and what he should do.
2. How important is a written strategic plan in such circumstances? Why?



to address the political processes at work. This is addressed in other parts of this book, in particular sections 5.3.3 and 11.4.4, as well as in the commentaries at the end of each part of the book.

The ideas lens also suggests that organisational politics can be seen as a manifestation of the sort of conflict that results from innovation and new ideas. The variety and diversity that exist in organisations takes form in new ideas supported or opposed by different 'champions'. In this sense such battling over what is the best idea or the best way forward is to be expected as an inevitable manifestation of innovatory organisations. Indeed, arguably, if such conflict and tensions did not exist, neither would innovation. However, this lens would warn against the excesses of this. In so far as differences and conflict help spawn new ideas they can be productive: but there comes a point where this is not so, where the sort of inertia shown in Illustration 2.6 is the likely outcome.

### 2.3.4 Logical incrementalism

In a study of major multinational businesses, Quinn<sup>31</sup> concluded that the management process could best be described as *logical incrementalism*. Managers have a view of where they want the organisation to be in years to come and try to move towards this position incrementally. They do this by attempting to ensure the success and development of a strong, secure, but flexible core business, building on the experience gained in that business to inform decisions about the development of the business and perhaps experimenting with 'side bet' ventures. Such experiments cannot be expected to be the sole responsibility of top management – they have encouraged to emerge from lower levels, or 'subsystems', in the organisation. Effective managers realise that they cannot do away with the uncertainty of their environment by trying to 'know' about how it will change. Rather, they try to be sensitive to environmental signals through constant scanning and by testing changes in strategy in small-scale steps. Commitment to strategic options may therefore be tentative in the early stages of strategy development. There is also a reluctance to specify precise objectives too early, as this might stifle ideas and prevent experimentation. Objectives may therefore be fairly general in nature. Overall, **logical incrementalism** can be thought of as the deliberate development of strategy by 'learning through doing' or the 'crafting' of strategy.<sup>32</sup>

This view of strategy making is similar to the descriptions that managers themselves often give of how strategies come about in their organisation. Illustration 2.7 provides some examples of managers explaining the strategy development process in their organisation. They see their job as 'strategists' as continually, proactively pursuing a strategic goal, countering competitive moves and adapting to their environment, whilst not 'rocking the boat' too much, so as to maintain efficiency and performance. Quinn himself argues that 'properly managed, it is a conscious, purposeful, pro-active, executive practice'.<sup>33</sup>

Again the strategy lenses help explain and interpret these findings. First the design lens.

**Logical incrementalism** is the deliberate development of strategy by 'learning through doing'

**Illustration 2.7****An incrementalist view of strategic management**

*Managers often see their job as managing adaptively: continually changing strategy to keep in line with the environment, whilst maintaining efficiency and keeping stakeholders happy.*

- 'You know there is a simple analogy you can make. To move forward when you walk, you create an imbalance, you lean forward and you don't know what is going to happen. Fortunately, you put a foot ahead of you and you recover your balance. Well, that's what we're doing all the time, so it is never comfortable.'<sup>1</sup>
- 'The environment is very fast changing. You can set a strategic direction one day and something is almost certain to happen the next. We do not have a planning process which occurs every two years because the environment is stable, but a very dynamic process which needs to respond to the unexpected.'<sup>1</sup>
- 'I begin wide-ranging discussions with people inside and outside the corporation. From these a pattern eventually emerges. It's like fitting together a jigsaw puzzle. At first the vague outline of an approach appears like the sail of a ship in a puzzle. Then suddenly the rest of the puzzle becomes quite clear. You wonder why you didn't see it all along.'<sup>2</sup>
- 'The real strength of the company is to be able to follow these peripheral excursions into whatever . . . one has to keep thrusting in these directions; they are little tentacles going out, testing the water.'<sup>3</sup>
- 'We haven't stood still in the past and I can't see with our present set-up that we shall stand still in the future; but what I really mean is that it is a path of evolution rather

than revolution. Some companies get a successful formula and stick to that rigidly because that is what they know - for example, [Company X] did not really adapt to change, so they had to take what was a revolution. We hopefully have changed gradually and that's what I think we should do. We are always looking for fresh openings without going off at a tangent.'<sup>3</sup>

- 'The analogy of a chess game is useful in this context. The objective of chess is clear: to gain victory by capturing your opponent's king. Most players begin with a strategic move, that assumes a countermove by the opponent. If the countermove materialises, then the next move follows automatically, based on a previous winning strategy. However, the beauty of chess is the unpredictability of one's opponent's moves. To attempt to predict the outcome of chess is impossible, and therefore players limit themselves to working on possibilities and probabilities of moves that are not too far ahead.'<sup>4</sup>

**Sources:**

1. Quotes from interviews conducted by A. Bailey as part of a research project sponsored by the Economic and Social Research Council (Grant No.: R000235100).
2. Extract from J.B. Quinn, *Strategies for Change*, Irwin, 1980.
3. Extracts from G. Johnson, *Strategic Change and the Management Process*, Blackwell, 1987.
4. From a manager on an MBA course.

**Questions**

1. With reference to these explanations of strategy development, what are the main advantages of developing strategies incrementally?
2. Is incremental strategy development bound to result in strategic drift (see section 2.4.2)? How might this be avoided?

- Logical incrementalism does not fit a neat sequential design approach to strategy development. The idea that the implementation of strategy somehow follows a choice, which in turn has followed analysis, does not hold. Rather, strategy is seen to be worked through in action.
- However, whilst strategy is not designed in terms of being pre-planned, it is nonetheless rationally thought through, taking account of the forces in the environment and the competences of the organisation.

The experience and ideas lenses help provide an understanding of how this happens and some of the benefits. Both these lenses emphasise the importance in strategy development of the activities and contribution of people throughout the organisation, in the 'subsystems' of the organisation, rather than just at the top.

- Sensing of environmental changes is done through these subsystems, drawing on the experience and sensing of people at different levels and in different roles in the organisation.
- The variety of these people's experience, emphasised by the ideas lens, is critical because it ensures sufficient diversity in the way the complexities of the environment and organisational capabilities are understood and interpreted. The top management role of providing overarching vision rather than tight control is also in line with the ideas lens.
- It can be argued that if strategies are developed in such a way, it has considerable benefits. Continual testing and gradual strategy implementation provides improved quality of information for decision making, and enables the better sequencing of the elements of major decisions. Since change will be gradual, the possibility of creating and developing a commitment to change throughout the organisation is increased. Because the different parts, or 'subsystems', of the organisation are in a continual state of interplay, the managers of each can learn from each other about the feasibility of a course of action. Such processes also take account of the political nature of organisational life, since smaller changes are less likely to face the same degree of resistance as major changes. Moreover, the formulation of strategy in this way means that the implications of the strategy are continually being tested out. This continual readjustment makes sense if the environment is considered as a continually changing influence on the organisation.

### 2.3.5 The learning organisation

The concept of the *learning organisation*,<sup>34</sup> and strategy development as a learning process, became popularised in the 1990s. In many respects it corresponds to the aspects of logical incrementalism described above, especially in so far as it starts with the argument that the uncertainty and complexity of the world of organisations cannot readily be understood purely analytically. The world to which organisations have to adapt appears to be so turbulent and unpredictable that traditional approaches to strategic management are simply not appropriate; there is little to be gained from formalised planning

approaches with predetermined fixed objectives and analysis that may take weeks or months to work through. The idea that top managers can formulate strategies implemented by others also becomes redundant because top managers are less in touch with such a complex and turbulent world than others within the organisation.

It is the characteristics of the experience and ideas lenses that more closely match those of the learning organisation.

- There is a need for the continual challenge of that which is taken for granted in the organisation; so there is a need to develop organisations which are *pluralistic*, in which different, even conflicting ideas and views are welcomed; in which such differences are surfaced and become the basis of debate.
- *Experimentation* is the norm, so ideas are tried out in action and in turn become part of the learning process.
- This is more likely to take place where *informality* of working relationships is found. New ideas emerge more through *networks* of working relationships than through hierarchies; more through dialogue, even storytelling, than through formal analysis. If organisations are seen as *social networks*,<sup>35</sup> the emphasis is not so much on hierarchies as on different interest groups which need to cooperate with each other, negotiate what should be done and find ways of accommodating different views. For example, a multinational firm working on a global scale is unlikely to be solely reliant on formal structural processes to make things happen. It is likely that it will be dependent on the network of contacts that builds up over time between different parts of the organisation across the world.
- This is also a political process of *bargaining and negotiation*, so conflict and disagreement will occur; but this is an inevitable outcome of diversity and variety in organisations and should not necessarily be regarded as negative in the process of strategy development. The dangers are at the extremes; that conflict and disagreement become so pronounced that they get in the way of the benefits of diversity; or that the fear of diversity leads to formalised systems of planning and control that can dampen innovation and learning.
- Within this view, the job of top management is to create this sort of organisation by building teams and networks that can work in such ways; by allowing enough *organisational slack* that there is time for debate and challenge; and by releasing control rather than holding on to it. This may be done, for example, through the development of different types of organisational structure (see Chapter 9) and through the development of the everyday behaviour and culture of the organisation (see Chapters 10 and 11).

The **learning organisation** is capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision

The **learning organisation** is, then, one capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision.

### 2.3.6 Imposed strategy

There may be situations in which managers face what they see as the imposition of strategy by agencies or forces external to the organisation. Government may dictate a particular strategic course or direction – for example, in the public sector, or where it exercises extensive regulation over an industry – or choose to deregulate or privatise an organisation previously in the public sector. This may not be the choice or even the wish of the managers. Businesses in the private sector may also be subject to such imposed strategic direction, or significant constraints on their choices. The multinational corporation seeking to develop businesses in some parts of the world may be subject to governmental requirements to do this in certain ways, perhaps through joint ventures or local alliances. An operating business within a multidivisional organisation may regard the overall corporate strategic direction of its parent as akin to imposed strategy. Increasingly, managers in long-established businesses see themselves as having little choice but to change the way they do business as a result of the development of new forms of e-business and radical changes in the business environment, not least of which are new ways of doing business.

The different lenses also provide useful insights here.

- Whilst an imposed strategy may not be developed by the managers in the organisation concerned, the strategy has presumably been developed elsewhere and the sorts of explanation of strategy development already given may help explain how that has occurred.
- It might be argued – indeed governments have argued – that such imposed strategy is a way of overcoming the sort of strategic inertia that had arisen as a result of strategies developing incrementally on the basis of history, experience, existing cultural norms or the compromises that result from bargaining and negotiation of powerful groups in an organisation.
- The argument may also be put forward that the imposition of a general strategic direction can provide impetus for innovation and creativity. It creates the sort of overall declaration of intent and provides sufficient principles and guidelines for change to create ‘adaptive tension’ and competition of ideas, whilst avoiding overprescription and control of behaviours and solutions.

### 2.3.7 Multiple processes of strategy development

This discussion of different lenses and different strategy development processes raises three further important points:

- First, it has to be recognised that there is no one right way in which strategies are developed. This is discussed more fully below but it is sufficient here to point out that, for example, the way in which strategies develop in a fast-changing environment is not likely to be the same – nor should it be – as in an environment in which there is little change. (See section 2.4.3 below.)
- Second, it is very likely that the way in which strategies are developed will be seen differently by different people. For example, as Exhibit 2.2 shows,

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**Exhibit 2.9** Some configurations of strategy development processes

The findings below are based on a survey of perceptions of strategy development processes undertaken at Cranfield School of Management in the 1990s.

<b>DOMINANT DIMENSIONS</b>	<b>CHARACTERISTICS</b>	<b>RATHER THAN</b>	<b>TYPICAL CONTEXTS</b>
<b>Planning Incrementalism</b> (Logical incrementalism)	Standardised planning procedures Systematic data collection and analyses Constant environmental scanning Ongoing adjustment of strategy Tentative commitment to strategy Step-by-step, small-scale change	Intrusive external environment Dominant individuals Political processes Power groups	Manufacturing and service sector organisations Stable or growing markets Mature markets Benign environments
<b>Incremental Cultural Political</b>	Bargaining, negotiation and compromise amongst conflicting interests of groups Groups with control over critical resources more likely to influence strategy Standardised 'ways of doing things' Routines and procedures embedded in organisational history Gradual adjustments to strategy	Deliberate, intentional process Well-defined procedures Analytical evaluation and planning Deliberate managerial intent	Professional service firms (e.g. consultancy or law firms) Unstable, turbulent environment New and growing markets
<b>Imposed Political</b>	Strategy is imposed by external forces (e.g. legislation, parent organisation) Freedom of choice severely restricted Political activity likely within organisation and between external agencies	Strategy determined within the organisation Planning systems impact on strategy development Influence on strategic direction mainly by managers within the organisation	Public sector organisations, larger manufacturing and financial service subsidiaries Threatening, declining, unstable and hostile environments

senior executives tend to see strategies more in terms of design whereas middle management tend to see strategies rather more as the result of cultural political processes. Managers who work for government organisations or agents of government tend to see strategy as more imposed than those in the private sector.<sup>36</sup> People who work in family businesses tend to see more evidence of the influence of powerful individuals, who may be the owners of the businesses.

