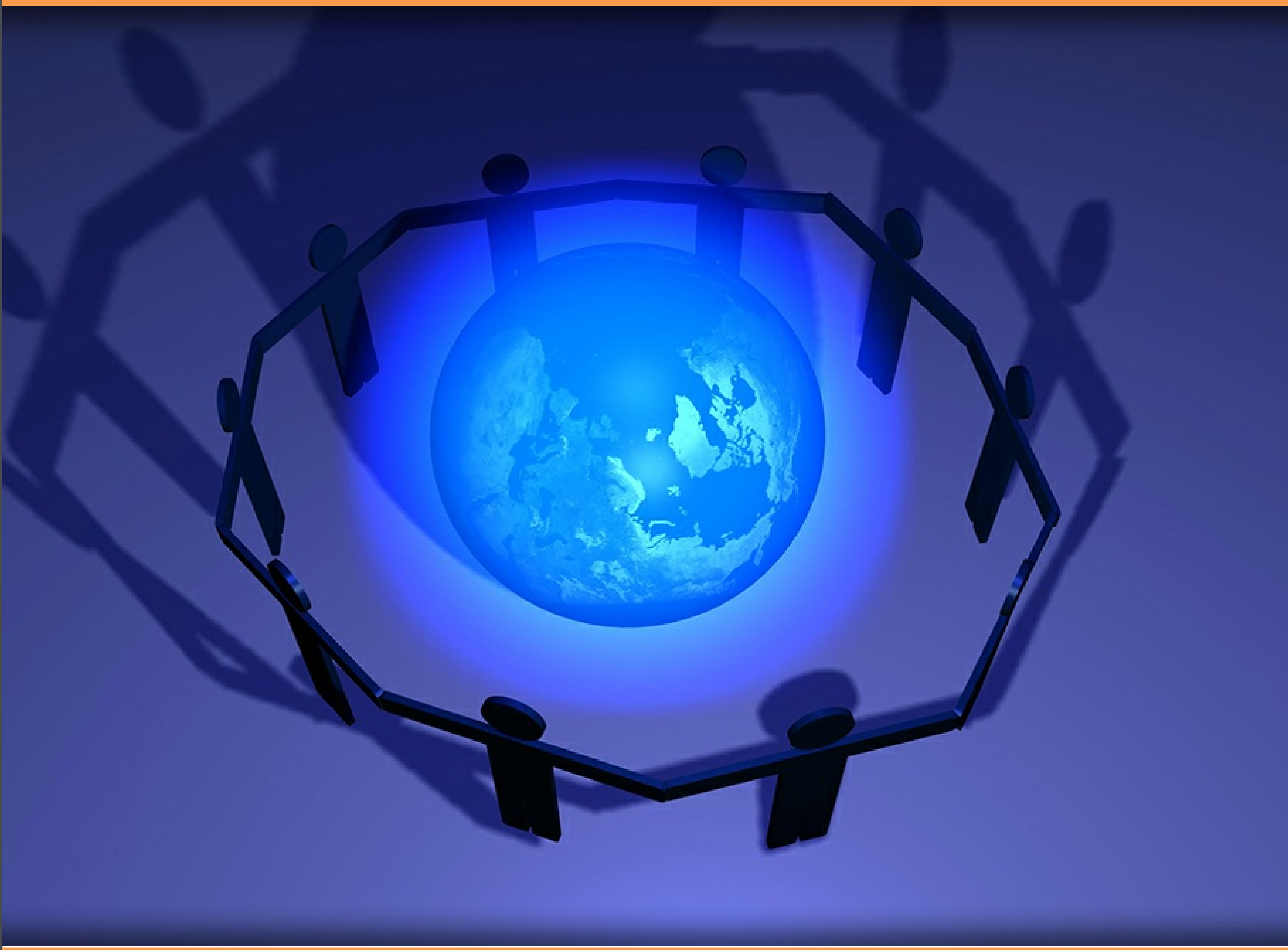
Studying Strategy

James Rowe



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1st edition

ISBN 978-87-7681-420-5

Contents

Introduction

The purpose of this book is fairly simple, to introduce and reflect on some of the key writers, ideas, models and approaches in strategic management.

