Chapter 1

Introducing strategy

Key terms

business-level strategy

corporate-level strategy

digital transformation

exploring strategy framework

functional-level strategy

mission statement

non-profit organisations

purpose

strategy definition

strategy statements

sustainable development

three-horizons framework

vision statement

Learning outcomes

After reading this chapter, you should be able to:

- Recognise *the purpose* of an organisation.
- Summarise the strategy of an organisation in a *'strategy statement'*.
- Distinguish between *corporate, business* and *functional* strategies.
- Identify key issues for an organisation's strategy using the *Exploring Strategy* Framework*.
- Understand different people's roles in *strategy work.*
- Appreciate the importance of different *organisational contexts, academic disciplines* and *theoretical lenses* to practical strategy analysis*.

	Non-profit	Sustainability	Digital Transformation
Pages	8-9, 11,17	17-18	18

1.1 Introduction

The Chief Executive Officer (CEO) of a medium-sized manufacturing business knew they had problems. Home-market demand was falling for their products just as new aggressive competitors were introducing highly innovative ones of their own. The company was also facing interruptions in its overseas supply chain. The CEO wondered what to do: find new international markets for growth; invest more in product innovation to match competitors; use more local suppliers. A consulting company was hired to provide strategy advice and Claudia, a junior in the consulting team, knew she would have to carry out a systematic strategic analysis to understand the company's business model, assess the challenges posed by competition and shifting market demand, and identify broader opportunities and threats from the wider environment. She would need to base her recommendations on data and analysis. Claudia would also have to propose an implementation plan for the strategy.

The problems presented by the CEO to the consultants are ones of strategy. Strategy is concerned with key issues for the future of the organisation. For instance, how should the company compete in the future with aggressive new entrants? What growth options are there for the company? If internationalisation is a good strategy, what would be the optimal method to achieve this and what might be the resourcing implications? All of these strategy questions are vital to the future survival of the organisation.

Strategy questions naturally concern entrepreneurs and senior managers at the top of their organisations. But these questions matter more widely. Outside of the organisation, stakeholders such as investors, including shareholders and banks, influence the strategy. Inside the organisation, middle managers also have to understand the strategic direction, both to know how to get top management support for their initiatives and to explain it to the people they are responsible for. Anybody looking for a management-track job needs to be ready to discuss strategy with their potential employer. Indeed, anybody taking a job should first be confident that their new employer's strategy is actually viable. There are even specialist career opportunities in strategy, for example like Claudia, as a strategy consultant or as an in-house strategic planner, often key roles for fast-track young managers.

This book is relevant to any kind of organisation responsible for its own direction into the future. Thus, the book refers to large private-sector multinationals and small entrepreneurial start-ups; to family businesses, both large and small; to public-sector organisations such as schools and hospitals; and to non-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.

In this chapter you will begin with examining the main definitions of strategy, build your understanding of strategy's purpose, be introduced to the *Exploring Strategy* Framework for analysing an organisation's strategy and increase your awareness of working with strategy in different contexts (see Figure 1.1). But first, why is the book entitled *Exploring Strategy*?

1.1.1 Why 'Exploring Strategy'?

There are a large number of strategy textbooks available on the market so it is important to realise why readers choose
Exploring Strategy. As strategists, we believe that one of strat-egy's distinctive features is that it draws upon many other perspectives, including economics, finance, marketing, operational

management, organisational behaviour and psychology, to name a few. However, many strategy textbooks adopt a single disciplinary focus, such as an economics perspective, that ignores these other critical issues. Others focus much more on the behavioural side of strategy and largely overlook the importance of finance and economics. *Exploring Strategy* is distinctive in emphasising a comprehensive view of strategy, and this will enable you to explore the insights of many disciplinary perspectives including both the economics of strategy and the people side of managing strategy in practice.

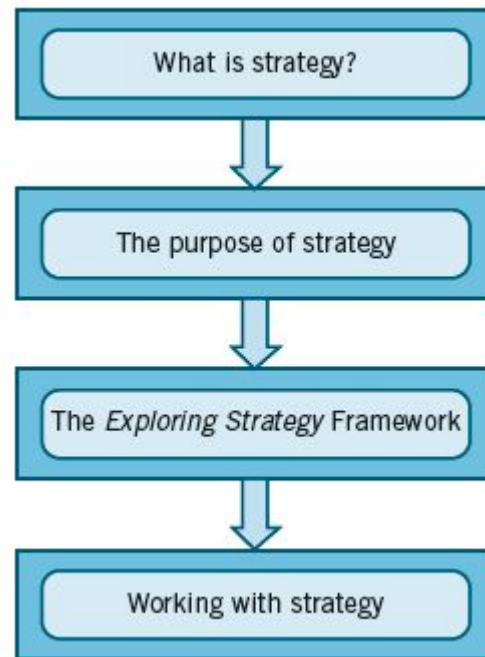**Figure 1.1** Strategy: its definition, purpose, analysis and work

Figure 1.1: Long Description

A further reason for the word 'Exploring' in the title is rooted in the practical world of strategy work. Our focus on the practicalities of strategy reveals that there are rarely obvious answers. Indeed, many strategy problems are highly complex and managers should beware of over-simplified 'solutions'. Therefore, in strategy, it is important both to recognise the real scope of problems and to explore several options. Through exploration you will widen your awareness of practical issues relevant to strategy, recognise how many issues interconnect, and be able to probe each option carefully before making informed choices. We therefore believe that the major strengths of *Exploring Strategy* – its comprehensiveness and focus upon practice – will help reduce your risk of myopia to enable you to produce well-informed, grounded solutions to complex strategic problems.

We also believe that 'Exploring' in the title is appropriate as this is a research-led book, drawing upon world-class research and including the latest thinking on key strategic topics. These feature throughout *Exploring Strategy* and particularly pioneering work is found in the 'Thinking Differently' sections at the ends of chapters. The 'Strategy Lens' sections at the end of the main parts of the book also introduce novel and distinctive themes. These will ensure that you are at the cutting edge of strategy.

Exploring Strategy also explores a wide range of organisational and geographic contexts. Through a diverse and substantial selection of illustrations and case studies, we include large multinationals as well as medium-sized and entrepreneurial start-up firms. We give weight not only

to 'for-profit' companies but also family businesses that may also be social, public-sector and other non-profit organisations. We examine these not only in developed economies but also in a wide range of emerging markets. This broad base of organisations and contexts will give you a wider knowledge base than is common in other strategy texts.
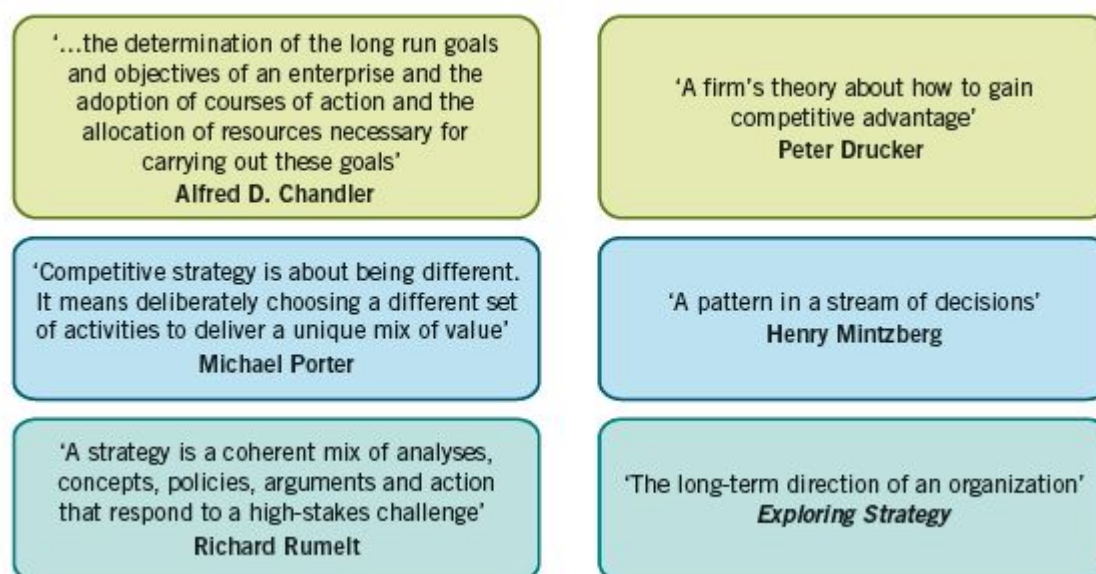
1.2 What is strategy?[1]

The term strategy has been traced back to sixth century BC Greece and combined the words *stratos (*army spread out over the ground), and *agein* (to lead).[2] To this practical consideration of managing and directing a large complex force, the importance of strategy was highlighted by the Chinese military philosopher Sun Tzu, who defined strategy as 'the great work of the organization. In situations of life or death, it is the Tao (path) of survival or extinction'. Since that time, there have been many new definitions of the word strategy, particularly by the military but, in the 1960s, Alfred Chandler, strategy's founding theorist, brought strategy formally into a business context.[3] Subsequent definitions of strategy have continued to refine our understanding of the term and several prominent ones are examined below.

1.2.1 Defining strategy

Figure 1.2 shows the strategy definitions of several leading strategy theorists: Alfred Chandler and Michael Porter, both from the Harvard Business School, Peter Drucker from Claremont University, California, Henry Mintzberg, from McGill University, Canada, and Richard Rumelt from the University of California. Each points to important elements of strategy. Chandler emphasises a logical flow from the determination of goals and objectives to the allocation of resources. Porter focuses on deliberate choices, difference and competition. Rumelt argues for coherence in policies and action to address high-stakes challenges. Drucker suggests that it is a theory about how a firm will win.[4] A critical perspective on strategy is by Henry Mintzberg, who takes the view that strategy is less certain than assumed in the definitions above. He uses the word 'pattern' to allow for the fact that strategies do not always follow a deliberately chosen and logical plan, but can emerge in more ad hoc ways. Sometimes, strategies reflect a series of incremental decisions that only cohere into a recognisable pattern – or 'strategy' – after some time.

Figure 1.2   Definitions of strategy

'...the determination of the long run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'
Alfred D. Chandler

'A firm's theory about how to gain competitive advantage'
Peter Drucker

'Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value'
Michael Porter

'A pattern in a stream of decisions'
Henry Mintzberg

'A strategy is a coherent mix of analyses, concepts, policies, arguments and action that respond to a high-stakes challenge'
Richard Rumelt

'The long-term direction of an organization'
Exploring Strategy

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, p. 60; P.F. Drucker, 'The theory of business', *Harvard Business Review*, September–October 1994, pp. 95–106; H.

Figure 1.2: Long Description

Our fundamental definition of strategy is: **strategy** **is the long-term direction of an organisation**. We shall add to this definition later in the chapter, but already this implies a more comprehensive view than some of those definitions above. Thus, for example, the long-term direction of Amazon is from book retailing to retailing more generally. For Disney, it is from cartoons to diversified entertainment. Our fundamental definition has advantages. First, the long-term direction of an organisation can include both deliberate, logical strategy and more incremental, emergent patterns of strategy. Second, long-term direction can include both strategies that emphasise difference and competition, and strategies that recognise the roles of cooperation and even imitation.