- Indeed, it is unlikely that any one process described above singularly explains what is occurring in the development of strategy in any organisation. There will be multiple processes at work. For example, if a planning system exists, it will not be the only process at work in the development of strategy. There will undoubtedly be some level of political activity, and elements of the strategy could well be imposed. Exhibit 2.9 shows how different processes take form in different organisational contexts.

## 2.4 IMPLICATIONS FOR STRATEGY DEVELOPMENT

The discussion so far has some important implications for the development of strategies and for managers involved in this. In this section some of these are discussed.

### 2.4.1 Intended and realised strategies

Conceiving of organisations' strategies in the different ways explained in this chapter means it is important to be careful about just what is meant by the concept of strategy.

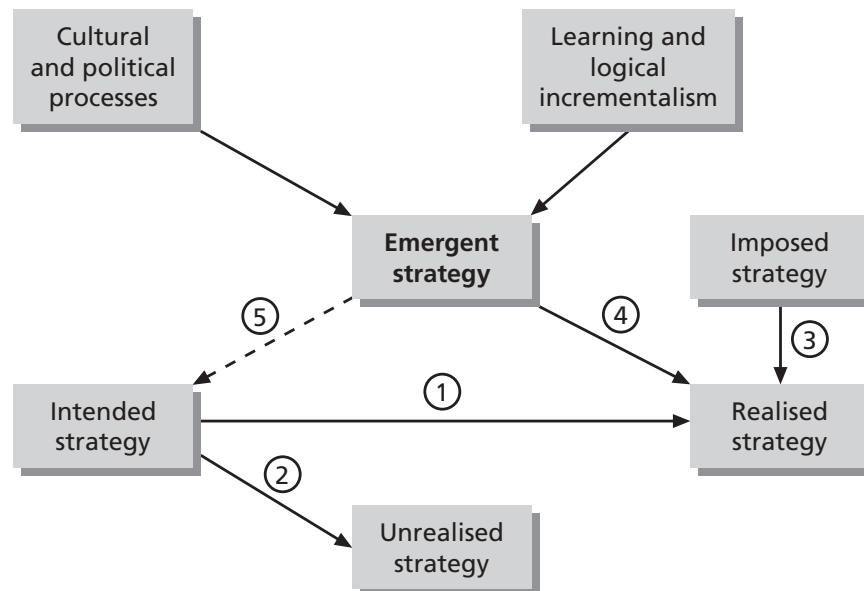
- Typically, strategy has been written about as though it is developed by managers in an *intended*, planned fashion. **Intended strategy** is an expression of desired strategic direction deliberately formulated or planned by managers; or by a strategic leader. It may be that the implementation of this intended strategy is also planned in terms of resource allocation, control systems, organisational structure and so on. Strategy is here conceived of as a deliberate, designed process of development and implementation (see route 1 in Exhibit 2.10).<sup>37</sup> However, as the discussion on strategy development processes in this chapter shows, this does not necessarily explain how the **realised strategy**, that is, the strategy actually being followed by an organisation in practice, actually comes about.
- In many organisations that attempt to formulate detailed intended strategies, much of what is intended follows route 2 in Exhibit 2.10 and is *unrealised*; it does not come about in practice, or only partially so. There may be all sorts of reasons for this; the plans are unworkable; the environment changes after the plan has been drawn up and managers decide that the strategy, as planned, should not be put into effect; or people in the organisation or influential stakeholders do not go along with the plan. (Also see the discussion of the drawbacks of planning systems in section 2.3.1 above.)
- As discussed in section 2.3.6 above, strategies could also be *imposed* on an organisation (route 3 in Exhibit 2.10).
- If strategy is regarded as the long-term direction of the organisation, which develops over time, then it can be *emergent* (route 4 in Exhibit 2.10).<sup>38</sup> How this happens has been explained in different ways in section 2.3. The management of organisations depends a great deal on the *experience* of those involved, individual or collective, and embedded in organisational culture. Managers typically reconcile different views through *negotiation* and *political activity*, or by falling back on established ways of doing things, or *routines*, that make up the culture of the organisation. So strategy could develop in an emergent fashion as the *outcome of cultural and political processes*.
- Strategy development as explained in terms of *logical incrementalism* or *learning* may also take form in emergent strategies. Again the strategy

**Intended strategy** is an expression of desired strategic direction deliberately formulated or planned by managers

**Realised strategy**, the strategy actually being followed by an organisation in practice

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**Exhibit 2.10** Strategy development routes

that develops is not predetermined by a plan, but grows from the interpretation by people in the organisation of their situation and the interaction, debate, and sometimes conflict between them.

- If plans exist, they may perform the role of monitoring the progress or efficiency of a strategy which emerges as the outcome of such experience and ways of doing things, or more proactive influencing of strategic direction from within the organisation (route 5 in Exhibit 2.10). Or, more cynically, they may do little more than pull together the views and 'wisdom' built up over time in the organisation. Indeed, it is often a complaint of chief executives that the planning systems in their organisation have degenerated into little more than post-rationalisations of where the organisation has come from. It can be dangerous because the organisation appears to be taking a proactive, systematic approach to strategy development when it is not.

There are a number of important practical implications for managers here.

- There may be a gap between what top managers think strategy is, or should be - the intended strategy, perhaps as stated in a strategic plan - and what is actually going on in practice - the realised strategy. Illustration 2.8 shows how Intel's top management believed the organisation was following one strategy in the 1980s when it was in fact developing another.
- The organisational effort, in terms of systems and management time, may be going into designing the intended strategy, when more effort needs to be

## Illustration 2.8

**Emergent strategy**

*Strategic direction may emerge from actions taken by middle management, and organisational routines rather than by strategy as designed by top management.*

Intel, the world's largest manufacturer of microprocessors (MPs), was widely regarded as a highly innovative and skilfully managed high-technology company. However, Intel originated as a memory company, in the business of DRAMs - Dynamic Random Access Memory - and EPROMs - Erasable Programmable Read Only Memory. So how did the core business of Intel get transformed from DRAMs to MPs in the 1980s, and how did this happen, despite top management clinging to the view that DRAMs were the core strategic business of Intel?

Initially, the distinctive competences of Intel included design and process technology, in line with the basis of the competitive environment at that time. However, the industry was in a state of rapid change and fierce competition, and as such, the basis of competition shifted to manufacturing and commoditisation. Intel faced increasing turbulence in this new environment and attempted to solve their manufacturing problems by entering into the business of producing microprocessors.

One of the regulations within Intel was with respect to the allocation of manufacturing capacity: the different product divisions competed for manufacturing resources from the centre. Intel's resource allocation strategy criteria attempted to manifest the external competitive realities of the different businesses by allocating manufacturing capacity in proportion to the sectors that displayed the highest profit margins. Although the official corporate strategy was committed to memory, and top management continued to allocate R&D funds to work on memory, the reality of the cumulative events was that, as MPs gradually became more

profitable, manufacturing capacity was increasingly allocated away from memory and towards MPs.

Furthermore, Intel had a tradition and a culture of 'constructive confrontation'; candid discussions regarding the merits and demerits of the different strategic initiatives and allocation of resources were encouraged. Middle managers had a mandate to respond to the external competitive pressures of the environment. When several middle managers took the initiative to use a new process technology which favoured logic and MPs rather than memory, this resulted in the rapid growth of the MP business.

Despite the fact that the official corporate strategy was inherently committed to memory, Intel's external and internal environment produced a major shift in the allocation of resources away from the memory business to the emerging MP business. Although there was still heavy investment in DRAMs, the actual allocations for the manufacturing capacity were decided at lower levels in the organisation. By the time top management realised this, DRAMs' market share had diminished to such an extent that it needed an investment of several hundred million dollars in order to survive, and a decision was made to exit the memory business.

*Prepared by Urmilla Lawson Graduate Business School, University of Strathclyde.*

*Source: R.A. Burgelman, 'Fading memories: a process theory of strategic business exit in dynamic environments', Administrative Science Quarterly, 39 (1994), pp. 24-56.*

**Questions**

1. Identify the processes at work in strategy development at Intel in terms of those described in section 2.3.
2. Compare the change at Intel with the inertia at Kasper (Illustration 2.9). Suggest reasons why the strategy changed at Intel and not at Kasper.



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spent on attending to the processes that give rise to the realised strategy, especially if significant strategic change is needed; and this may mean understanding and addressing cultural and political processes. Managing strategy does not just mean formulating intended strategy.

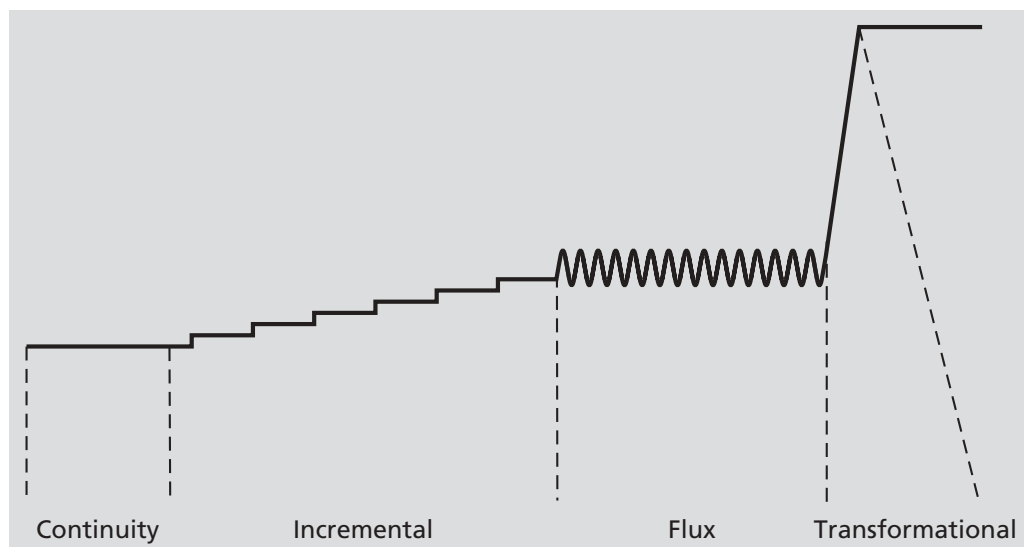
- It may be that the intentions of top management are not the best way forward. It could be that the direction of strategy that emerges from lower in the organisation is more appropriate to the needs of the organisation. The strategic contribution of middle and lower-level management is, for example, being increasingly recognised by researchers<sup>39</sup> and there exist well-documented accounts of significant changes in strategy occurring in this way, as Illustration 2.8 shows again in relation to Intel.

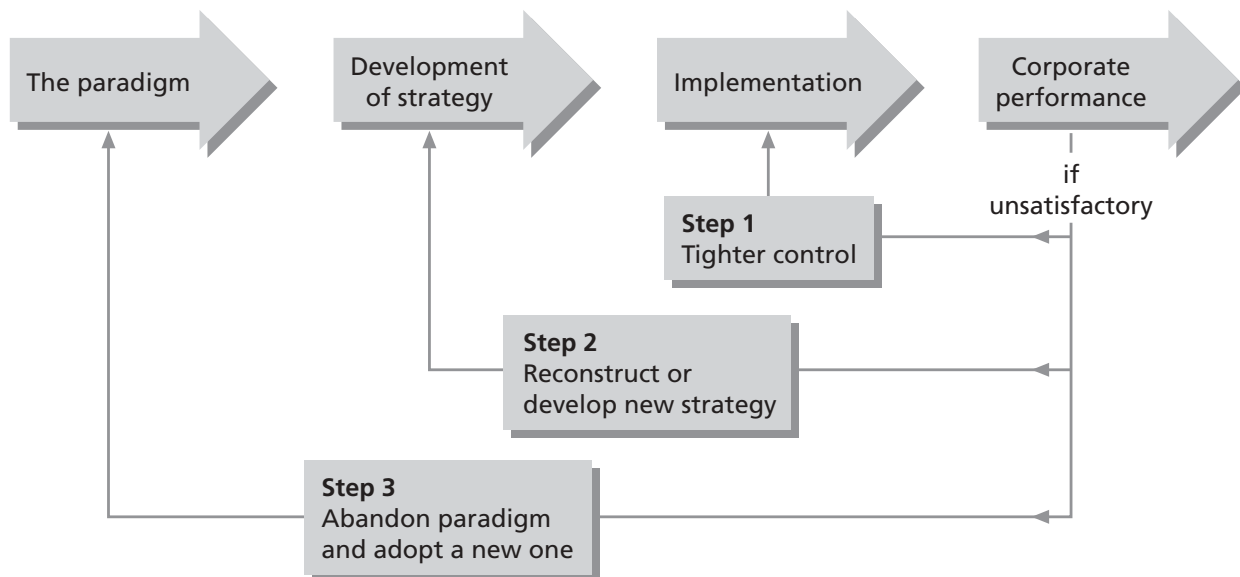
### 2.4.2 Strategic drift

Historical studies of organisations have shown the prevalence of processes leading to emergent strategy.<sup>40</sup> There are usually long periods of relative *continuity* during which established strategy remains largely unchanged or changes *incrementally*, and there are also periods of *flux* in which strategies change but in no very clear direction. *Transformational* change, in which there is a fundamental change in strategic direction, does take place but is infrequent. This pattern has become known as **punctuated equilibrium**<sup>41</sup> – the tendency of strategies to develop incrementally with periodic transformational change – and is illustrated in Exhibit 2.11. In understanding this pattern the experience lens is particularly helpful.