Chapter one is brief overview of how strategy got here. Whittington's work is used to give an overview of different views (or even philosophies) of strategy positioned for us in a framework. We use Whittington's (2001) model of strategy as our base model. Whittington's classical, evolutionary, processual and systemic strategy offers us a reference point as well as the underpinning for different ways of dealing with strategy.

Chapter two attempts to outline some of the tools or models that are commonly used in strategy for thinking about or doing strategy. The chapter also outlines some of the seminal ideas that more recent approaches hark back to. Some of the tools you will be familiar with from other subjects but some not. Chapter three attempts to set into some sort of framework the tools outlined in chapter two. It also takes an opportunity to explore the original school of strategy – 'classical'. Here some of the approaches of the originals are examined along with a still current 'old master' M.E. Porter. Porter's work on competition offers both a model of strategy and a view of the organisation in a particular environment i.e. competing with other firms rather than just meeting the demands of a market – one of the early key shifts in strategy.

Chapter four questions the notion that strategy is planned then executed (i.e. voluntarist) by considering models that explore the idea that strategy is the outcome of internal and external organisational and individual forces (i.e. determinist).

Chapter five outlines the resource-based view of strategy that counters the Michael Porter concept of market positioning. The resource–based view suggests that strategy must be built on internal strengths and competences rather than the spotting of a gap in the market then moving to fill it.

Chapter six moves away from the mainstream notion of home or domestic strategy to consider what about strategy development would need to change or have to be reconsidered if an organisation wished or was forced to compete globally.

Chapter seven develops on from the cultural dimension of globalisation to consider culture, leadership and change in a strategic context.

Chapter eight again takes a departure from the mainstream of strategy, which is usually concerned with large private sector firms to consider strategy in the public sector.

Chapter nine attempts to draw some of the elements of the book together and position some of the ideas in a simple model.

1 A Starting Point For Our Thinking

James Rowe

At school one of the most difficult things to make in woodwork or cookery classes was a start. This might explain why so many chapters of books or academic papers start with a poem or a quotation from Ambrose Bierce or Dorothy Parker – they make a start for you. They act as a first intervention; you have done something upon which you can now begin to reflect.

Here then is our start. Figure 1.1 outlines the model of thinking about strategy development that this work references itself to. The model is fairly self-explanatory but to clarify a distinction is drawn between strategising and strategy. Strategising, is the thinking about strategy (planning/theorising) and strategic action, is the doing of strategy that usually implies some form of implementation and change. Structure implies not just the organigram (the various functional structures of the organisation – various departments) but also the information and production systems and the management structures as well as the structure of the management of strategy. Culture here can be considered as the general perceptions of acceptable behaviours, stories, language, history and myths of the organisation that impact upon the other three and absorb their consequences.