The three elements of this strategy definition – the long term, direction and organisation – can each be explored further. The strategy of Tesla Motors illustrates important points (see Illustration 1.1):

Figure 1.3 Three horizons for strategy
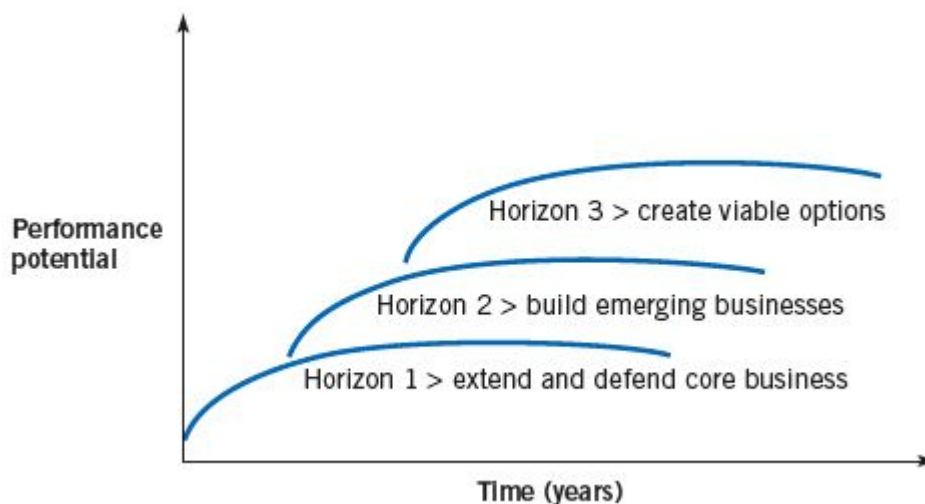
Source: Adapted from M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

Figure 1.3: Long Description

Illustration 1.1 Tesla Motors: the future is electric!

Are there enough Teslas in the world?

Launched in 2008, the Tesla Roadster's staggering acceleration (Model S 0–60 mph in 2.1 seconds), shattered forever the image of electric cars as slow golf buggies or geriatric transport. By 2022, Tesla Motors was worth more than $1trn, more valuable than the world's nine next largest car companies. Its charismatic chairman, visionary and main funder is PayPal cofounder, and SpaceX CEO, Elon Musk.

Tesla was originally the brainchild of three Silicon Valley engineers worried by global warming. Lithium-ion battery improvements meant Tesla could build a high-performance sports car with lower prices than competitors and with zero emissions. They recognised the opportunities raised by continuing advances in battery performance. Tesla provides zero emission electric power generation from its 'giga' battery factory and Tesla Energy now sells batteries for homes and business and aims to offer an energy system for the world. The company's mission is: 'The company aims to speed up the world's transition to sustainable energy sources by making electric vehicles and other energy products more affordable'.

Tesla's strategy has been to succeed in the high end of the market, where customers will pay a premium for innovative sports cars, and then go down market with higher volume and lower price models. All free cash flow is ploughed back into R&D to drive down costs and bring follow-on products to market as fast as possible. Customers buying the Roadster and Model S were actually paying for the development of cheaper cars: first the Model 3, a slower, low-cost family car launched in 2019, and then the Model Y mid-sized SUV launched in 2020.

New product introduction and scaling up have caused problems. Tesla accounted for 24 out of the 31 investigations by US safety regulators into advanced driver-assistance systems in 2016–2022. In 2020, the influential JD Power survey of new car owners recorded the most complaints for Tesla of all brands in the USA. The final production of the Model 3 had come three years late. Elon Musk talked of 'production hell', with cars coming off the production line requiring extensive additional work (at one point, Tesla was producing cars without seats and asking dealers to bolt them on in the showrooms). Elon Musk is highly outspoken, sometimes causing outrage on Twitter and famously dismissing financial analysts in a formal meeting for their 'boring bonehead questions'. His groundless claims about taking the company private led financial regulators to charge him with securities fraud, forcing him to step down as Chairman for three years.

Competition looms from established competitors such as BMW, Volkswagen, Hyundai, Toyota and Nissan. These companies are pouring billions into hybrid and fully electric cars and have well-established manufacturing and supply-chain capabilities for large-scale production (Toyota's 2021 production volume was more than eight times that of Tesla). Some manufacturers, such as Volvo (owned by China's Geely), are aiming to cease petrol and diesel car production entirely in the next 10 years. New electric vehicle competitors are also springing up such as the Chinese Nio, which has lower-priced cars due to clever battery-switching technology, and American Formula E battery designer and manufacturer, Lucid, which now produces a car that outperforms Tesla on range and has better recharging systems. Toyota is among companies investing in hydrogen fuel cell cars which have a much longer range and much quicker charging times than electric cars.

Nonetheless, Tesla's new overseas factories in Germany and China plus the cheaper Model 3 and Model Y cars drove 2021 sales to 936,000 units, up 71 per cent on the previous year. The company produced a record profit of $5.5bn and Tesla was forecasting a further 50 per cent growth in sales for 2022. With a mission to save the planet, maybe Elon Musk's outspokenness is not so inappropriate.

Sources: (1) D. Baer, 'The making of Tesla', *Business Insider,* 11 November 2014; (2) Sainato, 'How do they expect to run without us', theguardian.com, 30 January 2019; (3) 'Tesla expects 50% growth despite supply chain woes, BBC News Business, 27.01.22; (4) R. Water and P. Campbell, 'Tesla: Reality begins to collide

with the Elon Musk's vision',
Financial Times, 15 June 2018.

Questions

1 How does Tesla Motor's strategy fit with the various strategy definitions in Figure 1.2?

2 What seems to account both for Tesla's success and for its 2021-22 difficulties?

- *The long term.* Strategies are typically measured over years, for some organisations a decade or more. The importance of a long-term perspective on strategy is emphasised by the 'three horizons' framework shown in Figure 1.3. **The three-horizons framework suggests organisations should think of their businesses or activities in terms of different 'horizons', defined by time.** *Horizon 1* businesses are basically the current core activities. In the case of Tesla Motors, Horizon 1 includes the original Tesla Roadster car and subsequent models. Horizon 1 businesses need defending and extending but the expectation is that, in the long term, they risk becoming flat or declining in terms of profits (or whatever else the organisation values). *Horizon 2* businesses are emerging activities that should provide new sources of profit. For Tesla, that might include the new mega-battery business. Finally, there are *Horizon 3* possibilities, which are more open and for which outcomes are even more uncertain. These are typically risky research and development projects, start-up ventures, test-market pilots or similar: at Tesla, these might be further solar electric initiatives, and maybe other types of transportation. For a fast-moving organisation like Tesla, *Horizon 3* might generate profits a few years from the present time. In a pharmaceutical company, where the R&D and regulatory processes for a new drug take many years, *Horizon 3* might be a decade ahead. While timescales might differ, as industries and types of firm can move at different rates, the basic point about the 'three horizons' framework is that managers need to avoid focusing on the short-term issues of their existing activities. Strategy involves pushing out Horizon 1 as far as possible, at the same time as looking to Horizons 2 and 3.

- *Strategic direction.* Over the years, strategies follow some kind of long-term direction or trajectory. The strategic direction of Tesla Motors is from the disruptive competitive business model of the electric car to a diversified set of solar power offerings. Sometimes, a strategic direction only emerges as a coherent pattern over time. Typically, however, managers and entrepreneurs try to set the direction of their strategy according to long-term *objectives.* In private-sector businesses, the objective guiding strategic direction is usually maximising profits for shareholders. However, profits do not always set strategic direction. First, public-sector and charity organisations may set their strategic direction according to other objectives: for example, a sports club's objective may be to move up from one league to a higher one. Second, even in the private sector profit is not always the sole criterion for strategy. Thus, family businesses may sometimes sacrifice profits for family objectives, for example passing down the management of the business to the next generation. The objectives behind strategic direction always need close scrutiny.

- *Organisation.* In this book, organisations are not treated as discrete, unified entities. Organisations involve many relationships, both internally and externally. This is because organisations typically have many internal and external *stakeholders,* in other words people

and groups that depend on the organisation and upon which the organisation itself depends (see

Chapter 6). Internally, organisations are filled with people, typically with diverse, competing and more or less reasonable views of what should be done. For instance, the original co-founder and CEO of Tesla, Eberhard, was fired by new Chairman Elon Musk and their public disagreement has continued for 15 years. In strategy, therefore, it is always important to look *inside* organisations and to consider the people involved and their different views. Externally, organisations are surrounded by important relationships, for example with suppliers, customers, alliance partners, regulators and investors.

Because strategy typically involves managing people, relationships and resources, the subject is sometimes called 'strategic management'. This book takes the view that managing is always important in strategy. Good strategy is about the practicalities of managing as well as the analysis of strategising.

1.2.2 Purpose, vision, mission, objectives

What is a strategy for? Harvard University's Cynthia Montgomery[5] answers by arguing that the core of strategy is defining and expressing a clear and motivating purpose for the organisation. Whether in the private or public sector, this purpose is generally loftier than just maximising profits: it could be to improve the environment or help the wider community for instance. Such a broader view of purpose is more likely to motivate employees and stakeholders than profits alone. Indeed, focusing exclusively on short-term profits can be detrimental to longer-term value creation.

- **Organisational Purpose is the reason why a company exists**. It stems from internal drivers, such as the founders' and subsequent organisational leaders' beliefs and commitments, and external drivers including stakeholder influences (see Chapter 6 for further elaboration). Purpose is also influenced by broader contextual pressures, such as environmental shocks from a pandemic or climate change, that may cause firms to revisit and adjust their purpose. If the stakeholders of an organisation can relate to such a purpose it can be highly motivating.[6] According to Montgomery, the stated purpose of the organisation should address two related questions: *how* does the organisation make a difference; and *for whom* does the organisation make that difference? These questions challenge strategists to move from the abstract concept of purpose towards concrete action. Chapter 6 examines purpose in more depth.

- A **vision statement is concerned with the future the organisation seeks to create.** The vision typically expresses an aspiration that will enthuse, gain commitment and stretch performance. So, here the question is: 'What do we want to achieve?' Porras and Collins suggest managers can identify this by asking: 'If we were sitting here in twenty years what do we want to have created or achieved?' They cite the example of Henry Ford's original vision in the very early days of automobile production that the ownership of a car should be within the reach of everyone. For the Swedish music site Spotify, the vision is to become 'the Operating System of music', a universal platform for listening just as Microsoft is for office software.

- A **mission statement aims to provide clarity about what the organisation is fundamentally there to do on a daily basis,** for employees and stakeholders. It can be thought of as a way of moving forwards towards the vision. This is often expressed in the

apparently simple but challenging question: 'What business are we in?' Two linked questions that can clarify an organisation's 'business' are: 'What would be lost if the organisation did not exist?'; and 'How do we make a difference?' Though they do not use the exact term 'mission statement', Collins and Porras[7] suggest that understanding the fundamental mission can be done by starting with a descriptive statement of what the organisation actually does, then repeatedly delving deeper into the organisation's mission by asking 'Why do we do this?' They use the example of managers in a gravel and asphalt company arriving at the conclusion that its mission is to make people's lives better by improving the quality of built structures. At the University of Utrecht in the Netherlands, the mission includes educating students, training the next generation of researchers and addressing social issues.