**Punctuated equilibrium** is the tendency of strategies to develop incrementally with periodic transformational change

**Exhibit 2.11** Patterns of strategy development



**Exhibit 2.12** The dynamics of paradigm change

Source: Adapted from P. Grinyer and J-C. Spender, *Turnaround: Managerial recipes for strategic success*, Associated Business Press, 1979, p. 203.

There are strong forces at work which are likely to push organisations towards this pattern. Incremental strategic change is a natural outcome of the influence of experience. The influence of the paradigm and ‘the way we do things around here’ is likely to mean that, faced with pressures for change, perhaps because of changes in the environment, managers try to minimise the extent to which they are faced with ambiguity and uncertainty, by looking for that which is familiar. There are, however, dangers. Environmental change may not be gradual enough for incremental change to keep pace: if such incremental strategic change lags behind environmental change, the organisation will get out of line with its environment and, in time, need more fundamental, or transformational, change. Indeed, transformational change tends to occur at times when performance has declined significantly. There is another danger: that organisations become merely reactive to their environment and fail to question or challenge what is happening around them or to innovate to create new opportunities; in short, they become complacent.

All this raises difficulties when managing strategic change because it may be that the action required is outside the scope of the paradigm and the existing culture, and that members of the organisation would therefore be required to change substantially their core assumptions and ways of doing things. Desirable as this may be, the evidence is that it does not occur easily, as Illustration 2.9 shows. Managers are more likely to attempt to deal with the situation by searching for what they can understand and cope with in terms of the existing paradigm. Exhibit 2.12 shows how this might occur.<sup>42</sup> Faced with

## Illustration 2.9



## Technological change and organisational inertia in the computer industry

*An organisation's 'Achilles heel' can often be found in the routines and processes which were the bases of past success.*

In a fast-moving, technologically complex and innovative industry dominated by small firms with well-developed communication and technology transfer, one firm's inability to keep pace with innovations in manufacturing processes forced it out of business.

Kasper Instruments produced photolithographic alignment equipment, used to manufacture semiconductor devices. Their manufacture required the transfer of small, intricate patterns on to the surface of a wafer of semiconductor material such as silicon. This transfer process, called lithography, required only certain areas of the wafer to be exposed to light, with masks used to provide the appropriate shield.

Contact aligners were the first form of mask to be used commercially and, as the name suggests, these made contact with the wafers. Kasper Instruments' position as industry leader was because of its expertise in the contact alignment technique. However, as technology became more advanced, proximity masks were able to be used which did not come into contact with the wafer, so the risk of damage was reduced. Technology within the industry continued to develop incrementally until a quite different process of electron beam alignment was developed in which a focused beam wrote directly on to the wafer. Yet the industry leader was unable to make the technological transition; in the switch from contact to proximity aligners Kasper Instruments lost its position of industry leader to Canon and was ultimately forced to leave the industry.

The technological change needed for Kasper to keep pace with Canon and introduce the more efficient proximity alignment technique

was, in technological terms, relatively minor; and the top team at Kasper were keenly aware of the need to change. However, they seemed unable to rise to Canon's challenge, refusing to accept the obsolescence of their own expert knowledge in the contact technique. Whilst Kasper continually held on to the past, trying to modify its own production technique to include some elements of Canon's innovative procedures, with no success, its market share slipped away. When the engineers at Kasper were given a Canon proximity aligner to take apart with a view to producing their own model, they dismissed it as a mere copy of their own (very different) contact.

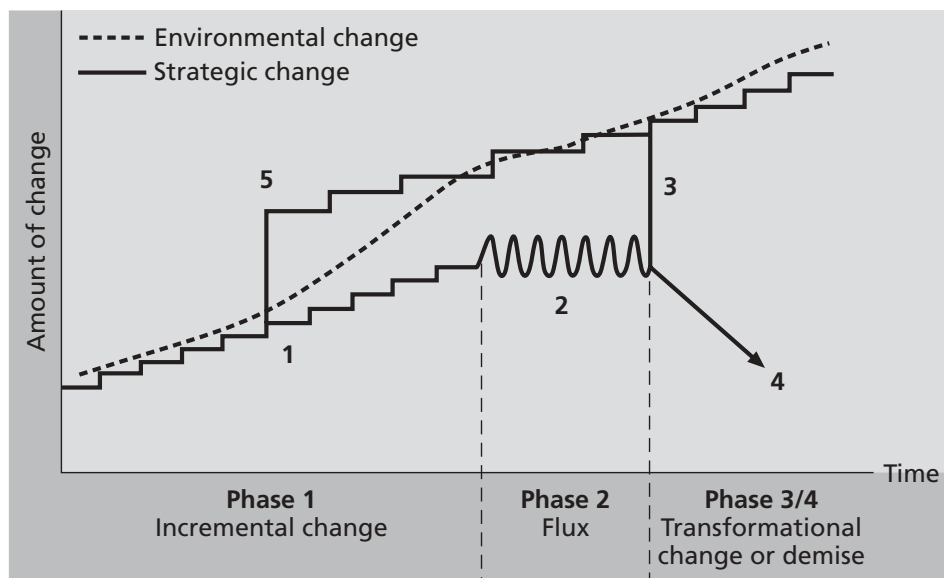
What seemed to be a small incremental development in technology required Kasper to totally rethink the way it did business, from its production processes to its sales and marketing strategies. In its failure to translate its technical understanding of the need for change by changing the routinised processes existing in the organisation, it was not alone. Throughout the history of technological change within this industry, each innovation has been a harbinger of doom for the market leader.

*Prepared by Phyl Johnson Graduate Business School, University of Strathclyde.*

*Source: Adapted from R. Henderson and K. Clark, 'Architectural innovation: the reconfiguration of existing product technology and the failure of established firms', *Administrative Science Quarterly*, vol. 35 (1990), pp. 9–30.*

### Questions

1. Which processes of strategic management described in this chapter might have helped to avoid Kasper's problems?
2. Would these processes be suited to organisations facing less innovatory or changing environments?

**Exhibit 2.13** The risk of strategic drift

a stimulus for action, such as declining performance, managers first try to improve the implementation of existing strategy. This could be through tightening controls and improving accepted ways of operating. If this is not effective, a change of strategy may occur, but a change in line with the existing paradigm and ways of doing things. For example, managers may seek to extend the market for their business, but assume that it will be similar to their existing market, and therefore set about managing the new venture in much the same way as they have been used to. Alternatively, as shown in Illustration 2.9, even where managers know intellectually that they need to change, indeed know technologically how to do so, they find themselves constrained by organisational routines, assumptions or political processes. What is occurring is the predominant application of the familiar and the attempt to avoid or reduce uncertainty or ambiguity. This is likely to continue until there is, perhaps, dramatic evidence of the redundancy of the paradigm and its associated routines.

As observed earlier in the chapter, this is also an explanation of incremental strategy development. Indeed, it could be that changing the strategy within the paradigm makes sense: after all, it does encapsulate the experience of people in the organisation, and permits change to take place within what is familiar and understood. However, the outcome of processes of this kind may not keep strategy in line with environmental change. Rather, it may be adaptation in line with the experience enshrined in the organisational culture. Nonetheless, the forces in the environment will have an effect on performance. Over time, this may well give rise to the sort of **strategic drift** shown in Exhibit 2.13 (phase 1) in which the organisation's strategy gradually moves away from relevance to

**Strategic drift** occurs when the organisation's strategy gradually moves away from relevance to the forces at work in its environment

the forces at work in its environment. Even the most successful companies may drift in this way. Indeed, there is a tendency – which has become known as the Icarus Paradox – for businesses to become victims of the very success of their past.<sup>43</sup>

This pattern of drift is made more difficult to detect and reverse because, not only are changes being made in strategy (albeit within the parameters of the organisation's culture), but, since such changes are the application of the familiar, they may achieve some short-term improvement in performance, thus tending to legitimise the action taken. However, in time, either the drift becomes apparent or environmental change increases, and performance is affected (phase 2 in Exhibit 2.13). Strategy development is then likely to go into a state of flux, with no clear direction (phase 3), further damaging performance. Eventually, more transformational change is likely if the demise of the organisation is to be avoided (phase 4).

It is worth noting a different problem that organisations can face. Organisations that seek to innovate could also find problems. Transformational change might be attempted through the development of entirely new products or services which seek to create new customer needs and expectations not previously in existence. This could succeed and in so doing create a shift in the market in line with the intended strategy. However, there is the risk that such an organisation could find itself 'ahead' of its environment (represented by phase 5 in Exhibit 2.13). In the exhibit, the strategy and the environment eventually realign, but in reality this might not happen and the lag in time before such realignment could cause significant problems, not least in performance.

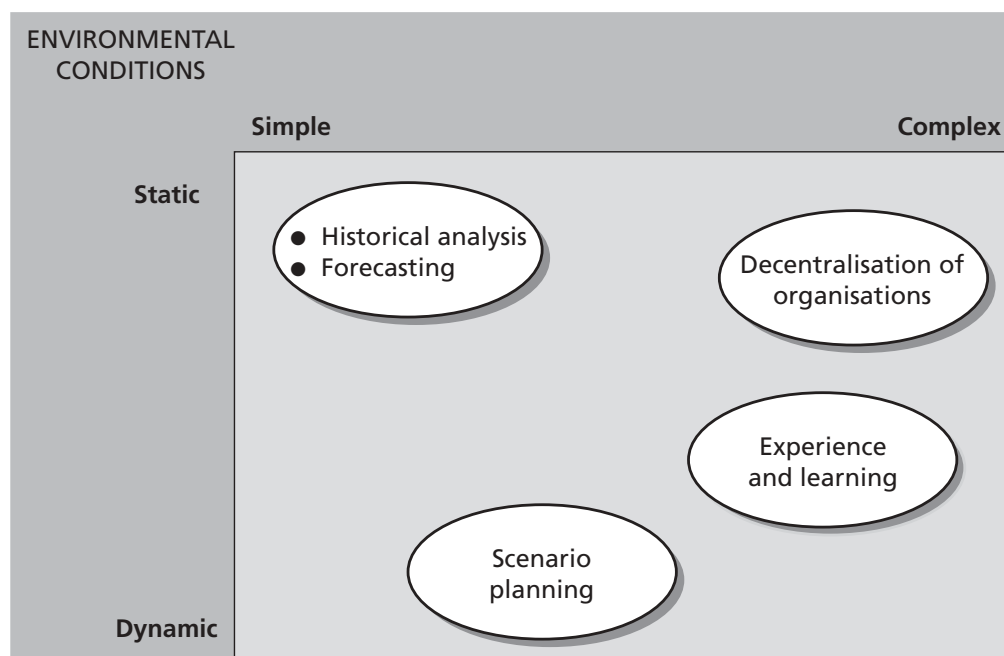
All this goes to emphasise the delicate balance that an organisation faces in developing its strategy. It has internal cultural pressures which tend to constrain strategy development, and environmental forces, not least in terms of its markets, with which it must cope. How it might do so is the central theme of this book.

### 2.4.3 Strategic management in uncertain and complex conditions

The different lenses and strategy development processes described in this chapter can also be seen to be more or less useful and applicable in different contexts. Not all organisations face similar environments and they differ in their form and complexity; therefore different ways of thinking about strategy development and different processes for managing strategy may make sense in different circumstances. Since one of the main problems of strategic management is coping with uncertainty, it is useful to consider this issue in terms of organisations facing different contexts.<sup>44</sup>

Exhibit 2.14 shows how organisations may seek to cope with conditions which are more or less stable or dynamic, and simple or complex.