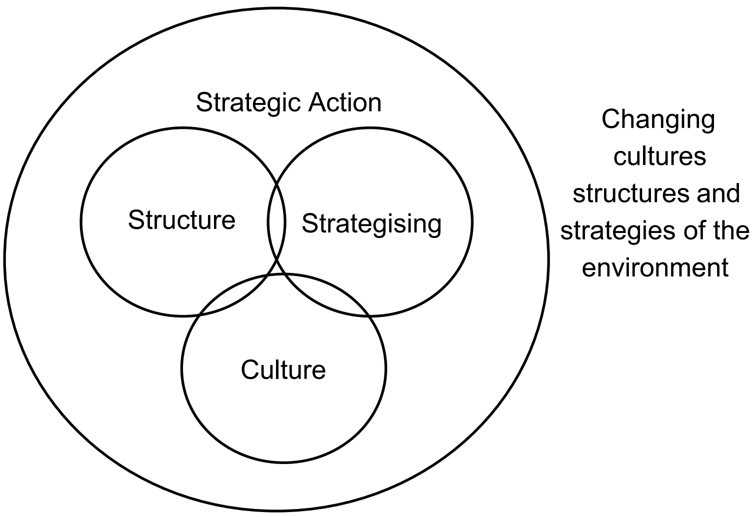

Figure 1.1: The Dimensions of Strategic Action

The model, though spatial, attempts to infer time by using words such as 'change' to imply that we are not existing in stasis but are in a world where change is a given. We can go with, go against or go ahead of change in theory or in desire but ultimately have to accept that our world is change. Figure 1.1 is only one version of the model as it is hetero-recursive – that is one system may be inside of second system but at the same time the second system is inside the first depending on your perspective. In Figure 1.1 we see the model suggesting that strategic action is emerging from the interaction of the structure, culture and strategic thinking of the organisation in relation to the environment.

This version of the model sees a particular depiction of the recursive relationship but it could be modified if we needed a different model of our thinking. For example let's consider a human being. We could look at a human being in need of a heart operation as follows:

1. A human being system containing;
2. A cardio-vascular system containing;
3. A heart system containing;
4. A faulty valve system.

However a hospital manager might see the system as:

1. A hospital system containing;
2. A cardio-vascular ward system containing;
3. A patient system containing;
4. A heart with a faulty valve.

The point here is that systems lie within systems. This is obvious but we may need to consider different containments depending on who we are or more importantly from where we are observing. A distinction is draw here between hierarchy and containing. Systems may include systems but they are not necessarily above or below them inferring greater or lesser importance. The notion of democracy is inherent in recursion. You may include someone into your circle of friends but equally they may include you into their circle of friends. A story often attributed to the late great Stafford Beer might explain:

> The brain in conversation with the heart suggested that the brain was much more important than the heart as it was he who did all of the thinking. Ah… retorted the heart but I am the life force of the body as it's me who pumps blood around the body making me more important. Yes said the brain but it's me who controls your beating to pump the blood. Yes but it's the oxygen I deliver to you that allows you to function in the first place. Tired of this bickering the arse went on strike and very quickly both the brain and the heart agreed that the arse was much more important.

What we learn here is that strategic and important are not necessarily the same thing and that there are different ways of seeing things often coloured by our own notions about the world. To demonstrate this Figure 1.2 shows an alternative depiction that we could use if we interested in changing our structure

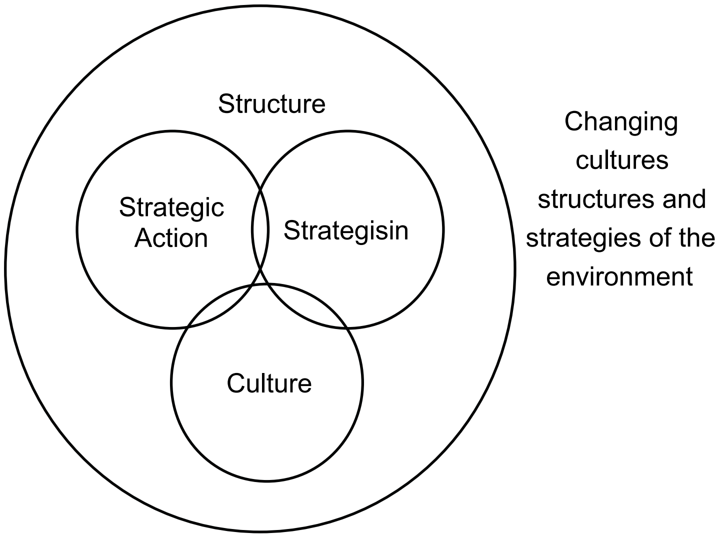

Figure 1.2: The Dimensions Of Strategic Structure

In Figure 1.2 we see changes in structure emerge from the interaction of strategic action, strategising and culture. An example might be Business Process Engineering (BPR) where new technologies and practices developed in the environment are strategised over then implemented, impacting on and impacted by the organisations structure. The outcome of this type of thinking is that strategy has to be an active process. In organisations where communication and control links are weak, simply presenting a strategy (even if it is considered brilliant and acceptable) does not ensure that the strategy is engaged with or implemented (it may even be ignored). However changing an organisation's structure will clearly impact on how the organisation behaves day to day.