- *Objectives* are statements of specific outcomes that are to be achieved. In the for-profit sector, these are often expressed in precise financial terms, for instance, the level of sales, profits or share valuation in one, two or three years' time.[8] In non-profit organisations, objectives will focus on providing services to target groups rather than financial objectives, although the organisation will need to generate sufficient income to cover their costs. Increasingly, organisations are also setting objectives referred to as 'the triple bottom line', by which is meant not only economic objectives such as those above, but also environmental and social objectives to do with their corporate responsibility to wider society (see Section 6.3).

Figure 1.4 shows a four-step hierarchy that connects the broad, abstract concept of purpose to narrower, concrete objectives by way of the organisation's vision and mission.

Purpose, vision and mission statements can offer more enduring sources of direction and motivation than dry financial objectives. However, these statements should be authentic and meaningful. Purpose, vision and mission statements are sometimes ineffective because they are too bland and too wide-ranging,[9]

1.2.3 Strategy statements

David Collis and Michael Rukstad[10] at the Harvard Business School argue that all entrepreneurs and managers should be able to summarise their organisation's strategy with a 'strategy statement'. **Strategy statements should have three main themes: the fundamental *goals* (purpose, vision, mission or objectives) that the organisation seeks; the *scope* or domain of the organisation's activities; and the particular *advantages* or capabilities it has to deliver all of these.**
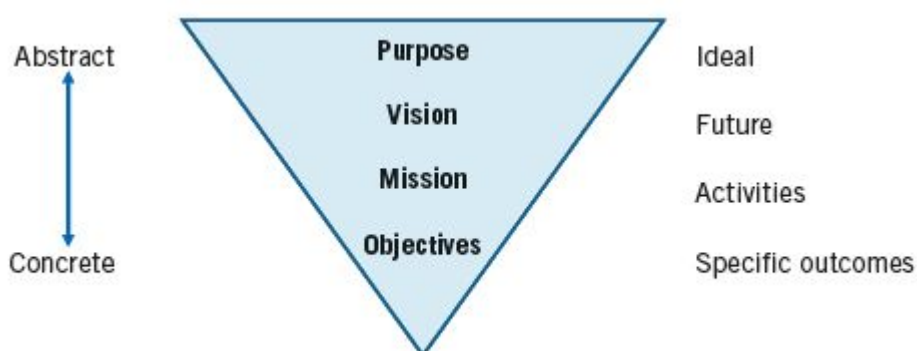
Figure 1.4 Strategic hierarchy

Purpose, vision, mission and objectives have been described above in 1.2.2 so here we concentrate on the other two main themes, scope and advantage, with examples of all three given in Illustration 1.2:

- *Scope.* An organisation's scope or domain refers to three dimensions: customers or clients; geographical location; and extent of internal activities ('vertical integration'). For a university, scope questions would be these: first, which academic departments to have (a business school, an engineering department, and so on); second, which activities to do internally themselves (vertically integrate) and which to externalise to subcontractors (for example, whether to manage campus restaurants in-house or to subcontract them); and third, whether to operate campuses outside the home country (for example, in Illustration 1.2, the University of Nottingham now has campuses in China and Malaysia as well as its home country of England).

- *Advantage.* This part of a strategy statement describes how the organisation will achieve the objectives it has set for itself in its chosen domain. In competitive environments, this refers to the *competitive* advantage: for example, how a particular company or sports club will achieve goals in the face of competition from other companies or clubs. The organisation needs to be better than others at achieving its particular goal. In the public sector, advantage might refer simply to the organisation's capability in general. But even public-sector organisations frequently need to show that their capabilities are not only adequate, but superior to other rival departments or, perhaps, to private-sector contractors.

Collis and Rukstad suggest that strategy statements covering goals, scope and advantage should be no more than 35 words long. The three themes are deliberately made highly concise. Brevity keeps such statements focused on the essentials and makes them easy to remember and communicate. Thus, for Tesla, a strategy statement might be: 'To accelerate the advent of a sustainable solar economy by developing and incorporating superior battery-based technologies into compelling mass-market electric products and bringing them to market as soon as possible.' Of course, such strategy statements are not always fulfilled. Circumstances may change in unexpected ways. In the meantime, however, they can provide a useful guide both to managers in their decision making and to employees and others who need to understand the direction in which the organisation is going. The ability to give a clear strategy statement is a good test of managerial competence in an organisation.

As such, strategy statements are relevant to a wide range of organisations. For example, a small entrepreneurial start-up can use a strategy statement to persuade investors and lenders of its viability. Public-sector organisations need strategy statements not only for themselves, but to reassure clients, funders and regulators that their priorities are the right ones. Voluntary organisations need persuasive strategy statements in order to inspire volunteers and donors. Thus, organisations of all kinds frequently publish materials relevant to such strategy statements on their websites or annual reports. Illustration 1.2 provides published materials on the strategies of two very different organisations: the technology giant Samsung from the private sector and the University of Nottingham in the UK from the public sector.

Illustration 1.2 Strategy statements

Both Samsung Electronics, the Korean telecommunications, computing and TV giant, and the University of Nottingham, a leading British university, publish a good deal about their strategies.

Samsung Electronics

At Samsung, we follow a simple business philosophy: to devote our talent and technology to creating superior products and services that contribute to a better global society.

Every day, our people bring this philosophy to life. Our leaders search for the brightest talent from around the world, and give them the resources they need to be the best at what they do. The result is creating superior products and services that contribute to a better global society. Samsung promises to perform responsibly as a leading global company and believes ethical management is not only a tool for responding to rapid changes in the global business environment but also a vehicle for building trust with various stakeholders.

According to Samsung's motto, it intends to give the world inspiration to create the future of electronics. This vision reflects Samsung Electronics' commitment to inspiring its communities by leveraging Samsung's three key strengths: 'New Technology', 'Innovative Products', and 'Creative Solutions'. As part of this vision, Samsung has mapped out a specific plan of investing $250 billion in the next three years to enhance capabilities in artificial intelligence, biopharmaceuticals, semiconductors and robotics industries. The aim is to strengthen its global position in competitive industries, such as the chip market, as well as to provide new opportunities for growth in next-generation telecommunications and robotics. To this end, Samsung has also established three strategic approaches in its management: 'Creativity', 'Partnership', and 'Talent'.

University of Nottingham Strategy

A member of the prestigious Russell Group of Universities, the University of Nottingham is one of the UK's largest, with 48,000 students from 150 countries spread across campuses in Nottingham, China and Malaysia. Founder Jesse Boot's sentiments of discovery, enterprise and the advancement of the human condition, combined with commitment to improving health and well-being, are embedded in the University's culture.

In a recently announced new strategy, the University is to become one without borders, engaging with the opportunities presented by a changing world and creating an ambitious and creative culture to enable it to change the world for the better. This will allow the University to make an outstanding contribution to supporting the United Nations Sustainable Development Goals (SDGs).

Through its excellent campuses, the University is energised to engage locally and globally and to reach out to a wide range of stakeholders. It will continue to develop its campuses to meet contemporary needs of staff and students for new kinds of space, to enable secure and inclusive environments that support community well-being, and to foster an education that is more than a degree but includes a rich and stimulating social, cultural and sporting life open to all. The aim is to further evolve into one university with campuses in three countries and, to facilitate this, a global mindset is being cultivated among staff and students to enrich and deepen international engagement in teaching stand research.

Through an inclusive and entrepreneurial environment that supports mental and physical well-being, the University will solve problems and improve lives through education, research and knowledge exchange and help prepare students to lead rich and fulfilling lives. The University will focus on recruiting students and staff with the highest potential and desire to succeed and will put in place measures to eliminate the attainment gaps between students from diverse backgrounds. Equality will be embedded in decisions about staff

Questions

1 Construct short strategy statements covering the goals, scope and advantage of Samsung and the University of Nottingham. How much do the different private and public sector contexts matter?

2 Construct a strategy statement for your own organisation (university, sports club or employer). What implications might this statement have for your particular course or department?

Figure 1.5 Levels of strategy

Concerned with:
• the scope of the organisation
• portfolio analysis
• organisation design
• resource allocation

Corporate-level strategy

Concerned with:
• competitive/best value strategy
• innovation
• responses to rivals' moves

Business-level strategy

Integration

Concerned with:
• functional plans
• product market plans
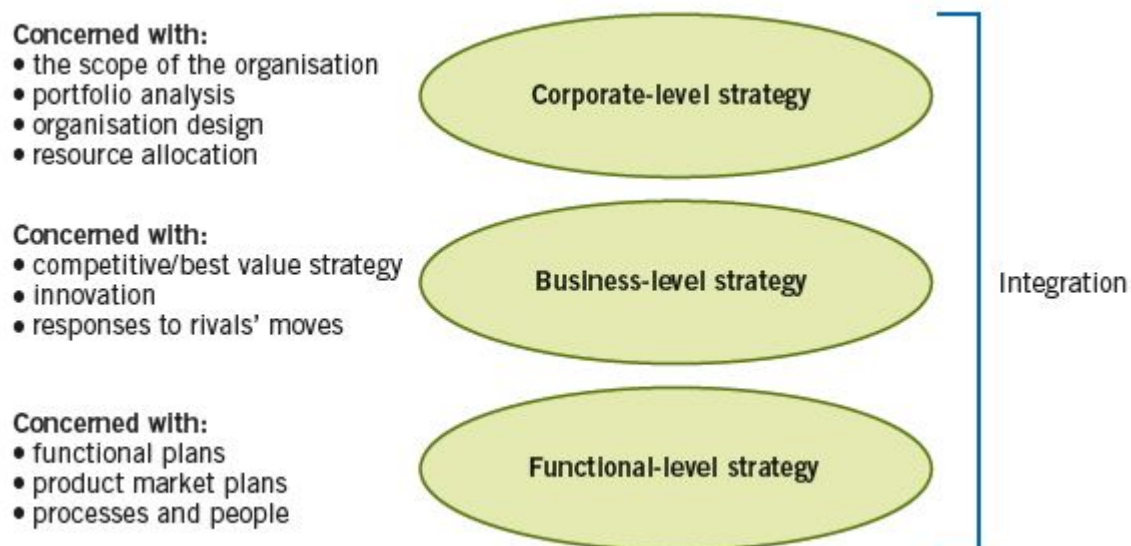• processes and people

Functional-level strategy

Figure 1.5: Long Description

1.2.4 Levels of strategy

So far, we have considered an organisation as a whole but, inside an organisation, strategies can exist at three main levels (see Figure 1.5).

● **Corporate-level strategy is concerned with the overall scope of an organisation and how value is added to the constituent businesses of the organisational whole**. Corporate-level strategy issues include geographical scope, diversity of products or services, acquisitions of new businesses, and how resources are allocated between the different elements of the organisation. For Tesla, moving from car manufacture to battery production for homes and businesses is a corporate-level strategy. Being clear about corporate-level strategy is important: determining the range of businesses to include is the basis of other strategic decisions, such as acquisitions and alliances.

● **Business-level strategy is about how the individual businesses (or operating units)**

- **Business-level strategy is about how the individual businesses (or operating units) should compete in their particular markets** (this is often called 'competitive strategy'). These might be stand-alone businesses, for instance entrepreneurial start-ups, or 'business units' within a larger corporation. Business-level strategy typically concerns issues such as innovation, appropriate scale and response to rivals' moves. For Tesla this means rolling out a lower cost electric car to build volume and capture market share in advance of potential competitor entry. In the public sector, the equivalent of business-level strategy is decisions about how units (such as individual hospitals or schools) should provide best-value services. Where the businesses are units within a larger organisation, business-level strategies should clearly fit with corporate-level strategy.