- In *simple/static* conditions, the environment is relatively straightforward to understand and is not undergoing significant change. Raw materials suppliers and some mass-manufacturing companies are examples, at least from the

**Exhibit 2.14** Strategy development in environmental contexts

past. Technical processes may be fairly simple, and competition and markets remained the same over time. In such circumstances, if environmental change does occur, it may be predictable, so it could make sense to analyse the environment extensively on an historical basis as a means of trying to forecast likely future conditions. In situations of relatively low complexity, it may also be possible to identify some predictors of environmental influences. For example, in public services, demographic data such as birth rates might be used as lead indicators to determine the required provision of schooling, health care or social services. So in simple/static conditions, seeing strategy development in design terms may make sense.

- In *dynamic* conditions, managers need to consider the environment of the future, not just of the past. The degree of uncertainty therefore increases. They may employ structured ways of making sense of the future, such as *scenario planning*, which is discussed in the next chapter (see section 3.2.4), or they may rely more on encouraging active sensing of environmental changes low down in the organisation and the sort of *diversity and variety* seen as necessary through the ideas lens. Or they may do both. Change will need to be seen as normal and not reliant on lengthy reference up and down decision-making hierarchies. The emphasis is on creating the organisational conditions necessary to encourage individuals and groups to be intuitive and challenging in their thinking about possible futures through the sort of *learning organisation* described above.

- Organisations in *complex* situations face an environment difficult to comprehend. They may, of course, face dynamic conditions too, and therefore a combination of complexity and uncertainty. With more and more sophisticated technology, there is an increasing move towards this condition of greatest uncertainty. The electronics industry is in this situation. A multinational firm, or a major public service such as a local government authority with many services, may also be in a complex condition because of its diversity, whilst different operating companies within it face varying degrees of complexity and dynamism.

It is difficult to handle complexity by relying primarily on analysis and planning. There may be ways of designing the organisation to help, however: for example, complexity as a result of diversity might be dealt with by ensuring that different parts of the organisation responsible for different aspects of diversity are separate, and given the resources and authority to handle their own part of the environment. So *organisational design* is important (see Chapter 9). More likely, though, the organisation has to *learn* to cope with complexity. This may entail top management's recognising that specialists lower down in the organisation know more about the environment in which the organisation operates than they do and have to have considerable influence; that this strategic competence based on *experience* may provide competitive advantage (see Chapter 4); that there are not 'right ways' of doing things and that the taken-for-granted has to be challenged. Again, then, the insights gained through the experience and ideas lenses may be helpful.

Even from this brief review of different contexts, it should be clear why it is important to view strategy development processes in different ways. Indeed, arguably, organisational environments are becoming more dynamic and more complex; so holding to the design lens, and a reliance on analysis and planning as *the* way of developing strategy, would be very unwise.

## 2.5 SUMMARY AND IMPLICATIONS FOR THE STUDY OF STRATEGY

This chapter has dealt with different ways in which strategy development can be understood. These help to make sense of what is seen in organisations and also ways of thinking about how strategy should be developed. Some of the lessons of the chapter are now summarised and related to what follows in the rest of the book.

- There are different ways of making sense of the strategies of organisations. This chapter has provided three *lenses* by which to do so; strategy as *design*, as *experience* and as *ideas*.
- Most often the process of strategy development is described in terms of design; as a result of *analysis, evaluation and planning systems* carried out by top management objectively and dispassionately. However, there is evidence to show that this is not an adequate explanation of what occurs in practice.

- In explaining this, the *experience* lens can be helpful because it shows how the individual and collective experience of people and the taken-for-granted assumptions and routines of organisations (which take form in the *culture* of the organisation) tend to lead to future strategies being adaptations of strategies of the past.
- However, in order to understand how really innovatory strategies come about, or to see how some organisations are coping with rapidly changing and unpredictable environments, the *ideas* lens is also useful. Here the emphasis is on the *diversity and variety* of people and ideas in organisations and their environments, and therefore the potential for new ideas and initiatives emerging and creating new strategies rather than being designed.
- These lenses can be helpful in explaining and providing insight into different processes of strategy development observable in organisations. This chapter has considered:
  - the arguments for and against formal *strategic planning*;
  - how *strategic leaders* may influence the strategy of their organisations;
  - the way in which the bargaining and negotiation associated with *political activity* plays a part in strategy development;
  - how organisations may proactively try to cope with dynamic and uncertain environments through processes of *logical incrementalism* relying on strategies emerging from within the organisation and less on hierarchy and top-down control and direction; or more open *learning* systems in which the surfacing of assumptions, explicit debate about them and a diversity of views are encouraged;
  - how strategies might also be *imposed* on organisations by external agencies.
- It is unlikely that any one of these explanations sufficiently describes the strategy development processes in an organisation. Rather, it is likely that a mixture, or *configuration of processes*, accounts for how strategies develop.
- It is important to distinguish between the *intended* strategy of managers - that which they say the organisation should follow - and the *realised* strategy of an organisation - that which it is actually following. This is particularly important when considering how relevant the current strategy of an organisation is to a changing and competitive environment: it is likely to be more useful to consider the relevance of realised strategy than that of intended strategy.
- The realised strategies of organisations usually evolve *incrementally*, as a continual process of relatively small adjustments to existing strategy. Over time, the organisation may become out of line with a changing environment (*strategic drift*), eventually reaching a point of crisis. At this time, more fundamental or transformational change may occur. The result tends to be a pattern of *punctuated equilibrium* in which long periods of incremental strategy development are interrupted by periodic transformational change.
- Whilst processes of strategy development reliant on analysis of historical data may be helpful in *stable environments*, they will be less useful in *dynamic environments*, in which more attention needs to be given to ways

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of responding throughout the organisation to change; and *complex environments* in which, again, there is likely to be a need to recognise the strategic contributions of people throughout the organisation.

The approach taken in this book has been influenced by this understanding of how strategies develop in organisations. As has been said in Chapter 1, the idea of a purely sequential model of strategic management has been rejected. The sequence of understanding the strategic position, considering strategic choices and translating strategy into action is a useful structure for the book, and for thinking about the problems of strategy, but readers are urged to regard these aspects of strategic management as interdependent and an influence on one another; and just as likely to occur in terms of social, political and cultural processes as through formal planning systems. Nonetheless, the book also contains examples of, and references to, many techniques of quantitative and qualitative analysis. The value of such analytical approaches is not to be diminished. Not only do they provide an essential tool for managers to think through strategic problems and analyse possible solutions, but they can provide means whereby the taken-for-granted wisdom of the organisation and assumed courses of action can be questioned and challenged.

This chapter has highlighted the importance of viewing the processes of strategy development in different ways, through different lenses. These lenses will be employed throughout the rest of the book, but particularly at the end of Parts II, III and IV as a means of encouraging readers to do just this, and by so doing gain a fuller and more critical understanding of the management of strategy.

The overall aim is, then, to provide a framework for strategy and strategic management which usefully combines the rigour of analysis with the reality of the processes of management.

## RECOMMENDED KEY READINGS

- For insights into the design lens see the debate between Henry Mintzberg and Igor Ansoff on the merits of different approaches to strategic management which appeared in the *Strategic Management Journal* in 1990 and 1991. These papers were 'The design school: reconsidering the basic processes of strategic management' by H. Mintzberg (vol. 11, no. 3, 1990), a critique of this by I. Ansoff (vol. 12, no. 6, 1991) and a riposte by Mintzberg entitled 'Learning 1, Planning 0' in the same volume.
- For further insights into discussions on processes of strategy development which relate to this chapter's explanation of the experience lens see the following:
  - A.M. Pettigrew, *The Awakening Giant*, Basil Blackwell, 1985, remains the fullest account of such processes in an organisation;
  - G. Johnson, 'Managing strategic change: strategy, culture and action', *Long Range Planning*, vol. 25, no. 1 (1992), pp. 28-36;
  - On incremental strategic change, see J.B. Quinn, *Strategies for Change: Logical incrementalism*, Irwin, 1980; also summarised in H. Mintzberg, J.B. Quinn and S. Ghoshal (eds), *The Strategy Process*, 4th edition, Prentice Hall, 1998;
  - Compare this with G. Johnson, 'Rethinking incrementalism', *Strategic Management Journal*, vol. 9, no. 1 (1988), pp. 75-91;
  - K. Daniels and J. Henry (1998) 'Strategy: a cognitive perspective', in S. Segal-Horn (ed.), *The Strategy Reader*, Blackwell, for a discussion of the influence of individuals' mental models on strategy.
- For a book on strategic management which builds on the concept of understanding and eliciting managers' mental models as a basis for addressing

many of the issues raised in this text, see C. Eden and F. Ackerman, *Making Strategy: The journey of strategy*, Sage Publications, 1998.

- *Competing on the Edge* by S.L. Brown and K.M. Eisenhardt, Harvard Business School Press, 1998, employs evolutionary theory and complexity theory to re-examine strategy; and is therefore a good example of the application of the ideas lens. Also see R.D. Stacey, *Strategic Management and Organisational Dynamics. The Challenge of Complexity*,

3rd edition, Pearson Education, 2000, for a detailed discussion of complexity theory in relation to strategic management.

- Other writers also take multiple perspectives on the study of strategic management. Two good examples are: R. Whittington, *What is Strategy - and does it matter?*, Thomson Learning, 2001, and H. Mintzberg, *The Strategy Safari: A guided tour through the wilds of strategic management*, Free Press, 1998.

## REFERENCES

1. There are numerous explanations of strategic management from a multiple perspective approach, for example: R. Whittington, *What is Strategy - and does it matter?*, Thomson Learning, 2001; H. Mintzberg, *The Strategy Safari: A guided tour through the wilds of strategic management*, Free Press, 1998; E.E. Chaffe, 'Three models of strategy', *Academy of Management Review*, vol. 10, no. 1 (1985), pp. 89-98; and C.R. Schwenk, *The Essence of Strategic Decision Making*, Lexington Books, 1988.
2. The design view is represented in most strategy textbooks. For example, see A.J. Rowe, R.O. Mason, and K.E. Dickel, *Strategic Management: A methodological approach*, Addison-Wesley Publishing, 1987, and R. Grant, *Contemporary Strategic Analysis: Concepts, techniques, applications*, 4th edition, Blackwell, 2002.
3. V. Ambrosini with G. Johnson and K. Scholes, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Prentice Hall, 1998, contains a paper by A. Bailey and C. Avery entitled 'Discovering and defining the process of strategy development', which shows the research approach used in this survey and provides a means of analysing processes of strategy development in organisations. For a more detailed explanation of the research see A. Bailey, G. Johnson and K. Daniels, 'Validation of a multi-dimensional measure of strategy development processes', *The British Journal of Management*, vol. 11 (2000), pp. 151-162.
4. The idea of strategy 'momentum' is explained more fully in D. Miller and P. Friesen, 'Momentum and revolution in organisational adaptation', *Academy of Management Journal*, vol. 23, no. 4 (1980), pp. 591-614.
5. Though the term 'experience' is used in this chapter, studies which have examined this at the individual level are often referred to as research in managerial cognition. For an explanation and examples of such work, see A. Huff, *Mapping Strategic Thought*, Wiley, 1990; and for a discussion of individual cognition and relationships to strategy see K. Daniels and J. Henry, 'Strategy: a cognitive perspective', in S. Segal-Horn (ed.), *The Strategy Reader*, Blackwell, 1998. For an example of a study which looks at how managers' mental models influence strategy see R. Calori, G. Johnson, and P. Sarnin, 'CEOs' cognitive maps and the scope of the organization', *Strategic Management Journal*, vol. 15, no. 6 (1994), pp. 437-457.
6. This definition is taken from E. Schein, *Organisational Culture and Leadership*, 2nd edition, Jossey-Bass, 1992, p. 6.
7. For a good summary of institutional theory, see W.R. Scott, *Institutions and Organizations*, Sage, 1995.
8. 'Paradigm' is a term used by a number of writers: see, for example, J. Pfeffer, 'Management as symbolic action: the creation and maintenance of organisational paradigms', in L.L. Cummings and B.M. Staw (eds), *Research in Organisational Behaviour*, JAI Press, 1981, vol. 3, pp. 1-15, and G. Johnson, *Strategic Change and the Management Process*, Blackwell, 1987.
9. See 'Everyday innovation/everyday strategy', G. Johnson and A.S. Huff, in *Strategic Flexibility - Managing in a Turbulent Environment*, G. Hamel, G.K. Prahalad, H. Thomas and D. O'Neal (eds), Wiley, 1998, pp. 13-27.
10. See Z.J. Acs and D.B. Audretsch, 'Innovation in large and small firms - an empirical analysis', *American Economic Review*, vol. 78, September (1988), pp. 678-690.
11. See E. von Hippel, *The Sources of Innovation*, Oxford University Press, 1988.
12. See M.A. Hitt, R.E. Hoskisson and H. Kim, 'International diversification: effects of innovation and firm performance in product-diversified firms', *Academy of Management Journal*, vol. 40, no. 4 (1997), pp. 767-798.