We see from Pugh et al. (1963) that there is a cost to making strategic decisions that move beyond the contextual limitations of size, technology and ownership. That if structure is not adapted to the organisation's environment then costs may rise, opportunities may be missed and the organisation's existence may even be placed in jeopardy. This can be seen in macro-organisational changes. For example a university may see its market to have a particular structure. If communication between the schools (or departments) of the university is difficult to maintain, the university may have to restructure its schools to mirror the environment. So that that the university's product developments can be geared to the appropriate audiences. This of course is reactive and may stifle innovation, which is often associated with breaking accepted ideas and practices.

Similarly relationships between culture and structure exist. Hierarchical structures validate or tend to encourage deferral of decision making i.e. some people will give orders and others carry them out – Stanley Milgram famously showed this process could accommodate torture in extreme cases. In contrast, democratic structures tend to increase group responsibility and decision-making.

Strategising, that is how we think about and what we think about strategy relates to structure and culture e.g. do we think we need to externally focus our strategy in the direction of our market (our environment) or internally focus our strategy on what we are good at – our resources. Developments such as BPR and knowledge management have evolved partly from the idea of the structural change and ideas about the knowledge and processes of the organisation.

We use the notion of recursion and the model in Figure 1.1 to consider strategy throughout the work – it is in the background of our thinking.

In Figure 1, strategic action or implementation is a second-order process emergent from the interaction of organisational structure, strategising and culture – to explain this consider profit. We know that organisations cannot directly maximise profit. Profit is the second-order outcome of the first-order relationship between turnover and costs. The possibility exists (in theory at least) to maximise or increase income and minimise or decrease costs and so increased profits might be the outcome of these actions. Similarly the implementation of a strategy is not the direct outcome of thinking one up. The corporate team may develop the most brilliant strategy ever produced and communicate it to an organisation so elegantly that it is received with rapture – but that won't ensure anybody will 'do it'.

The model outlined in Figure 1.1 advocates that to implement a strategy is to change an organisation or its processes of thinking, its process of structure and its process of culture. Implementing a strategy is a change process. So to implement a strategy we need to change our thinking or change our culture or change our structure or some combination of them – as they are inextricably linked and separated here only for the purposes of explanation.

Structure can be changed simply with departmental or corporate reorganisation. We have seen overarching approaches such as: Business Process Engineering (BRP), outsourcing, Just In Time (JIT), joint ventures (JV's) and mergers and acquisitions (M&A's). These, along with the more general structural changes of information technology, internet and e-commerce would probably be the most significant in recent times.

Changes in thinking most often come under the broad heading of learning. Formal and informal, this would include education and the experience of putting our ideas into practice – thinking and doing – that would make our organisations and us (as individuals) wiser.

Changes in culture are more problematic. Culture is often the 'unseen' aspect of the organisation where fear, joy, love, hate, sex and violence conspire to create the myth, stories and emotions of the organisation.

Strategic action or implementation is seen here as emergent from the interaction of thinking, structure and culture creating, destroying, supporting and undermining strategy.

1.1 Whittington's Schools of Strategic Thought – Philosophies of Strategy

Clearly issues of resources and the environment and the understanding of exactly what business the firm is in are basic pre-requisites of strategy. We need to focus on the inside of the organisation – its resources and capabilities and/or the outside of the organisation – the gaps in the market, market size, the competition etc.

There are as many ways to do strategy as there are strategists doing it but what 'frameworks' or 'philosophies' are we doing strategy in? As you read this text you understand the meaning of it because you can interpret the individual words, sentences, paragraphs etc. However, your overall understanding comes from your second order system of language. This text is just one of many you understand because to have a language system that allows you to communicate and be communicated with. Strategy is similar in that there are individual actions, ideas and tools that can be used but they are used and used in particular ways because of the overall mindset or philosophy of the strategists. Knowing these philosophies (or schools of thought) may help us to understand our own views and perhaps limitations but also help us to see where other strategists 'are coming from'.