- **Functional-level strategies are concerned with how the components of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people**. For example, in 2021 Tesla organised an 'AI Day', showing off its artificial intelligence initiatives and plans in order to accelerate the recruitment of more AI engineers required to support its strategy of growth and innovation. In most businesses, successful business strategies depend, to a large extent, on decisions that are taken, or activities that occur, at the functional level. Functional decisions need, therefore, to be closely linked to business-level strategy. They are vital to successful strategy implementation.

This need to link the corporate, business and functional levels underlines the importance of *integration* in strategy. Each level needs to be aligned with the others. The demands of integrating levels define an important characteristic of strategy: strategy is typically *complex,* requiring careful and sensitive management. Strategy is rarely simple.

1.3 The *Exploring Strategy* Framework

In order to help you to evaluate an organisation's strategy, this book provides a framework that emphasises the interconnected nature of strategic issues. The *Exploring Strategy* Framework includes *analysing the strategic position* of an organisation; assessing *strategic choices* for the future; and managing *strategy in action*. These three elements provide the structure for the three Parts of the book. They are represented by the three circles of Figure 1.6.

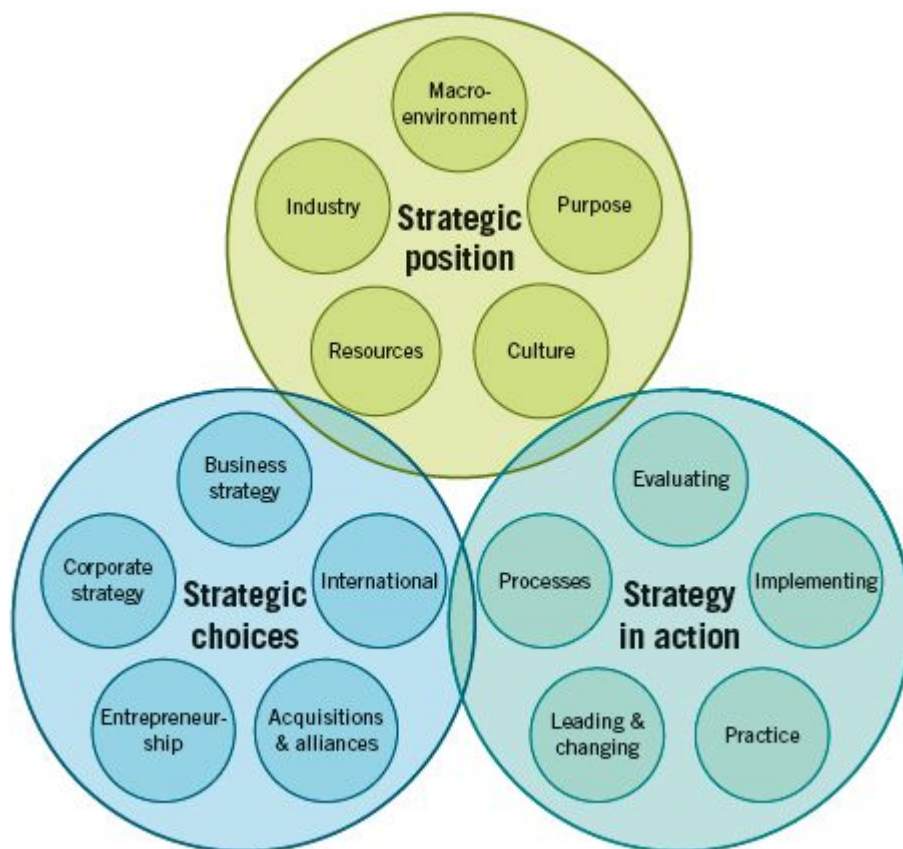**Figure 1.6** The *Exploring Strategy* Framework

Figure 1.6: Long Description

A complete strategy analysis should always include all three major areas; together they provide you with a practical template for studying strategic situations. The following sections of this chapter will introduce the strategic issues that arise under each of these elements of the *Exploring Strategy* Framework. But, first, it is important to understand why the framework is drawn in this particular way.

Figure 1.6 could have shown *strategic analysis, strategic choice* and *strategy in action* in a linear sequence – first understanding the strategic position, then making strategic choices and finally turning strategy into action. Indeed, this logical sequence is implicit in the definition of strategy given by Alfred Chandler (Figure 1.2) and many other textbooks on strategy. However, as Henry Mintzberg recognises, in practice, the elements of strategy do not always follow this linear sequence. Choices often have to be made before the position is fully understood. Sometimes, too, a proper understanding of the strategic position can only be built from the experience of trying out a strategy in action. The real-world feedback from launching a new product is often far better at uncovering the true strategic position than remote analysis carried out in a strategic planning

department at head office.

The interconnected circles of Figure 1.6 are designed to emphasise this potentially non-linear nature of strategy. Position, choices and action should be seen as closely related and, in practice, none has priority over another. Although the book divides its subject matter into three Parts in sequence, this does not mean that the process of strategy must follow a logical series of distinct steps. The circles are overlapping and interdependent. The evidence provided in later chapters will suggest that strategy rarely occurs in tidy ways and that it is better not to expect it to do so.

However, the *Exploring Strategy* Framework does provide you with a comprehensive and integrated framework with important insights in how to work effectively with strategy. First, Chapter 2 introduces some basic frameworks for working with strategy, underlining the distinctive characteristics of strategic thinking. Thinking slow (system 2 thinking), anticipating others' needs and reactions (allocentricism) and seeing the interconnections of the big picture (systems thinking) are all important elements of working with strategy. Then the following three Parts of the book (Chapters 3 to 17) explore, in turn, how to analyse an organisation's *position,* consider the *choices* it has and how strategies might be put into *action.* You can use each of these chapters to help you ask fundamental strategy questions and to select essential concepts and techniques that will help you answer them. Working systematically through questions and answers will provide you with the basis for persuasive strategy recommendations.

1.3.1 Strategic position

The strategic position is concerned with the impact on strategy of the external environment, the organisation's strategic resources and capabilities, the organisation's purpose and stakeholders and the organisation's culture**.** Understanding these factors is central for evaluating future strategy. These issues, and the fundamental questions associated with them, are covered in Part I of this book:

- *Macro-environment.* Organisations operate in complex multi-level environments. At the macro level, organisations are influenced by political, economic, social, technological, ecological and legal forces. Chapter 3 poses the question: what are the key macro drivers of change that are shaping the future of organisations and their sectors?
- *Industry and sector.* At the more immediate level within the industry or sector, competitors, customers and suppliers also present challenges. The key issues in Chapter 4, therefore, are: how attractive is this immediate industry or sector and what can be done to improve it?
- *Resources and capabilities.* Each organisation has its own strategic *resources* (e.g., machines and buildings) and *capabilities* (e.g., technical and managerial skills) that support its position in a market. Chapter 5 asks whether the organisation's resources and capabilities are adequate to the challenges of its environment and the level of its goals.
- *Purpose and stakeholders.* Purpose has already been introduced, but Chapter 6 investigates how the values of key stakeholders define the purpose of an organisation. Tying stakeholder values together into a coherent organisational purpose is the role of *corporate governance* which is the structures and systems by which organisations are held accountable for their actions. The key questions here are: is the purpose of an organisation an appropriate one and are managers sticking to it?
- *Culture and strategy.* Chapter 7 explores how organisational cultures can also influence strategy. These cultures are typically a product of an organisation's history, industry or

geography

. The consequence of culture can be *strategic drift*; a failure to create necessary change. A fundamental question here, therefore, is: how does culture fit with the required strategy?

Using the Exploring Strategy Framework in conjunction with Illustration 1.1, points to the following positioning issues for Tesla Motors. What is the future of the company given the macro social, economic and political demands for the business both to be environmentally sustainable and conform to regulatory standards? Are its distinctive capabilities really valued sufficiently by consumers to provide a financial return to investors and to allow sustained investment in further innovative products? How will Tesla cope with rising competition from car industry giants that are now selling electric and hybrid cars?

1.3.2 Strategic choices

Strategic choices involve the options for strategy in terms of both the *directions* in which strategy might move and the *methods* by which strategy might be pursued. For instance, an organisation might have a range of strategic directions open to it: the organisation could diversify into new products; it could enter new international markets; or it could transform its existing products and markets through radical innovation. These various directions could be pursued by different methods: the organisation could acquire a business already active in the product or market area; it could form alliances with relevant organisations that might help its new strategy; or it could try to pursue its strategies on its own. Typical strategic choices, and the related fundamental questions, are covered in the five chapters that make up Part II of this book, as follows:

- *Business strategy and models.* There are strategic choices in terms of how the organisation seeks to compete at the individual business level. For example, a business unit could choose to be the lowest cost competitor in a market, or the highest quality. The fundamental question in Chapter 8, then, is what strategy, and what business model, should a company use to compete?

- *Corporate strategy* and diversification. The highest level of an organisation is typically concerned with issues of corporate scope; in other words, which businesses to include in the portfolio. This relates to the appropriate degree of *diversification,* with regard to products offered and markets served. Corporate-level strategy is also concerned with internal relationships, both between business units and with the corporate head office. Chapter 9 addresses the fundamental questions of which businesses you should be in and how you should manage them.

- *International strategy.* Internationalisation is a form of diversification, but into new geographical markets. Chapter 10 addresses the fundamental question: where internationally should the organisation compete?

- *Entrepreneurship and innovation.* Most existing organisations have to innovate constantly simply to survive. Entrepreneurship, the creation of a new enterprise, is an act of innovation too. A fundamental question in Chapter 11, therefore, is whether the organisation is innovating appropriately.

- *Mergers, acquisitions and alliances.* Organisations have to make choices about methods for pursuing their strategies. Many organisations prefer to build new businesses with their own resources. Other organisations develop by acquiring other businesses or forming alliances

with complementary partners. The fundamental question in
Chapter 12, therefore, is whether to buy another company, ally or to go it alone.

Again, issues of strategic choice are relevant to the case of Tesla Motors (Illustration 1.1). The *Exploring Strategy* Framework asks the following kinds of questions here. Should Tesla continue to produce new higher volume cheaper cars or stick to its previous specialised sports car products? How far should it widen the scope of its businesses: is producing batteries for homes really helping or detracting from car production? Where should Tesla innovate next?

1.3.3 Strategy in action

Managing strategy in action is about how strategies are formed and how they are implemented. The emphasis is on the practicalities of managing. These issues are covered in the five chapters of Part III, and include the following, each with their own fundamental questions:

● *Evaluating strategies.* Managers have to decide whether existing and forecast performance is satisfactory and then choose between options that might improve it. The fundamental evaluation questions in Chapter 13 are as follows: are the options *suitable* in terms of matching opportunities and threats; are they *acceptable* in the eyes of significant stakeholders; and are they *feasible* given the capabilities available?

● *Strategy development processes.* Strategies are often developed through formal *planning* processes. But sometimes the strategies an organisation actually pursues are *emergent* – in other words, accumulated patterns of ad-hoc decisions, bottom-up initiatives and rapid responses to the unanticipated. Given the scope for emergence, the fundamental question in Chapter 14 is: what kind of strategy process should an organisation have?