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13. The most extensive use of evolutionary and complexity theories in the discussion of strategy is to be found in S.L. Brown and K.M. Eisenhardt, *Competing on the Edge*, Harvard Business School Press, 1998.
14. For those who want to read more on evolutionary theory, a simple introduction is J. Miller and V. Van Loom, *Darwin for Beginners*, Icon Books, 1992. A more challenging read is D.C. Dennett, *Darwin's Dangerous Idea*, Penguin, 1995.
15. Evidence on the importance of consensus in organisations can be found in G. Dess and N. Origer, 'Environment, structure and consensus in strategy formulation: a conceptual integration', *Academy of Management Review*, vol. 12, no. 2 (1987), pp. 313-330, and G. Dess and R. Priem, 'Consensus-performance research: theoretical and empirical extensions', *Journal of Management Studies*, vol. 32, no. 4 (1995), pp. 401-417.
16. See Brown and Eisenhardt, reference 13.
17. For a fuller discussion of complexity theory see R.D. Stacey, *Strategic Management and Organisational Dynamics. The Challenge of Complexity*, 3rd edition, Pearson Education, 2000.
18. See M.S. Granovetter, 'The strength of weak ties', *American Journal of Sociology*, vol. 78, no. 6 (1973), pp. 1360-1380.
19. See Brown and Eisenhardt, reference 13.
20. C.W. Reynolds, 'Flocks, herds and schools: a distributed behaviour model', *Proceedings of SIGGRAPH '87, Computer Graphics*, vol. 21, no. 4 (1987), pp. 25-34, as quoted in R.D. Stacey, reference 17, p. 277.
21. This discussion is based on research by K.M. Eisenhardt and D.N. Sull reported in 'Strategy as simple rules', *Harvard Business Review*, January 2001, pp. 107-116.
22. See Stacey, reference 17.
23. See Brown and Eisenhardt, reference 13.
24. L.C. Rhyne, 'The relationship of strategic planning to financial performance', *Strategic Management Journal*, vol. 7, no. 5 (1986), pp. 423-36, indicates that, whilst most research on the subject does show some benefits from financial planning, other studies give contrary or non-conclusive findings on the relationship between formal planning and performance. P. McKiernan and C. Morris, 'Strategic planning and financial performance in the UK SMEs: does formality matter?', *Journal of Management*, vol. 5 (1994), pp. S31-S42, also conclude that there is little evidence of direct links between formal planning and performance.
25. These conclusions are drawn from H. Mintzberg, *The Rise and Fall of Strategic Planning*, Prentice Hall, 1994.
26. Sherman's quote is taken from B.G. James, *Business Wargames*, Penguin, 1985, p. 190.
27. Also from Mintzberg, reference 25.
28. 'Strategic planning in oil and gas companies' is a study carried out by Rob Grant. His findings are available in R.M. Grant, 'Strategic planning among the major oil and gas corporations', Working Paper, McDonough School of Business, Georgetown University, Washington, DC, 1999.
29. See Brown and Eisenhardt, reference 13.
30. There has been relatively little published which has examined strategic management explicitly from a political perspective, but it is a central theme of D. Buchanan and D. Boddy, *The Expertise of the Change Agent: Public performance and backstage activity*, Prentice Hall, 1992.
31. J.B. Quinn's research involved the examination of strategic change in companies and was published in *Strategies for Change*, Irwin, 1980. See also J.B. Quinn, 'Strategic change: logical incrementalism', in H. Mintzberg, J.B. Quinn and S. Ghoshal (eds), *The Strategy Process* (European edition), Prentice Hall, 1995.
32. See H. Mintzberg, 'Crafting strategy', *Harvard Business Review*, vol. 65, no. 4 (1987), pp. 66-75.
33. See J.B. Quinn, *Strategies for Change*, reference 31, p. 58.
34. The concept of the learning organisation is explained in P. Senge, *The Fifth Discipline: The art and practice of the learning organisation*, Doubleday/Century, 1990.
35. The concept of the organisation as a set of social networks is discussed by, for example, M.S. Granovetter, 'The strength of weak ties', *American Journal of Sociology*, vol. 78, no. 6 (1973), pp. 1360-80, and G.R. Carroll and A.C. Teo, 'On the social networks of managers', *Academy of Management Journal*, vol. 39, no. 2 (1996), pp. 421-40.
36. For a discussion of the differences between strategy development in the public and private sectors see N. Collier, F. Fishwick and G. Johnson, 'The processes of strategy development in the public sector' in *Exploring Public Sector Strategy*, G. Johnson and K. Scholes (eds), Pearson Education, 2001.
37. The framework used here is, in part, derived from the discussion by H. Mintzberg and J.A. Waters, 'Of strategies, deliberate and emergent', *Strategic Management Journal*, vol. 6, no. 3 (1985), pp. 257-272.
38. There are now numerous books and papers which show the significance of cultural and political processes: for example, the books published by researchers at the Centre for Corporate Strategy and Change at Warwick Business School, including A. Pettigrew, *The Awakening Giant*, Blackwell, 1985; and A. Pettigrew, E. Ferlie and L. McKee, *Shaping Strategic Change*, Sage, 1992. See also G. Johnson, *Strategic Change and the Management Process*, Blackwell, 1987. Institutional theorists also emphasise the extent

- to which managers are 'captured' by their institutional culture; see W.R. Scott, *Institutions and Organizations: Foundations for organizational science*, Sage, 1995.
39. For a discussion of the role of middle management in strategy development, see S. Floyd and W. Wooldridge, *The Strategic Middle Manager*, Jossey-Bass, 1996.
40. The origins of this explanation of emergent strategy are a paper by H. Mintzberg and J.A. Waters, 'Of strategies deliberate and emergent', *Strategic Management Journal*, vol. 6, no. 3 (1985), pp. 257-272.
41. The concept of punctuated equilibrium is explained in E. Romanelli and M.L. Tushman, 'Organisational transformation as punctuated equilibrium: an empirical test', *Academy of Management Journal*, vol. 37, no. 5 (1994), pp. 1141-1161.
42. This figure is based on that shown in P. Grinyer and J-C. Spender, *Turnaround: Managerial recipes for strategic success*, Associated Business Press, 1979, and *Industry Recipes: The Nature and Sources of Management Judgement*, Blackwell, 1989.
43. See D. Miller, *The Icarus Paradox*, Harper Business, 1990.
44. R. Duncan's research, on which this classification is based, could be found in 'Characteristics of organisational environments and perceived environmental uncertainty', *Administrative Science Quarterly*, vol. 17, no. 3 (1972), pp. 313-327.

## WORK ASSIGNMENTS

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

- 2.1** Using the three lenses explained in section 2.2, give different explanations for the development of the strategy followed by Honda (see chapter case example).
- 2.2** Using the different explanations in section 2.3, characterise how strategies have developed in different organisations (e.g. Honda, Ericsson, \* KPMG A \*).
- 2.3\*** Planning systems exist in many different organisations. What role should planning play in a public sector organisation such as local government or the National Health Service and a multinational corporation such as AOL/Time Warner (see Illustration 1.1) or The News Corporation.\*
- 2.4** With reference to the explanations of incremental strategy development in Illustration 2.7, what are the main advantages and disadvantages of trying to develop strategies incrementally?
- 2.5** Read the annual report of a company with which you are familiar as a customer (for example, a retailer or transport company). Identify the main characteristics of the intended strategy as explained in the annual report, and the characteristics of the realised strategy as you perceive it as a customer.
- 2.6\*** Incremental patterns of strategy development are common in organisations, and managers see advantages in this. However, there are also risks of strategic drift. Compare how lessons from both the design lens and the ideas lens suggest such drift might be avoided whilst retaining the benefits of incremental strategy development.
- 2.7** Suggest why different approaches to strategy development might be appropriate in different organisations such as a university, a fashion retailer and a high-technology company.

## CASE EXAMPLE

### Honda and the US motorcycle market in the 1960s

In 1984, Richard Pascale published a paper which described the extraordinary success Honda had experienced with the launch of their motorcycles in the US market in the early 1960s. It was an article that has generated discussion about strategy development processes ever since.

The US market had been served by Harley Davidson of the USA, BSA, Triumph and Norton of the UK and Moto-Guzzi of Italy. In 1959 Harley was the market leader with total sales of \$16.6 million. But the total British share of the US industry was 49 per cent at that time. By 1973, however, the British share had dropped to only 9 per cent. This was largely the result of the incursions of Honda in the 1960s, following the setting up in 1959 of the American Honda Motor Company. Honda sales rose from \$500,000 in 1960 to \$77 million in 1965.

In his paper, Richard Pascale provided not one, but two accounts of how this extraordinary market success had occurred. What follows are extracts from his paper.

#### **The Boston Consulting Group's and Harvard Business School's accounts of the success**

Following the dramatic decline in the British share of the US motorcycle industry from 1959 to 1973, in 1975 the Boston Consulting Group (BCG) issued a report to the British Government summarising their findings of their study into Honda's strategy in the motorcycle industry.

The success of the Japanese manufacturers originated with the growth of their domestic market during the 1950s. This resulted in a highly competitive cost position which the Japanese used as a springboard for penetration of world markets with small motorcycles in the early 1960s. (BCG, 1975: xiv)

Other studies, for example by the Harvard Business School, explained Honda's success in the USA.

After the second world war, motorcycles in the USA attracted a very limited group of people other than police and army personnel who used motorcycles on the job. While most motorcyclists were no doubt decent people, groups of rowdies who went around on motorcycles and called themselves by such names as 'Hell's Angels', 'Satan's Slaves', gave motorcycling a bad image. A 1953 movie called 'The Wild Ones' starring a 650cc Triumph, a black leather jacket and Marlon Brando gave the rowdy motorcyclists wide media coverage. The stereotype of the motorcyclist was a leather-jacketed, teenage troublemaker.

Honda's marketing strategy was described in the 1963 annual report as 'With its policy of selling, not primarily to confirmed motorcyclists but rather to members of the general public who had never before given a second thought to a motor-cycle. . . .' Honda started its push in the US market with the smallest, lightweight motorcycles. It had three-speed transmission, an automatic clutch, five horsepower (the American cycle only had two and a half), an electric starter and step-through frame for female riders. And it was easier to handle. The Honda machines sold for under \$250 in retail compared with \$1,000-\$1,500 for the bigger American or British machines.

By June 1960 Honda's Research and Development effort was staffed with 700 designers/engineers. This might be contrasted with 100 engineers/draftsmen employed by . . . [European and American competitors]. In 1962 production per man-year was running at 159 units, [a figure not reached by Harley-Davidson until 1974]. Honda's fixed asset investment was \$8170 per employee . . . [more than twice that of its European and American competitors]. With 1959 sales of \$55 million Honda was already the largest motorcycle producer in the world.

In 1961 they lined up 125 distributors and spent \$150,000 on regional advertising. Their advertising was directed to the young families, their advertising theme was 'You Meet the Nicest People on a Honda'. This was a deliberate attempt to dissociate motorcycles from rowdy, Hell's Angels type people.

Again, quoting from the Boston Consulting Group report:

The Japanese motorcycle industry, and in particular Honda, the market leader, present a [consistent] picture. The basic philosophy of the Japanese manufacturers is that high volumes per model provide the potential for high productivity as a result of using capital intensive and highly automated techniques. Their market strategies are therefore directed towards developing these high model volumes, hence the careful attention that we have observed them giving to growth and market share.

### The Honda executives

The second version of events was based on interviews with the Japanese executives based in the US who actually launched the motorcycles. This was quite different:

There were only 3,000 motorcycle dealers in the United States at that time and only 1,000 of them were open 5 days a week. The remainder were open on nights and weekends.

My other impression was that everyone in the United States drove an automobile - making it doubtful that motorcycles could ever do very well in the market. However, with 450,000 motorcycle registrations in the US and 60,000 motorcycles imported from Europe each year, it didn't seem unreasonable to shoot for 10 per cent of the import market.