Whittington (2001) outlines four generic schools of thinking in strategic management. Whilst this is useful tool for understanding strategy it is important to understand it is a particular perspective. As an alternative perspective, Mintzberg, Ahlstrand and Lampel (1998) see strategy in ten schools. In considering the possibilities of what strategy might be or look like Whittington (2001) may offer a slightly more manageable outlook on the context of the subject. However, a brief introduction to strategy might help to set the scene.

The history of strategic management as with many topics in the fairly modern business studies arena has to be interpreted retrospectively in terms of what came before it; consequently there are a number of possible (and equally valid) stories to be told. From the modestly named Alexander the Great through Sun Tzu and Machiavelli to von Clausewitz[1] there is a definite military thread, which could be justifiably used to define strategy. In fact much of strategy language has a military lineage – sending in the big guns, troubleshooting, price wars etc. Another valid locus is through Isaac Newton and the enlightenment through Adam Smith and economics through the industrial revolution and the inception of management and the manager as profession and professional. Again some of the language of management is redolent of this lineage – leveraged buy out, turning the wheels of industry, reengineering, and going like a sewing machine.

This reflection is aptly called a history, as it is certainly not a herstory. It might be useful to consider what strategic management would look like if Alexander the Great's mum had been a bit more pushy, or if the industrial revolution had occurred next to a wok factory in Canton rather than a cotton mill in Manchester. Strategic management might well have been less combative and excluding and more collective rather than individualistic. Another issue that arises here is the notion of vested interest. Should you purchase the Oxford University Press edition of 'The Prince' by Nicolò Machiavelli on the front cover you will find a portrait of Cosimo I de'Medici. This is because Machiavelli wrote 'The Prince' as a sort of homage to the Medici partly because he feared for his life and partly because he wanted to work for them. In short Machiavelli was not very Machiavellian, he doesn't appear to have had the courage, power or brutality to be so. This may cause us to question the motives and and seek the true beliefs of strategists and teachers of strategy.

There is another dimension to vested interest. The Greek and Prussian military had need of social status (a military class) and therefore a literature to authenticate it. When professional managers took over companies (as they became too cumbersome to manage for the owners or the owners' offspring became too profligate) they also had a vested interest in a literature and a code of professional conduct to validate their role in society. The name change of the Marketing Education Group (marketing's principle academic association) to the Academy Of Marketing (Brown, 1999) – is perhaps evidence of the need of social groupings to validate their existence through the greater gravitas of a literature or a more solemn name. This is not necessarily a good or bad thing it is simply something that needs to be taken into account; especially when considering new ideas, as there is a vested interest in staying the same. Why should you or your teacher learn or try something new when it is easier and cheaper to recycle last year's ideas?

Even if we consider Machiavelli himself to be a little fraudulent we must not dismiss him, there is still value in his thinking for example his advice to the international enterprise in the sixteenth century was:

> "But when states are acquired in a country differing in language, customs or laws, there are difficulties, and good fortune and great energy are needed to hold them, and one of the greatest and most real helps would be that he who has acquired them should go and reside their." (Machiavelli, 1532)

Machiavelli cited the 500 year long occupation of Greece by Turkey as an example of this maxim though many companies today, when setting up in foreign countries, put home country managers in positions of power.

From the military perspective we move to the notion of science and the impact of Newtonian physics. The impact of science has become so absorbed into our thinking that it is often not considered; its legacy in management is that of positivism[2]. Positivism suggests that management is a scientific process that can be observed and modelled (theorised) then proved experimentally. Science can then be used to repeat success in other situations. This idea has underpinned such ideas as forecasting, linear programming and critical path analysis for example. These allow techniques to be applied to business (or life) situations. The application of positivism has some limitations such as disaggregation i.e. consider the following:

> Why are flies attracted to you?

To answer this question positivist science would advise an experiment based on some hypotheses such as:

> h_0 – because you smell nice?
> h_1 – because you are damp?
> h_2 – because you are warm?