● *Implementing strategy.* Once a strategy is developed, the organisation needs to organise for successful implementation. Chapter 15 addresses both the 'hard' issues of implementation, for example structure and systems and the 'softer' ones' of culture and procedural justice. The fundamental question, therefore, is: what kinds of hard and soft elements are required for the chosen strategy?

● *Leadership and strategic change.* In a dynamic world, strategy inevitably involves change. Managing change involves *leadership,* both at the top of the organisation and lower down. There is not just one way of leading change, however: there are different *styles* and different *levers* for change. So, the fundamental question in Chapter 16 is: how should the organisation manage necessary changes entailed by the strategy?

● *The practice of strategy.* Inside the broad processes of strategy development and change is a lot of hard, detailed work. The fundamental questions in Chapter 17 are: *who* should do this strategy work, the *activities* involved in the work, and the *methods* they can use to do it.

With regard to strategy in action, the *Exploring Strategy* Framework raises the following kinds of questions for Tesla. How will Tesla return value to shareholders going forwards? Should Tesla move towards a more disciplined strategy development process rather than depend on the vision of Elon Musk? Does Tesla need more structure and systems? Are the right people and methods being used in Tesla's strategy-making activities?

　　Thus, the *Exploring Strategy* Framework offers you a comprehensive methodology for analysing an organisation's position, considering alternative choices, and selecting and acting on

strategies. This review of the main elements of the framework now allows us to refine and extend our earlier broad definition of strategy in

Section 1.2.1 to state that **'Strategy is the long-term direction of an organisation, formed by choices and actions about its resources and scope to create advantageous positions relative to competitors and peers within changing environmental and stakeholder contexts.'**

1.3.4 Cross-cutting themes: non-profits, sustainability and digital transformation

Running through the elements of the *Exploring Strategy* framework are many major themes including non-profit organisations, sustainability and digital transformation.

Non-profit organisations

These organisations are operated for a collective, public or social benefit, unlike for-profit businesses that aim to generate profit for their owners. **Non-profit organisations are self-governing, non-profit distributing and involve some degree of voluntary participation.**[11] Any revenues that a non-profit organisation generates in excess of its costs are to be reinvested in the purpose of the organisation and not paid out for private gain. Although non-profits are not driven by profit, they must bring in sufficient funds to allow the organisation to deliver on its purpose. Non-profits gain their funding from sponsors such as government, donors and sponsorships, as well as from what they can generate from the sale of products or services. These various funds enable non-profits to deliver on their purpose for social benefit. The end user of the service, therefore, is often not the prime source of funds for the non-profit organisation. For example, hospitals may not charge patients but instead receive funds from governments or donors, and even generate some revenues from on-site retail facilities. Non-profits include a wide range of organisations including schools and universities, hospitals, charities, theatres, social clubs, religious associations, cooperatives and social enterprises. Chapter 6 provides more detail on non-profits and discusses hybrid organisational forms.

Strategy tools and techniques are relevant to non-profits as well as for-profit organisations. Strategy can help non-profit organisations make better decisions, improve coordination and achieve sustainable outcomes. For example, strategy tools can help with organisational purpose, vision, mission, goals (Chapter 1), identify major environmental threats and opportunities (Chapter 3), identify key capabilities (Chapter 5), manage organisational governance (Chapter 6), link goals to resource allocation decisions (Chapter 14) and inform organisational design and change (Chapters 15 and 16). Non-profits that charge users for their services, such as museums or sports clubs, often operate in competition with for-profit companies. While their aim is not to generate a profit, their need to meet budgets to sustain the enterprise means their strategic calculations are not much different to their for-profit competitors. Where non-profits do not charge their users for services, they still compete with other non-profits for funding from sponsors, such as governments and philanthropic foundations. Non-profit concepts and examples occur throughout *Exploring Strategy* therefore: refer to *non-profit* in the index for detail of relevant sections.

Sustainability

Widespread awareness of climate change in particular is changing stakeholder perceptions of the role of organisations in society. Customers, employees, communities and even investors are now

pressing organisations to be fully accountable for their impact upon the natural environment and the wider society. The 2022 United Nations Global Compact launched the world's largest sustainability initiative, with over 14,000 companies in 162 countries, which aims to align companies' strategies and operations with principles relating to the environment, human rights, labour and anti-corruption. Through 'Agenda 2030', 17 Sustainable Development Goals (SDGs) are identified that aim to help businesses act responsibly and to address global challenges such as climate, water, food, poverty, conflict and inequality (see Chapters 3 and 6).

Sustainable development **strategies involve managing positive relationships with organisations' natural and social environments at the same time as meeting their economic needs.**[12] Organisations therefore need to meet three major interacting goals for creating positive impact: 1) economic, 2) natural and 3) social. Following sustainability principles can be beneficial to organisations through reducing resource costs (more efficient processes and minimising waste), reducing regulatory costs (for example, penalties for non-compliance with pollution or health and safety standards), protecting and building company reputation, differentiating products and services, attracting and retaining environmentally and socially conscious employees and discovering new and exciting opportunities.[13]

For strategists, taking sustainability seriously will affect the goals and targets of the company (see Chapter 1), requires attention to the wider business environment (Chapter 3), understanding how sustainability affects the industry (Chapter 4), how the organisation's resources and capabilities may be sourced and deployed (Chapter 5), affects the generation of sustainable strategic options and the sources and magnitudes of risk (Chapter 13), influences organisation and wider change (Chapter 16) and affects stakeholders (Chapter 6). Refer to *Sustainability* in the index for detail of particularly relevant sections.

Digital transformation

The twenty-first-century organisational landscape is being challenged by **digital transformation**, the **pervasive and discontinuous change triggered and shaped by the widespread use of digital technologies**.[14] The rise of the Internet of Things (IoT), cloud based computing, 3-D printing, big data analytics, machine learning, blockchain and digital product service integration (also known as servitisation) are leading to the transformations of key business operations and processes and they also affect products, organisation structures and management concepts in profound ways. For instance, Germany's largest company, Siemens, focused until fairly recently upon heavy engineering in power generation systems, trains and infrastructure, but has now undergone a transformation with the acquisition of many digital technology companies and the disposal of many engineering interests. Siemens has thus changed fundamentally from a manufacturing giant into a digital services provider. Digital transformation is not just limited to businesses but is also relevant for public sector and non-profit organisations. For example, city authorities are increasingly using smart technologies to deal with air pollution, traffic congestion, cyber security and fresh food supply, necessitating new alliances between public and private sector partners.[15]

Digital transformation can affect all aspects of an organisation and relates to many sections in *Exploring Strategy*. For instance, digital transformation relates to the technology element of PESTEL analysis in Chapter 3, ecosystems in Chapter 4, business models and platforms in Chapter 8 and innovation in Chapter 11. Digital transformation is an important element of the leadership and strategic change issues considered in

Chapter 16 and digital tools are now playing an increasing role in the practice of strategy, as discussed in Chapter 17. Refer to *Digital transformation* in the index for detail of particularly relevant sections.

1.4 Strategy careers

Strategy work, defined as the effort needed to make strategy happen, exists at almost all levels of management and among external powerful stakeholders, often being co-evolved with investors, regulators and advisers, and even media. Within organisations, strategy work is not just the preserve of top decision makers but middle and lower-level managers also have to understand and contribute to their organisation's strategic objectives. Managers have to communicate strategy to their teams,[16] and will achieve greater performance from them the more convincing they are. Indeed, as responsibility is increasingly decentralised in many organisations, middle and lower-level managers play a growing part in shaping strategy themselves. Because they are closer to the daily realities of the business, lower-level managers can be a crucial source of ideas and feedback for senior management teams. Being able to participate in an organisation's 'strategic conversation' – engaging with senior managers on the big issues facing them – is therefore often part of what it takes to win promotion.

For many managers, then, strategy is part of the job. However, there are also careers focused upon strategy, for instance, strategy specialists in both private and public sectors. Many large organisations have in-house strategic planning or analyst roles.[17] Typically requiring a formal business education of some sort, strategic planning is a potential career route for many readers of this book, especially after some functional experience, and may lead to a board-level position. Strategy consulting has been a growth industry in the last decades, with the original leading firms such as McKinsey & Co., the Boston Consulting Group and Bain joined now by more generalist consultants such as Accenture, IBM Consulting, and PwC, each with its own strategy consulting arm.[18] While strategy consultants may aspire to becoming partners of consultancy firms, it is not unusual for them to move into board-level positions in other organisations. Business graduates are in demand for strategy consulting roles, such as that of Claudia in the opening example.[19]

The interviews in Illustration 1.3 give some insights into the different kinds of strategy work that managers and strategy specialists can do. Galina, the manager of an international subsidiary, Chantal, a strategy consultant, and Harminder, heading a strategy office in a non-profit organisation all have different experiences of strategy, but there are some common themes also. All find strategy work stimulating and rewarding. The two specialists, Chantal and Harminder, talk more than Galina of analytical tools such as scenario analysis, sensitivity analysis and hypothesis testing. Galina discovered directly the practical challenges of real-world strategic planning, having to adapt the plan during the first few years in the United Kingdom. She emphasises the importance of flexibility in strategy and the value of getting her managers to see the 'whole picture' through involving them in strategy making. But Chantal and Harminder too are concerned with much more than just analysis. Chantal emphasises the importance of gaining 'traction' with clients, building consensus in order to ensure implementation. Harminder also realises that delivering recommendations is just the beginning of the strategy process and getting buy-in from key stakeholders is critical for implementation. He sees strategy and delivery as intimately connected, with people involved in delivery needing an understanding of strategy to be effective, and strategists needing to understand delivery.

Strategy therefore pervades a wide variety of jobs and can also be the specific focus of a career. It covers a wide territory from formulation to implementation, requiring a broad set of technical and social skills[20] and, while individual strategists may focus on a particular aspect of strategy, effective outcomes mean it is crucial to link analysis with implementation on the ground. It

is complex work that real people do. An important aim of this book is to equip readers to do this work better.

Illustration 1.3 Strategists

For Galina, Chantal and Harminder, strategy is a large part of their jobs.

Galina

At the age of 33, after a start in marketing, Galina became managing director of a Russian-owned British IT company. As well as developing the strategy for her local business, she has to interact regularly with headquarters: 'Moscow is interested in the big picture, not just the details. They are interested in the future of the business.'

She had to adapt substantially the subsidiary's strategic plans:

'When we first came here, we had some ideas about strategy, but soon found the reality was very different to the plans. The strategy was not completely wrong, but in the second stage we had to change it a lot: we had to change techniques and adapt to the market. Now we are in the third stage, where we have the basics and need to focus on trends, to get ahead and be in the right place at the right time.'

Galina works closely with her management team on strategy, taking them on an annual 'strategy away-day' (see Chapter 17): 'Getting people together helps them see the whole picture, rather than just the bits they are responsible for. It is good to put all their separate realities together.'

Galina is enthusiastic about working on strategy:

'I like strategy work, definitely. The most exciting thing is to think about where we have come from and where we might be going. We started in a pub five years ago and we have somehow implemented what we were hoping for then. Strategy gives you a measure of success. It tells you how well you have done.'

Her advice is: 'Always have a strategy – have an ultimate idea in mind. But take feedback from the market and from your colleagues. Be ready to adjust the strategy: the adjustment is the most important.'