In truth, we had no strategy other than the idea of seeing if we could sell something in the United States. It was a new frontier, a new challenge, and it fit the 'success against all odds' culture that Mr. Honda had cultivated. We did not discuss profits or deadlines for breakeven. Fujisawa (the co-founder of Honda) told me if anyone could succeed, I could and authorised \$1 million for the venture.

We knew our products at the time were good but not far superior. Mr. Honda was especially confident of the 250cc and 305cc machines. The shape of the handlebar on these larger machines looked like the eyebrow of Buddha, which he felt was a strong selling point. Thus, after some discussion and with no compelling criteria for selection, we configured our start-up inventory with 25 per cent of each of our four products - the 50cc Supercub and the 125cc, 250cc and 305cc

machines. In dollar value terms, of course, the inventory was heavily weighted toward the larger bikes.

We chose Los Angeles where there was a large second and third generation Japanese community, a climate suitable for motorcycle use, and a growing population. We were so strapped for cash that the three of us shared a furnished apartment that rented for \$80 per month. Two of us slept on the floor.

We were entirely in the dark the first year. We were not aware the motorcycle business in the United States occurs during a seasonable April-to-August window - and our timing coincided with the closing of the 1959 season. Our hard-learned experiences with distributors in Japan convinced us to try to go to the retailers direct. By spring of 1960, we had forty dealers and some of our inventory in the stores - mostly larger bikes. Then disaster struck.

By the first week of April 1960, reports were coming in that our machines were leaking oil and encountering clutch failure. As it turned out, motorcycles in the United States are driven much farther and much faster than in Japan. Our testing lab worked twenty-four-hour days bench testing the bikes to try to replicate the failure. Within a month, a redesigned head gasket and clutch spring solved the problem. But in the meantime, events had taken a surprising turn.

Throughout our first eight months, following Mr. Honda's and our own instincts, we had not attempted to move the 50cc Supercubs. While they were a smash success in Japan (and manufacturing couldn't keep up with demand there), they seemed wholly unsuitable for the US market where everything was bigger and more luxurious.

We used the Honda 50s ourselves to ride around Los Angeles on errands. They attracted a lot of attention. One day we had a call from a Sears buyer. But we still hesitated to push the 50cc bikes out of fear they might harm our image in a heavily macho market. But when the larger bikes started breaking, we had no choice. And surprisingly, the retailers who wanted to sell them weren't motorcycle dealers, they were sporting goods stores.

Pascale went on to explain:

In the spring of 1963, an undergraduate advertising major at UCLA submitted, in fulfilment of a routine course assignment, an ad campaign for Honda. Its theme: You Meet the Nicest People on a Honda. Encouraged by his instructor, the student passed his

work on to a friend at Grey Advertising. Grey attempted to sell the idea to Honda.

The President and Treasurer favoured another proposal from another agency. The Director of Sales, however, felt strongly that the Nicest People campaign was the right one – and his commitment eventually held sway. Thus, in 1963, through an inadvertent sequence of events, Honda came to adopt a strategy that directly identified and targeted that large untapped segment of the marketplace that has since become inseparable from the Honda legend.

By 1964, nearly one out of every two motorcycles sold was a Honda. As a result of the influx of medium income leisure class consumers, banks and other consumer credit companies began to finance motorcycles – shifting away from dealer credit, which had been the traditional purchasing mechanism available. Honda, seizing the opportunity of soaring demand for its products, took a courageous and seemingly risky position. Late in 1964, they announced that thereafter, they would cease to ship on a consignment basis but would require cash on delivery. Honda braced itself for revolt. While nearly every dealer questioned, appealed, or complained, none relinquished his franchise. In one fell swoop, Honda shifted the power relationship from the dealer to the manufacturer.

### Making sense of the success

Clearly these two separate accounts are very different, yet they describe the same market success. Since the publication of the paper, many writers on strategy have hotly debated what these accounts actually represent.

*Source:* This case example is based on R.T. Pascale, 'Perspectives on strategy: the real story behind Honda's success', *California Management Review*, vol. 26, no. 3 (Spring 1984), pp. 47–72.

### Questions

1. Which characteristics of the three lenses discussed in section 2.2 apply to the different accounts in the case?
2. Are the different accounts mutually exclusive? Explain your view.
3. Do you think Honda would have been more or less successful if they had adopted a more formalised strategic planning approach to their launch?
4. The Harvard account refers to the statement of strategy in the 1963 Honda annual report (see page 90 above). If this statement was based on a strategic plan, what was the plan based on?

# 2

## ***The processes of strategy development in the public sector***

***By Nardine Collier, Frank Fishwick and Gerry Johnson<sup>1</sup>***

### ***Editor's introduction***

Chapter 2 of *Exploring Corporate Strategy* is concerned with the way in which organisations formulate and implement strategy – the strategic management process. This ranges from planning through cultural influence to ‘command’. The research described in this chapter applied the categorisation of processes used in *Exploring Corporate Strategy* to the public sector context to answer two important questions: First, whether there is a significant difference in the ‘weight’ of these different processes between the public and private sectors. For example, is planning more commonly used in one or other sectors? Second, within the public sector, are there any significant differences in the weight of processes between the different types of public sector organisation and their degree of publicness referred to in John Alford’s chapter?

### **2.1 Introduction**

The context and influences impinging on strategy in the public sector differ from those in the private sector. These include less exposure to market pressures (at least in the past), a greater need to conform to statutory and other formal regulations, responsibility of managers to different stakeholders, greater emphasis on net public welfare and in some cases different core objectives. Alford’s chapter in this book considers the differences between the public and private sector. He noted that there were specific differences with regard to the environment and context within which the organisations operated; the managerial performance; and access to and use of resources. Other authors have also highlighted the differences which exist in these areas between the two sectors (Clarkson, 1980; Ring and Perry, 1985; Perry and Rainey, 1988). This chapter explores whether these differences are reflected in the processes of strategy development, and, if so, in what respects.

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The chapter addresses these questions by analysis of responses to a questionnaire completed by 6,280 managers in public and private sector organisations. The questionnaire is designed to identify the processes of strategy development, as perceived by managers.

An analysis of the data comprised three sets of comparisons:

- comparison of perceptions of strategy development among 1,017 managers from all public sector organisations with 4,263 managers in all other organisations;
- a closer focus on the difference between public sector organisations and organisations in 'archetypal' private sector activities where market pressures are likely to be greatest;
- an analysis of perceived strategy development in different sub-sectors within the public domain, with differing degrees of market-type pressures.

These comparisons demonstrate highly significant differences between public and private sector organisations, and suggest clearly that exposure to the different pressures public sector organisations face have an important influence on strategy development processes.

### **2.2 A framework for the strategy development process**

The strategy development process has many interacting dimensions. Six of these have been used as the basis of the strategy development questionnaire. The definitions of these dimensions are not mutually exclusive, since an organisation could have varying degrees of each trait.

Each of the dimensions is related to one of three overarching frameworks: strategy as managerial intent; strategy as the outcome of organisational processes; and strategy as imposed by external forces.

### **2.3 Strategy as managerial intent**

Managerial intent regards the development of strategies as a deliberate managerial process. In the questionnaire this is represented by two dimensions.

#### *2.3.1 The planning dimension*

The planning dimension is, perhaps, the approach traditionally associated with how strategies develop. It is characterised as a sequence of analytical, logical and rational procedures, followed precisely to formulate an intended strategy. Goals and strategic objectives are set, often by specialised strategic planning departments, after a detailed exploration of the opportunities and threats in the business environment,

which are matched to the strengths and weaknesses of the organisation. After a systematic analysis and evaluation of the potential options compared to the objectives, the chosen strategy is then detailed as precise plans for implementation, throughout the organisation.

### *2.3.2 The command dimension*

The command dimension represents a situation in which an individual has a high degree of control and direction over the strategy development process. The organisation's strategy is associated with this individual, who may be the chief executive, owner or other powerful person in the organisation. This role may also be performed by a small group of top executives. The senior figure's vision of the future can become the strategy or determine the strategic direction of the organisation. The strategy can become so intrinsically linked with the senior figure that he or she is often perceived as the embodiment of the strategy. This can occur to such a degree that internal and external observers attribute responsibility for the success or failure of the strategy to the key individual. Furthermore, this widespread belief that one person creates strategy reinforces the individual's own perception that it is solely his or her responsibility.

## **2.4 Strategy as the outcome of organisational processes**

Strategies can also develop as the outcome of the organisation's cultural and political processes. The culture and politics of an organisation may encourage emergent strategies, or may stifle innovative strategy development.

### *2.4.1 The political dimension*

All organisations are political entities and susceptible to internal and external influences from various groups or stakeholders which guide or constrain strategies. Strategies are developed as a process of bargaining and negotiation between the stakeholders involved in the development of the strategy who have conflicting concerns and expectations. As the outcome of such bargaining, strategies represent the wishes of the most powerful groups, or compromises to accommodate conflicting interests, rather than the fulfilment of pre-planned objectives and careful analysis and evaluation.

### *2.4.2 The cultural dimension*

This dimension represents the taken-for-granted assumptions and beliefs (or paradigm) that are shared by members of an organisation

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about that organisation, its purpose and role. Such assumptions and beliefs can be specific to an organisation or common to an industry or sector. Strategy does not develop as a result of the use of analytical tools so much as drawing upon experience and attitudes, values and perceptions and taken-for-granted ways of doing things that are referred to as 'culture'. The linked and reinforcing assumptions, routines, systems and symbols of an organisation's culture are described and explained in Section 2.8.1 of *Exploring Corporate Strategy* in terms of the cultural web.

Strategy development proceeds in accordance with, and within the confines of, this organisation's culture and its dominant paradigm. Innovative, new or change strategies outside of the frame of reference are therefore likely to be resisted, so strategies reflect a future and direction which tend to perpetuate the organisation's history and routine ways of doing things.

#### 2.4.3 *The incremental dimension*

Studies of strategy development in organisations show that, typically, strategies change incrementally, that is, in relatively small-scale steps. Over time, of course, such small-scale changes could build to produce much more significant change; but this is likely to be gradual. Explanations of such incremental change take two forms which bridge both explanations based on managerial intent and the outcome of organisational processes.

The first view is that of 'logical incrementalism'. According to this, managers have a view of where they want their organisation to be and attempt to move towards this in a step-by-step way (Quinn, 1980). Strategy formulation is, then, purposeful and intentional. However, because of the complexity of the environment the process of strategy development is adaptive; managers attempt to be sensitive to that environment and gradually adapt to it as it changes. Strategic changes will thus be relatively small scale and commitment to strategy likely to be tentative. Implementation may proceed slowly and in stages so as to gauge its success and to refine the strategic direction of the organisation. Such environmental sensing takes place throughout the organisation, not just at the top, and by people who have operational responsibility, not just strategic responsibility. So strategy development is not, here, seen as the sole responsibility of top management but as a process in which organisational members engage more generally. Since there is more widespread involvement in strategy development and strategic change is gradual, it is also likely that there will be greater commitment to strategy that has been developed in such a way.

However, there is an alternative explanation for the observed

phenomenon of incrementalism (Johnson, 1988). This builds on the previous explanations of cultural and political processes. Here the argument is that, if strategy is the outcome of the taken-for-granted assumptions and ways of doing things in the organisation, and of bargaining and negotiation between powerful groupings, it will tend to take the form of adaptation to the status quo. It is unlikely in such circumstances that there will be major divergences or changes in strategic direction, so incremental strategic change will be observed. Proponents of this view argue that such incremental strategy development may be post rationalised as a logical process, but is in fact the outcome of cultural and political processes.

There is of course an overlap between these two arguments. Both suggest that strategy development is likely to build on current strategy in an adaptive way and involve people throughout the organisation in its refinement and development.

### **2.5 *Imposed strategy: the enforced choice dimension***

The enforced choice dimension is characterised by the external environment operating to limit strategic direction. Strategies could be instigated externally, the government may dictate a particular course of action to follow or insist on regulatory control, particularly so within the public sector, or an operating business within a multi-divisional organisation may have strategies imposed on it from corporate head-office. Furthermore, market circumstances may exist where choice is delimited, for example in a commodity market or in an oligopoly where a dominant player will establish the strategic norms.

Powerful stakeholders such as customers, suppliers or professional bodies may also impose strategies on the organisation, thereby constraining managerial choice, by encouraging or determining the adoption of organisational structures and activities.

#### **2.5.1 *Integrating views of strategy development***

The dimensions explained above are not mutually exclusive; each explains some aspects of the strategy development process. In fact we find that in almost all organisations it is a mix of these dimensions that explains how strategies develop. The different combinations of these dimensions appear to relate to the types of organisation being studied and the nature of the environment they face in particular. Illustrations of this are given in Appendix 2.9 of Chapter 2 of *Exploring Corporate Strategy*. Here, we are concerned with the nature of strategy development in the public sector; and since there are differences in organisational form and context in the public sector, we would also expect to see differences in the dimensions of strategy

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development within the public sector. In the rest of this chapter, we explore what these differences are and why they might exist.