The process here is simple; to test h_0 all we need do is keep you smelling but dry you out and freeze you. This is fine if you are a stone but clearly this experiment would kill the average living thing making it impossible to test the hypotheses separately. Also, as a manager, you are embarking on a process of trying to disprove something you hold to be potentially true. This might be emotionally unpalatable e.g. do you often try to catch your family not liking you in an attempt to discover why it is they are in general kind to you?

There is an emotional problem here in that we don't like disproving something we hold dear. If we like a theory we want to believe it is true, for example it is very difficult to believe a lover has been unfaithful until they themselves actually admit it to us. Friends may have told us or we may even have seen first hand evidence ourselves but we require absolute proof before we can revise our theory of the relationship. We may have said or had said to us 'I want to hear you say it' as this may be the only way we can abandon one of our favourite theories.

There are further problems in management situations such as having to find time away from actually doing management to run experiments. How many dummy assignments or management reports have you done as an experiment? None probably. There is also the problem of (a sort of) Heisenberg's Uncertainty Principle – that the observer becomes part of the process. Here, in trying to measure one thing you disturb another thing (that you cannot measure simultaneously) due to your intervention. Though there are problems with the use of positivism again its power must not be underestimated. In 1886 Christopher Columbus Langdell at Harvard Law School proclaimed law to be a science (Schön, 1983). Such was the desire in the 19th century to validate all professions as being scientific, as scientific equated to truth and puissance – this is sometimes called physics envy.

If Newtonian physics gives us the science of the inanimate object (moving or otherwise) then Darwinism gives us the science of the evolution of living things. Here firms are complex organisms co-existing in an environment which impacts upon their development and survival.

Whittington (2001) has organised some of this thinking into the four 'generic' strategies of classical, evolutionary, processual and systemic (see Figure 1.3).

Whittington (2001) suggests that strategies can be divided up into those that are unitary i.e. have a single outcome or goal (profit-maximisation) and those that have a number of outcomes or goals i.e. pluralistic. There is a further dichotomy between schools of thought that view strategy as a deliberate act and those for whom it simply emerges out of every day processes of the organisation.

Classical Strategy	Unitary and deliberate
Processual Strategy	Pluralist and emergent
Evolutionary Strategy	Unitary and Emergent
Systemic Strategy	Pluralist and deliberate

Figure 1.3: Whittington's Generic Perspectives On Strategy

1.2 Classical Approaches

Within the modern domain of organisational management before we had strategy we had a number of things such as 'corporate planning' that acted as precursors to strategy. Chester Barnard (1938) concerned about the overall purpose of the firm felt that 'corporate planning' should be comprehensive and methodical such that:

> "…purpose must be broken into fragments, specific objectives, not only ordered in time so that detailed purpose and detailed action follow in the series of progressive cooperation… It is more apparent here than with other executive functions that it is an entire executive organization that formulates, redefines, breaks into details and decides on the innumerable simultaneous and progressive actions that are the stream of syntheses constituting purpose or action." (Barnard, 1938)

We see with Barnard (1938) the reductive breaking down of corporate planning into many tasks for the various executives in order that they take the organisation into a successful future by the achievement of predetermined objectives. In the increasingly volatile economic conditions of the second half of the 20th century in western economies planners needed tools to cope with the increasing uncertainties of the economy, markets, consumer tastes, technological innovations and social change. In order to consider future objectives, an ability to forecast the future became an essential part of the corporate planning process (Argenti, 1968). The reductive scientific approach to corporate planning and the need to forecast developed the desire to incorporate 'management science' into the planning process.

Following corporate planning we come across 'business policy' used by Charles Lindblom (1959) to mean 'a way forward with respect to an organisational issue'. Lindblom (1959) suggested corporate planning processes were not really practised, as they were impossible to carry out, too costly and too time consuming. Lindblom's (1959) observation was that organisations made policy in incremental steps, such that ends and means are intertwined according to current possibilities currently available and not some predetermined goal. The analysis of options is drastically limited due to the complexity of the problems that organisations face. For Lindblom (1959) the choice of a pathway forward is based on successive comparisons of the organisation's current position with the next available option(s). In simple terms consider the following question – why are you learning about strategy?