Chantal

Chantal is in her early thirties and has worked in Paris for one of the top three international strategy consultancies since graduating in business. Consulting was attractive to her originally because she liked the idea of helping organisations improve. She enjoys strategy consulting because: 'I like solving problems. It's a bit like working on a mystery case: you have a problem and then you have to find a solution to fit the company, and help it grow and to be better.'

The work is intellectually challenging:

'Time horizons are short. You have to solve your case in two to three months. There's lots of pressure. It pushes you and helps you to learn yourself. There are just three to four in a team, so you will make a significant contribution to the project even as a junior. You have a lot of autonomy and you're making a contribution right from the start, and at quite a high level.'

Consulting work can involve financial and market modelling (see Chapters 4 and 13), interviewing clients and customers, and working closely with the client's own teams. Chantal explains:

'As a consultant, you spend a lot of time in building solid fact-based arguments that will help clients make business decisions. But as well as the facts, you have to have the ability to get traction. People have to

agree, so you have to build consensus, to make sure that recommendations are supported and acted on.'

Chantal summarises the appeal of strategy consulting: 'I enjoy the learning, at a very high speed. There's the opportunity to increase your skills. One year in consulting is like two years in a normal business.'

Harminder

In his early forties, Harminder is a UK citizen working overseas in Saudi Arabia, heading up a key part of the Strategy and Planning Office in a large hospital with a multi-million-pound investment responsibility.

> 'Rational linear analysis is very important here. We have an abundance of data from all the major consultancies and a number of high-profile US academic advisors and need to assemble it for forecasting and trend analysis purposes. A great deal of time is taken crafting documents for key stakeholders. Informally, we use a range of strategy tools and techniques including statistical analysis, scenario analysis (see Chapter 3), sensitivity analysis (see Chapter 13), hypothesis testing (see Chapter 17) and also carry out many internal surveys to monitor implementation progress.'

Harminder has been surprised by the sheer amount of time and effort needed to consult key internal and external stakeholders personally: 'I have to consult every project manager and director and, more importantly, politically powerful and rich external stakeholders, regardless of their knowledge – and they have to be flattered to get buy-in.'

What Harminder likes about the job is making a difference by: 'changing people's perceptions, getting powerful individuals to make decisions and understand the reasons – rather than hiding behind endless committees (see Chapter 17)'.

Source: interviews (interviewees anonymised).

Questions

1 Which of these strategy roles appeals to you most – manager of a business unit in a multinational, strategy consultant or in-house strategy specialist? Why?
2 What would you have to do to get such a role?

1.5 Studying strategy

This book is both comprehensive and serious about strategy. To understand the full range of strategy issues – from analysis to action – it is important to be open to the perspectives and insights of key disciplines such as economics, finance, marketing, sociology and psychology. To be serious about strategy means to draw as far as possible on rigorous research about these issues. This book aims for an evidence-based approach to strategy, hence the articles and books referenced at the end of each chapter.[21]

This book therefore covers equally the three main branches of strategy research: conventionally, these are known as strategy *context,* strategy *content* and strategy *process.* In terms of the *Exploring Strategy* Framework (Figure 1.6), *content* broadly relates to positioning, *content* to choice and *process* to action. Each of these branches contains various research streams whose lessons can be readily applied to practical questions of strategy issues. Figure 1.7 shows the three branches and their respective research streams: these are listed in the approximate historical order of their emergence as strong research streams, the arrows representing the continuously developing nature of each. In more detail, the three branches and the characteristic analytical approaches of their main research streams are as follows:

- *Strategy context* refers to multiple layers of environment, internal and external to organisations. All organisations need to take into account the opportunities and threats of their external environments. *Macro-environmental analysis* has been an enduring theme in strategy with early recognition of the influence of political, economic, social, technological, environmental (green) and legal trends since the 1960s. Subsequently, researchers have focused upon various additional themes including institutional pressures establishing the 'rules of the game' within which companies operate. *Industry analysis* took off as a research tradition in the early 1980s, when Michael Porter showed how the tools of economics could be applied to understanding what makes industries attractive (or unattractive) to operate in.[22] From the 1980s too, *cultural analysts* have used sociological insights into human behaviour to point to the importance of shared cultural understandings about appropriate ways of acting. In the internal context, cultural analysts show that strategies are often influenced by the organisation's specific culture. In the external context, they show how strategies often have to fit with the surrounding industry or national cultures. *Resource-based view* researchers focus on internal context, looking for the unique characteristics of each organisation.[23] According to the resource-based view, the economic analysis of market imperfections, the psychological analysis of perceptual or emotional biases, and the sociological analysis of organisational cultures should reveal the particular characteristics (resources) that contribute to an organisation's specific competitive advantages and disadvantages.

- *Strategy content* concerns the content (or nature) of different strategies and their probability of success. Here the focus is on the merits of different strategic options. *Strategy and performance* researchers started by using economic analysis to understand the success of different types of diversification strategies. This research continues as the enduring central core of the strategy discipline, with an ever-growing list of issues addressed. For example, contemporary strategy and performance researchers examine various new innovation strategies, different kinds of internationalisation and all the complex kinds of alliance and networking strategies organisations adopt today. These researchers typically bring a tough

economic scrutiny to strategy options. Their aim is to establish which types of strategies pay best and under what conditions. They refuse to take for granted broad generalisations about what makes a good strategy.

- *Strategy process* examines how strategies are formed and implemented. Research here provides a range of insights to help managers in the practical processes of managing strategy.[24] From the 1960s, researchers in the *strategic planning* tradition have drawn from economics and management science in order to design rational and analytical systems for the planning and implementing of strategy. However, strategy involves people: since the 1980s, *choice and change* researchers have been pointing to how the psychology of human perception and emotions, and the sociology of group politics and interests, tend to undermine rational analysis.[25] The advice of these researchers is to accept the irrational, messy realities of organisations, and to work with them, rather than to try to impose textbook rationality. Finally, since the early 2000s, *strategy-as-practice* researchers have been using micro-sociological approaches to closely examine the human realities of formal and informal strategy processes.[26] This tradition focuses attention on how people do strategy work, and the importance of having the right tools and skills.

Figure 1.7   Strategy's three branches
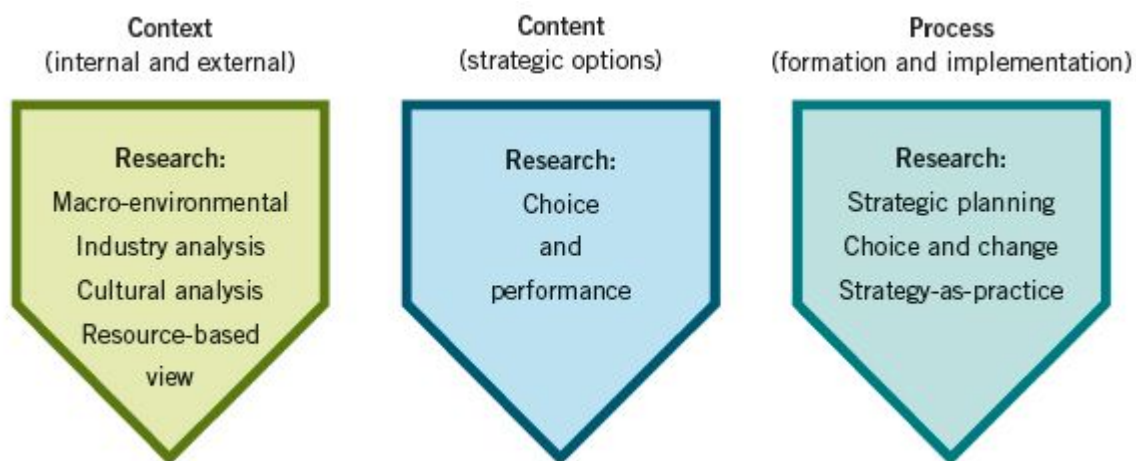
Figure 1.7: Long Description

From the above, it should be clear that studying strategy involves perspectives and insights from a range of academic disciplines. Issues need to be 'explored' from different points of view. A strategy chosen purely on economic grounds can easily be undermined by psychological and sociological factors. On the other hand, a strategy that is chosen on the psychological grounds of emotional enthusiasm, or for sociological reasons of cultural acceptability, is liable to fail if not supported by favourable economics. As underlined by the four strategy lenses to be introduced later, one perspective is rarely enough for good strategy. A complete analysis will typically need the insights of economics, psychology and sociology.

1.6 Exploring strategy further

So far, we have stressed that strategic issues are typically complex, best explored from a number of points of view. There is no simple, universal rule for good strategy. This section introduces two further ways of exploring strategy: one depending on context, the other depending on perspective.

1.6.1 Exploring strategy in different organisational types

Although the basic elements of the *Exploring Strategy* Framework are relevant in most circumstances, how they play out precisely is likely to differ according to different organisational types. Non-profit and for-profit organisations have been discussed earlier in the chapter and applying the *Exploring Strategy* Framework can also help surface key issues in other organisational types:

- *Start-ups and small businesses.* With regard to positioning, small businesses will certainly need to attend closely to the environment, because they are so vulnerable to change. But, especially in small businesses, strategic purpose will be a determining issue: for instance, this may not necessarily just be profit, but might include objectives such as remaining independent and maybe even a pleasant lifestyle. The range of strategic choices is likely to be narrower than for larger businesses: for a small business, acquisitions may not be affordable, though they may have to decide whether to allow themselves to be acquired. Some issues of strategy in action will be different; for example, strategic change processes will not involve the same challenges as for large, complex organisations.

- *Multinational corporations.* In this context, positioning in a complex global marketplace will be very important. Each significant geographical market may call for a separate analysis of the business environment. Likewise, operating in many different countries will raise positioning issues of culture: variations in national culture imply different demands in the marketplace and different managerial styles internally. Strategic choices are likely to be dominated by international strategy questions about which geographical markets to serve. The scale and geographical reach of most multinationals point to significant issues for strategy in action, particularly those of organisational structure and strategic change.

- *Family businesses.* These firms vary widely in size and scope so their positioning issues will range widely depending upon competitive strength in their industry. However, this may not be the most important positioning issue as strategic purpose may be a defining issue. For instance, profit may not be of foremost consideration as objectives such as family control, handing over to the next generation and maybe even a pleasant lifestyle may be regarded as of greater importance. Depending on the size of the family business, resource constraints may or may not be a limiting issue in terms of strategic options but for large initiatives such as making an acquisition, or being acquired, family concerns will probably be uppermost in decision makers' minds. In terms of strategy in action, family businesses are likely to need to deal with particular complexities around strategic change and leadership.

In short, while drawing on the same basic principles, strategy analysis is likely to vary in focus across by different organisational types. As the next section will indicate, it is often helpful therefore to apply different lenses to strategy problems.

1.6.2 Exploring strategy through different 'strategy lenses'

Exploring is a distinctive feature of this book and it means being critical of existing approaches as well as looking for new and different things. In particular, exploring strategy involves searching for new angles on strategic problems as we believe a comprehensive assessment of an organisation's strategy needs more than one perspective. In order to help you build your awareness of different perspectives on strategy, we introduce 'four strategy lenses'. These lenses present distinct, theoretically informed perspectives on strategy that enable you to perceive different ways of perceiving strategy. The four strategy lenses cover ways of looking at strategy issues differently in order to generate additional insights. These different perspectives will help you criticise prevailing approaches and raise new issues or solutions. Thus, although drawn from academic theory, the lenses should also be highly practical in the job of doing strategy.