## 2.6 *The strategy development questionnaire*

The questionnaire (see Appendix 2.1) was derived after extensive research. A review of research on strategy development processes was undertaken and questions developed from this which represented the characteristics that were uniquely attributable to each of the underlying dimensions. To ensure validity an expert panel evaluated each item's characteristicness using a Likert scale. Items were included if they had been endorsed by 70% of the panel and if they scored above the mean score on the Likert scale. These items were then analysed by managers to gauge their relevance to strategy development in a practical working environment. This produced 39 items which were transferred into a self-report questionnaire. Over 6,300 managers, from over 1,000 organisations, have completed the questionnaire since it was first used in 1992.

There are two parts to the self-report questionnaire. Part A comprises 49 statements, including a small number of 'dummy questions', related to strategy development (see Appendix 2.1). For each of these an individual manager is asked to indicate the degree to which the statements are characteristic of their organisation, according to a seven-point Likert scale, ranging from 1 = strongly disagree to 7 = strongly agree. Part B is designed to collect additional information about the manager's organisation.

Within the total of 6,280 managers completing the questionnaire, 1,017 classified their organisation to 'the public sector', though these included some organisations which were subsequently transferred to private ownership. The sample of 1,017 was large enough for a comparison of the perceptions of public sector managers with those of managers in other types of organisation. For an overview of how processes of strategy development in organisations can be gained by using the strategy development questionnaire see Bailey and Avery (1998).

## 2.7 *Analysis and results*

### 2.7.1 *Comparison of public sector organisations with the rest of the sample<sup>2</sup>*

As shown in Exhibit 2.1, the outstanding feature of strategy development in the public sector is the importance of the enforced choice dimension. On average, public sector managers gave this the highest score of all six dimensions. In contrast, managers from other organisations rated it the lowest. It is important to recall that the analysis

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*Exhibit 2.1 Rank-adjusted mean scores for public sector and all other organisations*

Dimension	Public sector	Other organisations	Significance of difference
Planning	3.92	4.01	5%
Command	3.97	4.19	0.1%
Incremental	4.34	4.38	Not significant
Political	4.14	3.99	0.1%
Cultural	4.26	4.20	Not significant
Enforced choice	4.76	3.81	0.1%

Note: The probability that the observed difference could be due to chance (random sampling) is less than the percentage displayed, the 'significance' of the difference.

described here is based on managers' perceptions of how strategy is developed within their organisations. In recent years, much has been said and written about the constraints placed by public ownership or control on enterprise and managerial freedom. This research finding demonstrates that this view is shared by managers from the public sector themselves.

The second most important feature of the strategy development process in the public sector is the incremental dimension, which is also the single most important dimension in the rest of the sample. Indeed, there is no significant difference between the public sector and the other organisations in this respect. Managers in both sectors therefore stress the way in which their organisation is continually changing strategy in response to its changing environment. If the one component statement referring explicitly to changes in the marketplace is omitted from the computation of the score on the incremental dimension, the means for public sector participants and the rest of the sample become equal at 4.34.

Public sector managers accord less importance than those from other organisations to the command dimension statements, although this difference from the rest of the sample is less pronounced than that observed in the case of enforced choice. In part, these two differences are reciprocal. Where strategy is largely imposed or constrained by external pressures, managers see senior executives as less able to 'determine our strategic direction' or to implement their 'vision of the future'. (Both statements are components of the command dimension.)

The strategy development process in public sector organisations is also perceived to be more political, though this difference ranks only third in order of magnitude. It is probably consistent with the two other main differences. When strategy is largely driven by external influences, such as government, with reduced scope for the direction of

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strategy internally by a powerful figure, then bargaining and negotiation are inevitable. In public sector organisations this often takes the form of explicit bargaining by senior executives with external agencies, such as government, for resources or to influence the direction of the organisation; but it also is likely to include bargaining and negotiation for scarce resources internally between departments or with local political influences, for example in the form of the elected representatives in local government. Indeed, the art of political negotiation in such a context may not only be essential to develop strategies, but a basis upon which executives develop their managerial careers.

Exhibit 2.1 also shows that a lower emphasis on planning is of only a marginal statistical significance and that there is no significant difference between the public sector and the rest of the sample on the cultural dimension. However, with regard to culture, it is interesting to note that, when the public sector is compared with a commercial subset of other organisations characterised by their competitive environments, a highly significant difference is found. The significance of this finding is discussed in the next section.

#### 2.7.2 *Comparison of public sector organisations with those in archetypal commercial private sectors*

A subset of economic activities within the private sector was chosen to represent those commercial activities conventionally regarded as the domain of private enterprise. In total, 1,186 managers within the sample classified their organisations to these activities. These were:

- manufacturing;
- retailing;
- wholesaling;
- pharmaceuticals.

These economic activities were chosen because they all have readily identifiable customers, are characterised by commercial objectives concerned with the interests of shareholders and operate mainly within competitive markets. In contrast to the public sector, and some other highly regulated activities, there is less explicit concern with general social benefit, and less direct control by government.

For this reason it was expected that the differences between this 'archetypal private sector' and the public sector would be similar to, but greater than, those between public and all non-public organisations. This expectation was fulfilled in the case of five of the six dimensions and in the sixth case the difference between the private enterprise subset and the rest of non-public organisations was of no statistical significance (see Exhibit 2.2).

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Exhibit 2.2 Hierarchy-adjusted mean scores: public sector vs. private sector subset

Dimension	Public	Private subset	Significance level of difference
Planning	3.92	3.94	Not significant
Command	3.97	4.17	0.1%
Incremental	4.34	4.39	Not significant
Political	4.14	3.82	0.1%
Cultural	4.26	4.09	0.1%
Enforced choice	4.76	3.64	0.1%

A difference in composition by seniority had again to be accommodated in the analysis and averages were computed on the assumption that the distribution by hierarchy in each of the two groups was identical to that of the total population of all managers.

Comparison with Exhibit 2.1 shows that organisations in what were identified as archetypal private enterprise activities do indeed show stronger differences from public sector organisations than the residue of organisations outside the public sector. This is particularly true of the cultural and political dimensions. The differences between the public sector and the private sector subset can be seen very clearly on profile diagrams such as that shown in Exhibit 2.3.

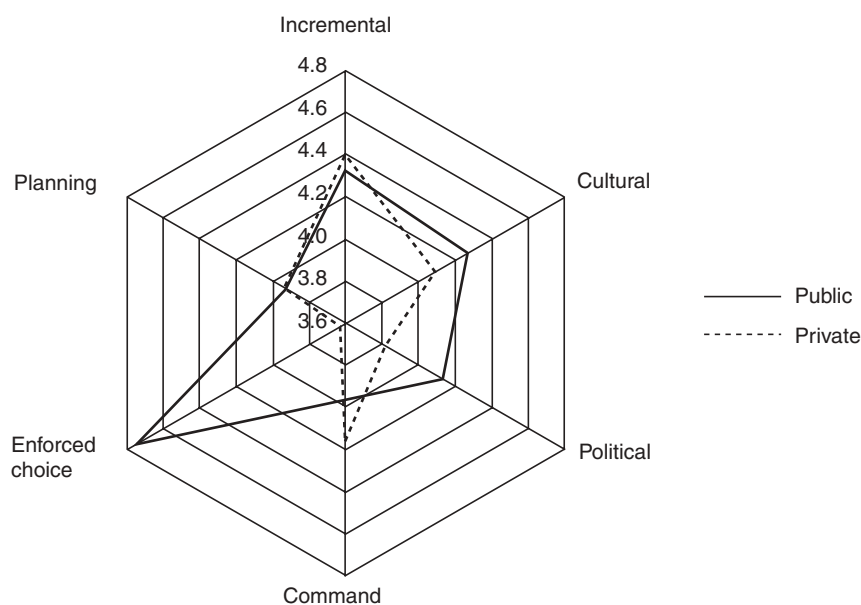


Exhibit 2.3 Public vs. private sector: mean dimension scores (a six-dimension profile)

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The difference in the enforced choice dimension is so great that it overwhelms the differences in the other five dimensions. These can be more clearly identified when this dimension is omitted as in Exhibit 2.4, highlighting higher scores in the public sector on the cultural and political dimensions.

Perhaps the higher scores on the political dimension are to be expected given the public sector context discussed earlier. The higher scores on the cultural dimension are found when comparing the public sector with the archetypal private sector organisations. These organisations were specifically selected to represent private sector businesses in competitive markets. Arguably such market pressures may pose – or be seen by managers to pose – continual challenges to taken-for-granted assumptions and established ways of doing things. In public sector organisations, on the other hand, managers may perceive a greater need for continuity of service provision and therefore a greater adherence to core assumptions associated with such services and ways of providing them.

On the command dimension the subset score is slightly less than that for the non-public organisations in total, and this is also true of the planning dimension. However, these differences are not statistically significant and could be due to sampling. It is, however, interesting to note that on the planning dimension the effect is to make insignificant the contrast between the private sector subset and the public sector. There could of course be differences at work here. If planning is viewed as a means by which management justifies itself to external stakeholders, then it is not surprising, perhaps, that planning

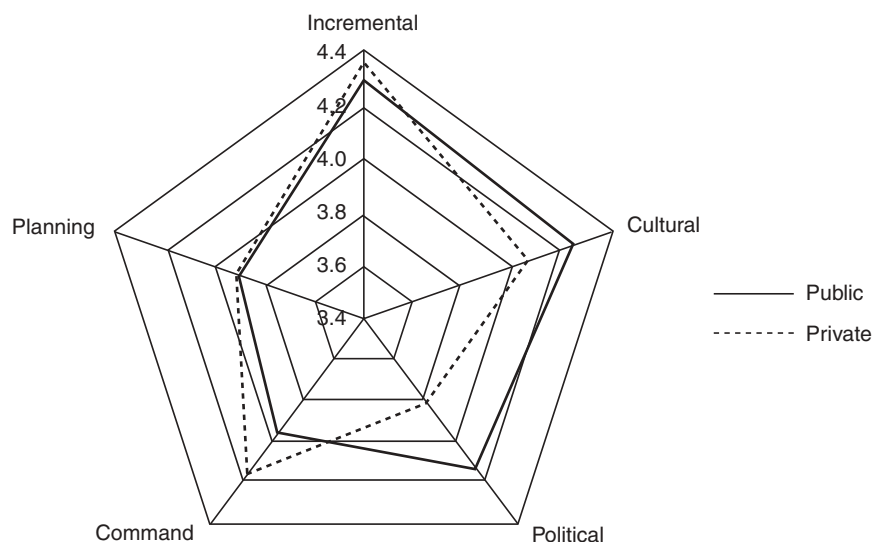


Exhibit 2.4 Public vs. private sector: mean dimension scores (a five-dimension profile)

is seen as just as significant in the public sector as it is across most non-public sector organisations. However, the role of planning is perceived to diminish the higher the influence of competition. The findings seem to bear out, then, the notion that planning is more to do with legitimisation to stakeholders than it is to do with the forging of competitive strategies.

The fact that the distinctive features of strategy formation in the public sector become more pronounced when this is compared with archetypal private sector activities reinforces the conclusion that these features are associated with different strategic objectives. Rather than meeting commercial objectives (profits, sales growth, long-term survival) within a competitive environment, many parts of the public sector are concerned with fulfilling statutory requirements and regulations with the objective of providing social benefit and value for money.

### 2.7.3 *Differences within the public sector*

For several years governments have attempted to introduce market-type forces into the public sector, with the implication that this improves efficiency and effectiveness in terms of 'best value'. In order to identify the effects of diverse pressures within different parts of the public sector five categories of organisations were examined separately:

- Market organisations, which sell a product to consumers commercially. These include public utilities and other organisations that were within the public sector at the time the questionnaire was completed, but have subsequently been privatised. They also include the Post Office and Royal Mail. The BBC was added to this category, because it was regarded as competing for customers with other television and radio companies, whose output is supplied free of charge at the point of delivery. (179 respondents)
- National Health Service (NHS), including health authorities and hospital trusts. Government has attempted to introduce market forces into the NHS, but there is no explicit commercial competition. (141 respondents)
- Local government, where competitive tendering, subcontracting to the private sector and value for money systems have also introduced some quasi-commercial pressures, but where competition for the final product remains very limited. (187 respondents)
- Police and the Prison Service, where subcontracting to the private sector has been more limited, and commercial pressures are mainly restricted to cost-benefit analysis and related economies. (132 respondents)
- Probation Service, to which similar comments apply, but where activity is more homogeneous, a difference which may affect the strategy development process. (205 respondents)

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In examining whether there were significant differences between the mean scores of these subsets on each of the six dimensions of strategy development process, it was again necessary to make adjustment for differences in the hierarchical composition of the five subsets. For example, just over 50% of respondents from the NHS were chief executives or at one level below; among the respondents from the market organisations the corresponding proportion was 27%; among those from the police and Prison Service it was 23%.