Question (Objective)	**Possible Response (Strategy)**
So what's the objective of learning about strategy?	It's my strategy to pass a module in strategy
So your objective is passing this module?	No, it's my strategy to pass my degree
So your objective is to pass your degree?	No, it's my strategy for getting a better job
So your objective is to get a better job?	No, it's my strategy for having a better life
So your objective is to have a better life?	

Fill in some questions and answers of your own to see what you are doing with your life. You may end up discussing children and grandchildren or world fame or living forever or being rich or being happy. But the point you've probably noticed is that means and ends are intertwined, objectives become strategies to achieve other objectives that become strategies… Try it for your organisation to see where you are going and see if you think strategies are supporting objectives.

Ansoff (1969) develops a definition of strategy as:

> "…a set of management guidelines which specify the firm's product-market position, the directions in which the firm seeks to grow and change, the competitive tools it will employ, the means by which it will enter new markets, the manner in which it will configure its resources, the strengths it will seek to exploit and conversely the weaknesses it will seek to avoid. Strategy is a concept of the firm's business which provides a unifying theme for all of its activities." (Ansoff, 1969:7)

Tilles (1966) suggested that a 'plan' might be restricted to what the organisation felt it could control and consequently ignore areas of less certain analysis and decision-making that are the crux of a 'strategy'. The consideration of the actions and responses of other firms in an industry underpins the classical notion of 'business strategy' as 'competitive strategy'. Tilles (1966) also posited that it was important 'senior management' were fully involved in the formulation of the strategies they would be implementing rather than simply being directed by a separate corporate planning department.

Currently the term 'strategic management' could be defined as – the way in which the organisation engages in the process of positioning itself within its environment, to pursue its purposes in order to ensure its continuing survival. Strategic management is interested not in the specific direction of the company and its plans but rather with the ability to cope with change and the exigencies of the environment.

Classical approaches (Ansoff, 1968: Porter, 1980) use as their underpinning the idea that the ultimate goal of business is return on investment (ROI). Using classical economics it suggests that this end can be achieved through rational planning. It therefore relies on notions of organisations operating as machines using cause and effect to marshal the firm's resources and activities to increase profit. This view of the firm echoes back to Taylorism in that the activities of the firm are broken down into their perceived constituent parts such that they can be studied, repaired or carried out more efficiently according to a scientific approach (Taylor, 1947). We understand the whole by breaking it down, understanding the parts then putting it back together – this reductionist approach may miss the fact that the whole is often greater than the sum of its parts.

Similarly with classical strategic management the thinking of strategy (strategising) is separated from the doing of strategy (strategic action), this is particularly prevalent in the public sector (Goldsmith, 1997). The separation fits with the economic view of hierarchy as a way of organising the firm. Here, top managers think about and/or design strategy whilst mangers lower down in the hierarchy implement and deal with the operational aspects of the strategy. Chandler's (1962) famous 'structure follows strategy' aphorism sums up this 'top down' approach. This again implies a separation of the thinking and doing which in turn implies that some people can do strategy whilst others can't and so must follow those that can.

If we consider the hierarchy as a pyramid or in a slightly different topological form as a sort of spider's web, then central to this doctrine is the person at the apex of the pyramid or the person at the centre of the web. Here there are echoes back to the military past, as this structure needs a 'general' a strategic manager. This often-enigmatic lonely genius is the capable talent without whom victory would probably be lost. Hollis and Nell (1975) defined the behaviour of this archetype as 'rational economic man'. Rational economic man is an entrepreneurial individual operating in a rational economic environment, organising resources to achieve an optimal economic advantage.

Taking this theme further, the mathematical economists von Neumann and Morgernstern (1944), in their 'Theory of Games and Economic Behaviour' had the effect of reducing complex strategic problems to the level of puzzles. These puzzles could be solved scientifically; echoes of this can be seen in strategy thinking with the proliferation of 2×2 matrices and quasi-mathematical techniques.

The hierarchical structure also suggests that there is the possibility in an organisation that an individual or a few carefully chosen individuals can orchestrate the running of that entire organisation. For this to be so there would need to be very powerful control mechanisms in place and the hierarchy would have to be clearly defined and adhered to such that the machine metaphor would dominate the organisation's practice as well as its thinking.