The four strategy lenses consist of:

- *Strategy as design,* which might be likened to an architect's approach that is systematic, analytical and logical.
- *Strategy as experience,* which recognises that taken-for-granted assumptions and ways of doing things, biases and routines, will influence strategy.
- *Strategy as variety,* which focuses on new ideas and innovation bubbling up in unpredictable ways in an organisation.
- *Strategy as discourse,* which focuses upon the ways that managers use language to influence strategy making – that strategy talk matters.

None of these lenses is likely to offer a complete view of a strategic situation. The point of the lenses is to encourage the exploration of different perspectives: first from one point of view and then from another. This might help in recognising how otherwise logical strategic initiatives might be held back by cultural experience, unexpected ideas and self-interested strategy discourse.

To appreciate the full value that the four strategy lenses framework brings to your understanding of strategy, see the Commentary at the end of Part I, coming after you have had a chance to work with some key strategy frameworks relevant to strategic position. The four lenses are revisited after each succeeding Part of the book so that you can develop deeper insights into those Parts.

Key takeaways

- In addressing organisational strategy, you should recognise the comprehensive nature of the strategy, including both deliberate and emergent strategy and implementation as well as formulation. This is reflected in the following definition: '*Strategy is the long-term direction of an organisation, formed by choices and actions about its resources and scope to create advantageous positions relative to competitors and peers in changing environmental and stakeholder contexts*.'

- You can summarise a strategy with a *strategy statement*, which should include an organisation's *goals, scope* of activities and the *advantages* or *capabilities* it brings to these goals and activities.

- You should address strategy at appropriate levels: for example, *corporate-level strategy* is concerned with an organisation's overall scope; *business-level strategy* is concerned with how to compete; and *functional strategy* is concerned with how corporate and business-level strategies are actually delivered. These levels need integrating.

- The *Exploring Strategy* Framework can be used as a basic template for strategy. This points to three major elements in any strategy: understanding the *strategic position,* making *strategic choices* for the future and managing *strategy in action.*

- You can get involved in strategy work as a *manager* in an organisation, or in a specialist role such as *strategic planner* or *strategy consultant.*

- When thinking about strategy, address issues of strategy *context, content* and *process*, drawing insights not just from one disciplinary source but all three of economics, sociology and psychology.

- Although the fundamentals of strategy may be similar, you should recognise the distinctive issues raised by different *organisational contexts,* for example small businesses, multinationals or the public sector.

- Use the four strategy lenses of *design, experience, variety* and *discourse* to critically evaluate strategic issues from a variety of perspectives.

Work assignments

✱ Denotes more advanced work assignments.

* Refers to a case study in the *Text and Cases* edition.

1.1 Write a strategy statement for an organisation of your choice (for example, the Airbnb end of chapter case, or your university), drawing on strategy materials in the organisation's annual report or website.

1.2 Using the *Exploring Strategy* Framework of Figure 1.6, map key issues relating to strategic position, strategic choices and strategy into action for the Glastonbury* case, or an organisation with which you are familiar (for example, your university, or your own organisation).

1.3 Go to the website of one of the major strategy consultants such as Bain, the Boston Consulting Group or McKinsey & Co. What does the website tell you about the nature of strategy consulting work? Would you enjoy that work?

1.4 * Using Figure 1.6 as a guide, show how the elements of strategic management differ in:

    (a) a small or family business (e.g., Mormor Magda*, HomeCo*, Glastonbury*)

    (b) a large multinational business (e.g., Siemens*, Megabrew*, Unilever)

    (c) a non-profit organisation (e.g., Vaasa City*, EMMAUS*).

Recommended key readings

It is always useful to read around a topic. As well as the specific references below, we particularly highlight:

- For a review of the recent evolution of strategy, read R. Whittington, '*Opening Strategy: Professional Strategists and Practice Change 1960 to today'*, Oxford University Press, 2019.
- Two stimulating overviews of strategic thinking in general, aimed particularly at practising managers, are C. Montgomery, *The Strategist: Be the Leader your Business Needs*, Harper Business, 2012; and R. Rumelt, *Good Strategy/Bad Strategy: the Difference and Why it Matters,* Crown Business, 2011.
- Two accessible articles on what strategy is, and might not be, are M. Porter, 'What is strategy?'*, Harvard Business Review,* November–December 1996, pp. 61–78; and F. Fréry, 'The fundamental dimensions of strategy', *MIT Sloan Management Review,* vol. 48, no. 1 (2006), pp. 71–75.
- For contemporary developments in strategy practice, see business newspapers such as the *Caixin* and *China Daily* (China), *Financial Times* (UK), *Handelsblatt* (Germany), *Les Echos* (France), *The Economic Times* (India) and the *Wall Street Journal* (USA), and business magazines such as *Business Week, The Economist, L'Expansion* and *Manager-Magazin.* Several of these have well-informed Asian editions. See also the websites of the leading strategy consulting firms: www.mckinsey.com; www.bcg.com; www.bain.com.

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9. For example, see B. Bartkus, M. Glassman and B. McAfee, 'Mission statements: are they smoke and mirrors?', *Business Horizons,* vol. 43, no. 6 (2000), pp. 23–8.
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11. Ballesteros, L. and Gatignon, A. (2019) 'The relative value of firm and nonprofit experience: Tackling large-scale social issues across institutional contexts', *Strategic Management Journal*, *40*(4), pp. 631–57. Formally, non-profits are separate from government departments, though the distinction is not sharp: in this book we shall often treat them similarly.
12. Based on Ortiz-de-Mandojana, N. and Bansal, P., (2016) 'The long-term benefits of organizational resilience through sustainable business practices', *Strategic Management Journal*, 37(8), pp.1615–31. Sustainable development strategies are distinct from the concept of sustainable competitive advantage in Chapter 8.
13. These benefits are contained in an interesting read on how sustainability can affect managers by G. Weybrecht, *The sustainable MBA: the manager's guide to green business*, Wiley (2013) 2nd edn.
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17. For insights about in-house strategy roles, see D. N. Angwin, S. Paroutis and S. Mitson, (2009) 'Connecting up strategy: are strategy directors a missing link?' (2009) *California Management Review,* vol. 51, no. 3, pp. 74–94.

18. The major strategy consulting firms have a wealth of information on strategy careers and strategy in general: see www.mckinsey.com; www.bcg.com; www.bain.com.

19. University careers advisers can usually provide good advice on strategy consulting and strategic planning opportunities. See also www.vault.com.

20. D. N. Angwin, S. Paroutis and S. Mitson (2009) 'Connecting up Strategy: Are Senior Strategy Directors (SSDs) a missing link?', *California Management Review*, vol. 51, no. 3, pp. 74–94.

21. For reviews of the contemporary state of strategy as a discipline, see J. Mahoney and A. McGahan (2007) 'The field of strategic management within the evolving science of strategic organization', *Strategic Organization,* vol. 5, no. 1, pp. 79–99 and R. Whittington, 'Big strategy/Small strategy' (2012) *Strategic Organization,* vol. 10, no. 3, pp. 263–68.

22. See M.E. Porter (2008) 'The Five Competitive Forces that shape strategy', *Harvard Business Review,* January, pp. 57–91.

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26. For a review of Strategy-as-Practice research, see M. Kohtamäki, R. Whittington, E. Vaara and R. Rabetino (2021) 'Making connections: Harnessing the diversity of strategy-as-practice research', *International Journal of Management Reviews*.

Case Example

A viable unicorn? Airbnb

Duncan Angwin

Source: AlesiaKan/Shutterstock

The effect of the COVID-19 pandemic on Airbnb – the online accommodation platform – was nothing short of an apocalypse. The previous forecasts for 2020 were for revenues of $10bn and net income of $3.3bn, and yet Airbnb generated just $3.4bn in revenue and made a loss of $4.6bn for the year. However, Airbnb went public in December 2020 in a successful IPO (Initial Public Offering) that raised $3.5bn from investors whilst, during 2021, bookings rebounded as recreational travel and rural destinations became popular. While some commentators had thought the pandemic would see the demise of Airbnb, others concluded that Airbnb had proven it could be a viable Unicorn.

Origins

In the US venture capital industry, a Unicorn is that rare animal, a start-up company whose valuation exceeds $1bn dollars. These Unicorn valuations are no guarantee of long-term viability: notable Unicorn flops include the note-taking company Evernote, games company Zynga and health tech company Theranos. However, since its launch in 2007, Airbnb has reached a 2021 valuation of $113bn. The company was founded by Joe Gebbia and Brian Chesky as a simple website with pictures of their loft-turned-lodging space – complete with three air mattresses on the floor and the promise of a home-cooked breakfast in the morning. Gebbia and Chesky realised there was often demand at conferences and festivals where hotels would fill up quickly. After adding a payment facility to their website, which allowed them to charge up to 15 per cent of the booking (host pays 3 per cent; traveller 6–12 per cent), by April 2009, they were breaking even.[1]

Growth

Gaining angel investor funding from Harminder Graham, co-founder of Y Combinator (a start-up mentoring programme) the company provided an app and website that connects people seeking lodging with renters who have listed their personal houses, apartments, or guest rooms on either platform. Quickly, the company expanded to 8,000 cities worldwide, increased the number of employees to 500 and moved to offices in the design district of San Francisco.

   In 2010, Airbnb was experiencing sluggish listings due to poor presentation of properties. Through using professional photographers, which are now automatically available to hosts, properties began to be presented more professionally and this rapidly increased guest demand, as it helped to build trust. In addition, Airbnb

Social Connections was introduced, which leverages users' social graphs via Facebook Connect. This shows whether friends have stayed, or are friends, with the host and allows guests to search for hosts based on other characteristics, like alma mater. Again, this reassures potential guests.

With further venture funding in 2011, Airbnb expanded through acquisitions acquiring their largest UK-based competitor Crashpadder just before the 2012 Summer Olympics in London. Offices were opened in Paris, Barcelona and Milan. Airbnb's growth was explosive with a higher valuation than the Hyatt and Wyndham hotel groups by 2014 and more guest nights booked than Hilton Hotels. By 2016, Airbnb was valued at $25bn – more than any other hotel group.[2]

Airbnb proved attractive to guests and hosts as its listings were far superior to others available at the time, such as Craigslist. Listings were more personal, with better descriptions and nicer photos. The rooms were cheaper than equivalent ones at hotels and had more of a personal flavour. For instance, in a recent stay in Paris, a user noted the host had left a selection of food in the refrigerator, a bottle of wine on the counter for her guests and a welcoming note suggesting good places nearby to eat out and convenience shops. Staying in another person's apartment makes the visitor feel far more at home than an anonymous hotel room. For many young guests and hosts, Airbnb fitted into the contemporary sharing culture exemplified by easyCar Club, where users can rent their car to others, and Girl Meets Dress, that allows girls to borrow and lend their dresses for special occasions. For hosts, rents provide a source of income to help pay for soaring accommodation costs in many major cities.