Smaller numbers and marked under-representation of some hierarchical levels within specific sub-sectors make it impossible to compute seniority-adjusted means to compare dimension scores. Without adjustment for hierarchical differences, the sub-sector averages are meaningless. In Exhibit 2.5, the results of a multiple regression calculation have been used to determine whether there is a significant difference between the score of each sub-sector on each of the six dimensions and the score of the public sector as a whole. Where there is a significant difference, the entry states whether the score in the sub-sector is (on average) more or less than that in the total public sector and shows the level of significance (the probability that the difference could be due to chance is less than the percentage stated).

The activities defined here as 'market' (mainly those where the customer chooses to buy at the point of delivery) show a very significant positive difference from the rest of the public sector on the command dimension. This suggests that the more 'commercial' the organisation, the more managers at lower levels believe that strategic decisions are taken by those at the top. In such organisations, the lesser emphasis on the cultural dimension may well be due to change in the 'market-oriented' activities, since most were preparing for full or part privatisation. This finding is consistent with the observation in the previous section that the cultural dimension is significantly weaker in those private sector activities characterised by commercial objectives. The pressure of rapid change, led by senior executives, may

Exhibit 2.5 Significant differences between sub-sectors and the public sector as a whole

	Planning	Command	Incremental	Political	Cultural	Enforced choice
Market	Less**	More***	Less**	–	Less**	–
NHS	Less*	–	–	More***	–	–
Local gov.	–	Less**	More***	–	More**	More**
Police etc.	More***	–	–	Less**	Less*	–
Probation	–	Less**	Less*	Less***	–	–

\* Significant at 5% \*\* Significant at 1% \*\*\* Significant at 0.1% – Not significant

also explain the lesser emphasis in the 'market' organisations on the planning and incremental dimensions.

In the NHS the most outstanding feature is the greater importance of the political dimension. This may reflect the participation in strategy formation in the NHS of a large number of active stakeholders (managers, clinicians, nurses, public funding bodies, trade unions). This is a characteristic that differentiates the NHS from other public sector bodies such as the police or Probation Service, where the political dimension gets a much lower score than in the rest of the public sector. It may be noted that the Probation Service, which is characterised by a more singular vocational objective, also has a significantly lower score on the command dimension.

In some ways local government may be considered the archetype of the public sector, which is reflected in the significantly greater score on the enforced choice dimension. The restriction of choice comes not only from imposition by elected bodies, but also from limits placed by central government. The very high score on the incremental dimension may be due to the absence, indeed some executives would say the impossibility, of a long-term strategy, given the frequency of changes in externally imposed policies. The structure of local government, with elected representatives determining policy, helps explain the low emphasis on command. However, it should also be remembered that many local government services are run by executives with their roots in professions such as the social services, education, library services, and so on. It is a structure for the provision of services which tends to emphasise departmental responsibility rather than overall central executive direction. Further, the emphasis on professional norms and standards might help account for the high cultural emphasis on strategy development.

The other main finding from the study of different activities within the public sector is the significantly greater score on the planning dimension recorded by managers from police forces. This may be a reflection of the high levels of operational planning required for the police. In this respect management generally in the police force is dependent on planning and is likely to 'spill over' to the strategic level. The lesser emphasis on the political dimension may be accounted for by the clear hierarchy of command within the police force; and the perceived lesser emphasis on the cultural dimension, the result of explicit pressures for change in policing taking place in the UK in the 1990s.

## **2.8 Conclusions and implications**

This analysis of information from a large database shows that the distinct factors influencing strategy in the public sector are reflected in managers' perceptions of how strategy is determined. Taken as a

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whole, public sector managers place much more emphasis than those from all other organisations on the enforced choice dimension of strategy development, the result of a requirement to comply with statutory and other formal regulations together with guidelines handed down by political masters at national level. Less pronounced, but still considerable, is the lower emphasis placed in the public sector on the importance of the contribution to strategy development of senior individuals. This may partly reflect the less frequent identification of the organisation with the individual or small group at the top. However, the breakdown of the results for different categories within the public sector shows that the closer the activity comes to the commercial sector, the greater becomes the importance of this 'command' dimension, suggesting that commercial pressures impose a need for stronger leadership and direction.

Political processes are regarded as more significant within the public sector. As explained above, this is likely to be the result of a number of characteristics of public sector organisations. There is explicit bargaining between executives in the public sector and central government in order to obtain resources. For some public sector organisations, such as local government, there is similar bargaining occurring at the local level. In others there will be bargaining between departments for the allocation of resources too. In other public sector organisations such as the NHS, there are multiple influence groups on strategy development.

To answer the questions posed in the introduction, there are substantial differences in the process of strategy development between the public sector and other types of organisation. These differences become even more pronounced when the comparison is between the public sector and those private sector activities most closely associated with profit seeking in a competitive environment. However, the public sector is not homogeneous in terms of the factors which determine strategy, and our analyses have shown ways in which this is so. What then are the implications for executives in managing strategy in the public sector?

The overriding observation would be that managers should recognise the reality of strategy development. Not only in the public sector, but in many private sector organisations, there have been traditions of equating strategy development and strategic planning. However, it needs to be recognised that formal planning mechanisms are not necessarily the only way – perhaps not the most effective way – in which strategies develop (Mintzberg et al., 1998). Strategic management is concerned with managing the long-term development of the organisation to meet the pressure of the changing environment and the needs and expectations of stakeholders. Our analysis suggests that managers seek to undertake this in different ways according to

their different organisational objectives and their different contexts. Planning may, indeed, provide a useful means of developing strategy; but there are other means too. It is clear that within public sector organisations an overarching consideration is the strong influence of agencies such as government and pressures to provide for the social good. In such a context, it would be surprising if political bargaining and negotiation did not play an important role. Indeed it may be that there needs to be a more explicit recognition of the importance of political processes in the management of public sector organisations.

However, it is certainly the case that public sector organisations are being made more accountable for achieving 'best value' performance and, often, within a more market-focused arena. In such circumstances we have seen that there may be a greater role for strategic direction by senior executives – the command role. It is also likely that in such circumstances these individuals will have to face the challenge of managing strategic change within their organisations; and hence the need to understand and cope with culture change. In other chapters in this book the political dimension of public sector management is explicitly addressed (see Chapter 9), as is the challenge of culture change (see Chapter 16).

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**Notes**

- 1 Acknowledgements: The original work on the Strategy Development Questionnaire was sponsored by ESRC grant no. R000235100, and was developed by Andy Bailey and Gerry Johnson at Cranfield School of Management.
- 2 It was not possible to perform a simple comparison between the public sector and the rest of the sample because of the difference in the two groups regarding hierarchical level; see Appendix 2.2 for an explanation of how this problem was overcome.

## ***Appendix 2.1 The strategy questionnaire***

### ***Planning***

We have definite and precise strategic objectives  
When we formulate a strategy it is planned in detail  
We evaluate potential strategic options against explicit strategic objectives  
We meticulously assess many alternatives before deciding on a strategy  
We have precise procedures for achieving strategic objectives  
We have well-defined planning procedures to search for solutions to strategic problems  
We make strategic decisions based on a systematic analysis of our business environment  
Our strategy is made explicit in the form of precise plans

### ***Command***

The strategy we follow is directed by a vision of the future associated with the chief executive (or another senior figure)  
Our strategy is closely associated with a particular individual  
A senior figure's vision is our strategy  
Our chief executive tends to impose strategic decisions (rather than consulting the top management team)  
The chief executive determines our strategic direction

### ***Incremental***

To keep in line with our business environment we make continual small-scale changes to strategy  
We keep early commitment to a strategy tentative and subject to review  
Our strategy develops through a process of ongoing adjustment  
We tend to develop strategy by experimenting and trying new approaches in the marketplace  
Our strategy is continually adjusted as changes occur in the marketplace  
Our strategies emerge gradually as we respond to the need to change

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***Cultural***

Our strategy is based on past experience

There is a way of doing things in this organisation which has developed over the years

Our organisation's history directs our search for solutions to strategic issues

The strategy we follow is dictated by our culture

The strategies we follow develop from 'the day-to-day way we do things around here'

The attitudes, behaviours, rituals and stories of this organisation reflect its strategic direction

There is a resistance to any strategic change which does not sit well with our culture

***Political***

The information on which our strategy is developed often reflects the interests of certain groups within this organisation

The vested interests of particular internal groups colour our strategy

Our strategy develops through a process of bargaining and negotiation between groups or individuals

Our strategy is a compromise which accommodates the conflicting interests of powerful groups and individuals

The decision to adopt a strategy is influenced by the power of the group sponsoring it

Our strategies often have to be changed because certain groups block their implementation

***Enforced choice***

We are severely limited in our ability to influence the business environment in which we operate

We have strategy imposed on us by those external to this organisation, for example the government

Our freedom of strategic choice is severely restricted by our external business environment

We are not able to influence our business environment; we can only buffer ourselves from it

Many of the strategic changes which have taken place have been forced on us by those outside this organisation

Barriers exist in our business environment which significantly restrict the strategies we can follow

Forces outside this organisation determine our strategic direction

***Dummy questions***

The influence a group or individual can exert over the strategy we follow is enhanced by their control of critical resources

We deal with strategic issues as and when they arise

Our strategy is driven by a vision of the future

As a subsidiary (or division) our strategy is set by the parent company

There is a commonly shared belief in this organisation about the strategic direction we should pursue

Our strategic direction is determined by powerful individuals or groups

There is a clear vision of our future which we pursue

Our strategic direction is driven by commonly shared values

A vision of what this organisation will be like in the future guides what we do strategically

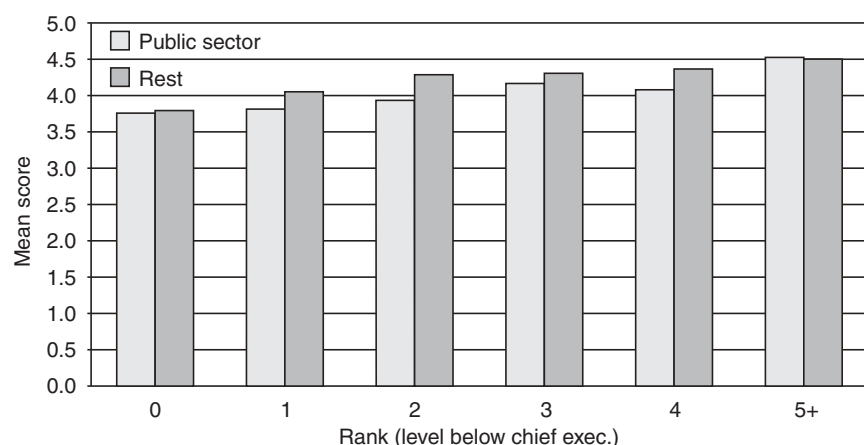
When strategy develops in this organisation I am actively involved

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## ***Appendix 2.2 Hierarchy and comparison between public and private sectors***

It became evident at an early stage of the analysis that a straight comparison between public sector organisations and the rest of the sample might be distorted by a significant difference in the composition of the two groups in terms of hierarchy. Of public sector managers within the sample 45% were at chief executive level or one below, compared with 34% of all other managers. On most of the dimensions there is a significant relationship between the hierarchical position of the manager completing the questionnaire, measured as level below the chief executive (0 to 5+), and his or her score. To overcome this problem weighted averages were calculated for each of the two groups (public sector and the rest), with the weights based on the composition by rank of the two groups combined.

A second approach was the application of multiple regression, which gave very similar results. The problem created by the different hierarchical composition of the public and private sector groups is demonstrated by the pattern of scores on the command dimension.



A 2.2 Scores on the command dimension by hierarchical rank

Two procedures were used to eliminate the distortion resulting from the different mix of seniority: regression analysis and rank-adjusted means. The regression equations related the scores of managers on each of the six dimensions to (1) their hierarchical level below chief executive and (2) whether or not they came from the public sector. The results revealed very significant differences (after compensation for rank) between the public sector and other organisations on three of the six dimensions (in diminishing order: enforced choice, command and political). A smaller difference of more marginal statistical significance was indicated on the planning dimension. On the incremental and cultural dimensions, there was no significant difference. These results match almost exactly those derived by use of rank-weighted means.