Figure 1 Airbnb early growth story/AirBnB – From 3 guys renting mattress to $10 billion in seven years
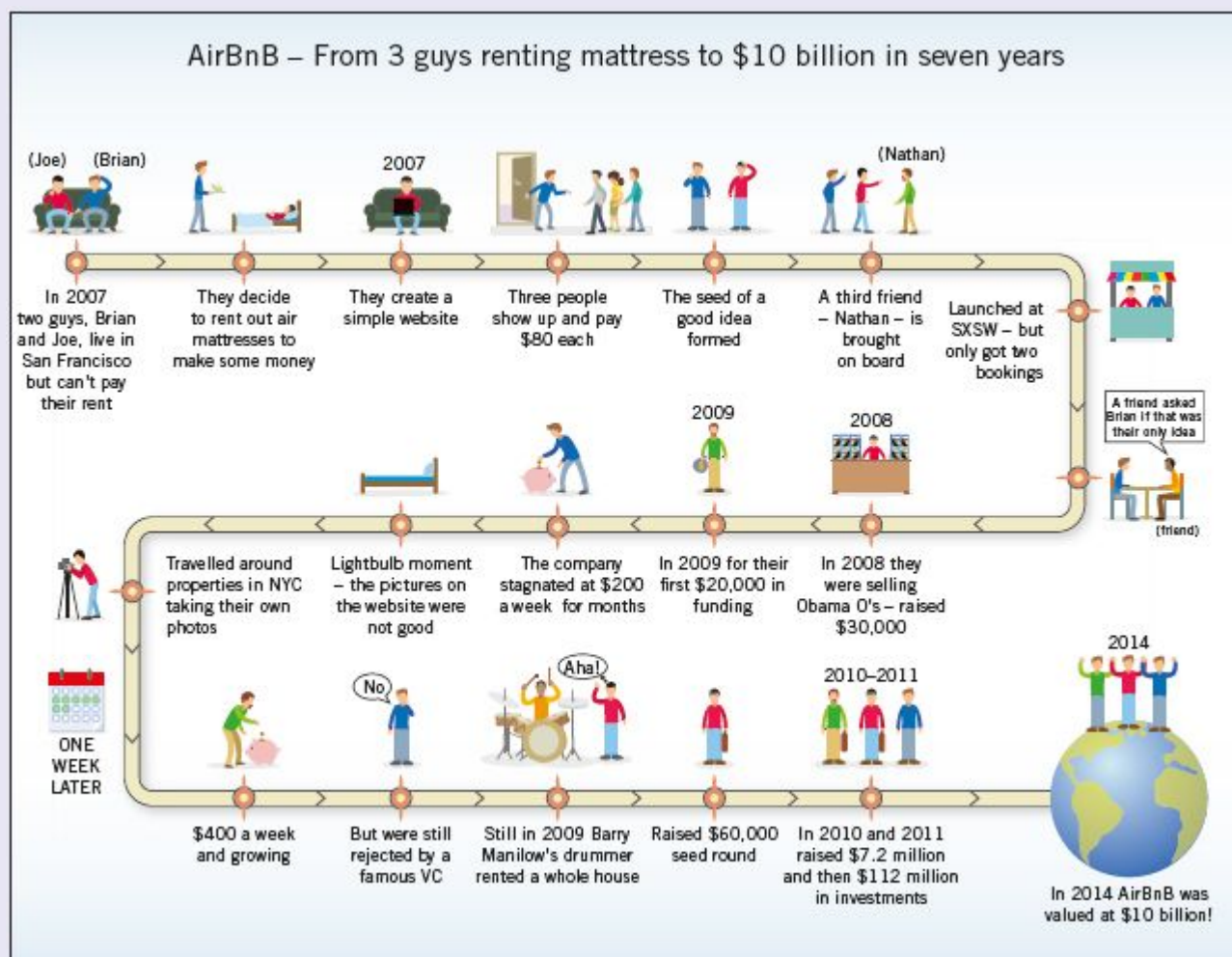

AirBnB – From 3 guys renting mattress to $10 billion in seven years

(Joe) (Brian)

2007

(Nathan)

In 2007 two guys, Brian and Joe, live in San Francisco but can't pay their rent

They decide to rent out air mattresses to make some money

They create a simple website

Three people show up and pay $80 each

The seed of a good idea formed

A third friend – Nathan – is brought on board

Launched at SXSW – but only got two bookings

A friend asked Brian if that was their only idea

2009

2008

Travelled around properties in NYC taking their own photos

Lightbulb moment – the pictures on the website were not good

The company stagnated at $200 a week for months

In 2009 for their first $20,000 in funding

In 2008 they were selling Obama O's – raised $30,000

(friend)

ONE WEEK LATER

No

Aha!

2010–2011

2014

$400 a week and growing

But were still rejected by a famous VC

Still in 2009 Barry Manilow's drummer rented a whole house

Raised $60,000 seed round

In 2010 and 2011 raised $7.2 million and then $112 million in investments

In 2014 AirBnB was valued at $10 billion!

Figure 1: Long Description

Managing growth

CEO Brian Cesky penned a memo in 2013 to his top management team, as follows:[3]

Hey team,

Our next team meeting is dedicated to Core Values, which are essential to building our culture. It occurred to me that, before this meeting, I should write you a short letter on why culture is so important to [co-founders] Joe, Nate, and me.

. . . In 2012, we invited Peter Thiel [a major investor] to our office. This was late last year, and we were in the Berlin room showing him various metrics. Midway through the conversation, I asked him what was the single most important piece of advice he had for us.

He replied, 'Don't f*** up the culture.'

This wasn't what we were expecting from someone who just gave us $150mn. I asked him to elaborate on this. He said one of the reasons he invested in us was our culture. But he had a somewhat cynical view that it was practically inevitable once a company gets to a certain size to 'f*** it up'.

Source: Founder and CEO Brian Cesky penned a memo in 2013

Accordingly, the company began to manage its culture more deliberately. For example, Joe had become concerned that, as the company grew, it had become less open to dialogue. To encourage more discussion, he invented the notion of 'elephants, dead fish and vomit'. As he explains: 'Elephants are the big things in the room that nobody is talking about, dead fish are the things that happened a few years ago that people can't get over, and vomit is that sometimes people just need to get something off their mind and you need someone to just sit there and listen.'[4] All three need to be aired. Airbnb also established a series of annual meetings called One Airbnb, bringing together employees (called 'Airfam') from all around the world to the San Francisco base for four-day conferences at which everyone can meet the founders, discuss strategy and also talk about both their work roles and their hobbies. The company has 'ground control' staff in every office in the world dedicated to making the company culture 'come alive', organising pop-up birthday celebrations, anniversary parties or baby showers. The company is rigorous in its recruitment policy, committed to hiring 'missionaries, not mercenaries'.

At the same time, the founders had begun to ask themselves again: 'What is our mission? What is the big idea that truly defines Airbnb?' As they recalled in their own words: 'It turns out the answer was right in front of us. For so long, people thought Airbnb was about renting houses. But really, we're about home. You see, a house is just a space, but a home is where you belong. And what makes this global community so special is that for the very first time, you can belong anywhere. That is the idea at the core of our company.'[5]

Airbnb in 2021

Anyone anywhere in the world can list spare space from a room to a tree house, from a castle to an island in Fiji, with prices ranging from $50 to $2,000 per night. The headquarters' walls are covered with world maps dotted with hundreds of coloured pins, charting world domination. Pre-pandemic, Airbnb was so popular that one of their rooms was booked every two seconds.

The company is now focused on the whole travel trip with an emphasis on delivering local experiences. This focus on hospitality is not just about where you stay, but what you do – and who you do it with – whilst you're there. Airbnb has introduced Neighbourhoods and local lounges, partnering with local coffee shops that can offer free wifi, a comfortable setting and local guidebooks. They have also acquired a small start-up that connects guests with locals who can answer their questions and Airbnb also offers cleaning services. The

connects guests with locals who can answer their questions and Airbnb also offers cleaning services. The Airbnb website and apps now have subtle animations and flashier imagery to convince customers that it is more than a hotel service and more of a lifestyle brand. The focus is firmly on 'belonging'.

With over one billion cumulative guest arrivals as more people began travelling after the easing of the pandemic, Airbnb posted record host earnings of $12.8bn during 2021. In the face of rising inflation, increasing numbers of families were applying to become hosts to supplement their incomes. Company profits were also up, but this was credited to the loss of a quarter of Airbnb's workforce during the pandemic. Long stays now made up around 20 per cent of all bookings and were the fastest growing segment. Airbnb had an estimated 6 million listings (more than the top 10 hotel chains combined) in over 100,000 cities in over 220 countries.

Prior to the pandemic, Airbnb had been providing a strong challenge to hotels with prices 30–80 per cent lower than local operators. However, this was provoking a reaction. Hotels fought back by arguing Airbnb rooms were dangerous and unsafe as they were unregulated. For example, in San Francisco, although one must have a permit to rent for under 30 days, residents were still illegally listing personal homes and apartments. Similar problems were being experienced in New York where an 'illegal hotel law' was passed preventing people from subletting apartments for less than 29 days. Other cities across the world were imposing stringent regulations as local residents were crowded out of attractive city centres by short-term rental properties. In Paris, at one point the largest market in the world for Airbnb with over 60,000 apartments on offer, the mayor complained the city was being turned into an 'open-air museum'. The city responded by tightening up on the registration and advertising of accommodation, as well as placing a 120 days per year limit on rentals. The European Union also gave Airbnb an ultimatum about the lack of price transparency, while governments were widely raising concerns over hosts not paying tax on rental earnings.

During the pandemic, Airbnb's business model had been more resilient than its rivals, with revenues down less than for travel-aggregator Expedia and Booking.com. However, coming out of the pandemic in 2022, growth rates were lower than for the major hotel groups as well as Expedia and Booking.com.[6] This weakness was concealed somewhat by the high profitability achieved by Airbnb's sharp cost-cutting on product development, marketing and staffing.

The future

Some critics have forecast a fundamental change in Airb nb's fortunes, arguing the company's shares are over-priced, with competitors such as Homestay (hosts are present), Home Exchange, Vrbo, Kid & Coe (family friendly), onefinestay (luxury accommodation) and others chipping away at its business model. Hotel chains such as Marriot International are also adding home-rentals to their offerings. Cities and regulators continue to show negative reactions towards short-term rental.[7] So-called 'professional hosts' (typically with multiple listings or properties) have been very damaged by the pandemic, leading to a shortage of accommodation as demand rises. However, other commentators focus on Airbnb's achievement of creating a new way to holiday, through massive expansion of the accommodation base and destination possibilities while providing a convenient way for hosts to monetise their accommodation. For these commentators, Airbnb's game-changing model still has a long way to run. As CEO Brian Chesky says, 'the trick is to be optimistic'.[8]

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Questions

1 Sticking to the 35-word limit suggested by Collis and Rukstad in Section 1.2.3, what strategy statement would you propose for Airbnb?

2 Carry out a 'three-horizons' analysis (Section 1.2.1) of Airbnb, in terms of both existing activities and possible future ones. How might this analysis affect its future strategic direction?

3 Using the headings of environment, industry, resources and capabilities, purposeful strategy and culture, seen in Section 1.3.1, identify key positioning issues for Airbnb and consider their relative importance.

4 Following on from the previous questions and making use of Section 1.3.2, what alternative strategies do you see for Airbnb?

5 Converting good strategic thinking into action can be a challenge: examine how Airbnb has achieved this by considering the elements seen in Section 1.3.3.