1.3 Processual Approaches

Processualism, which according to Whittington (2001) followed classical strategy, suggests that the most likely decisions to be adopted within an organisation are those that attract the most powerful support:

> "This means that decision making is likely to reflect a response to local problems of apparent pressing need as much as it will reflect continuing planning on the part of the organisation." (Cyert and March, 1963:79)

Processualists (Cyert and March, 1963: Pettigrew, 1973, 1985: Mintzberg, 1978) are pessimistic over the success of classical rational planning and are less confident about the potential of markets to ensure profit maximising than the evolutionists. They believe that you have to deal with the world as it is now and focus on the inside of the organisation in terms of micro-politics and the cognitive limits of rational action. Processualists adhere to bounded rationality and bias rather than the idea of rational economic man. These considerations countenance satisficing, which falls much more in line with human behaviour than the optimising of classical strategy. Humans tend to satisfice rather than optimise, that is we settle for as close to optimum as we can realistically get to, accepting our limitations and the (no less valid but conflicting) desires of others to achieve their optimums.

Bargaining between different individuals and groups within the organisation, developing into power struggles. Compromise solutions, epitomizes strategy in a processual environment. The result being that strategy emerges from a mesh of compromises and development of internal processes. The strategy the organisation ends up with is often not one that any individual or group desired. Each participant will have not won or lost but hopefully ended up with a strategy they can live with or are comfortable with. They have 'satisficed' – a comfort zone emerges where each protagonist is prepared to exist. Perhaps mischievously you could argue that processualists are classical thinkers who periodically have a big fight (negotiation) before settling on their agreed outcomes.

For processualists too much environmental scanning can be divisive, time consuming and never complete enough to facilitate rational decision-making. Further the cost of decision-making can be greater that the benefit it may bring i.e. is it worth spending £100 000 doing a cost benefit analysis to buy a machine that will save £1000 a year? Strategies for the processualist are not chosen but programmed into the organisation, as many options are not open to the organisation due to its own nature. To processualists, strategies are merely managers' simplifications of a complex chaotic world and strategic plans and procedures act only as a comfort blanket.

The processualists differentiate between organisational decision-making and individual decision-making theory to assume a learned set of behaviour. Organisational decision-making can be considered in terms of:

1. Multiple, changing, acceptable-level goals. The criterion of choice is that the alternative selected meet all of the demands (goals) of the coalition.
2. An approximate sequential consideration of alternatives. The first satisfactory alternative evoked is accepted. Where an existing policy satisfies the goals, there is little search for alternatives. When failure occurs, search is intensified.
3. The organisation seeks to avoid uncertainty by following regular procedures and a policy of reacting to feedback rather than forecasting the environment.
4. The organisation uses standard operating procedures and rules of thumb to make and implement choices. In the short run these procedures dominate the decisions made (Cyert and March, 1963:113).

Organisations learn slowly or quickly dependant on success or failure in an iterative manner using complex internal feedback loops rather than environmental scanning or prediction.

1.4 Evolutionary Approaches

Whittington (2001) suggests that evolutionary strategy followed processual strategy as the next important school of thought and practice.

If classical thinking takes its underpinning or philosophy from the hard science of physics then evolutionary thinking takes from biology. Evolutionists (Hannan and Freeman, 1977, 1989: Williamson, 1984) don't accept the notion of rational planning they believe that market forces will ensure profit maximisation and survival of the fittest. The idea here is that organisations are merely ecads[3] and that evolution is nature's cost benefit analysis. Darwin's theories of natural selection offer an organic metaphor as an alternative to the machine metaphor of classical thinking.

Evolutionists suggest a downgrading of managerial strategy in favour of environmental fit, as markets not managers determine the most appropriate strategy. This type of contingency theory – that the firm's strategy and success is contingent on the environment has been undermined by research into the top global performers (Morrison and Roth, 1992; Roth, 1992). Many large firms are able to control their markets to a greater or lesser extent and so for them success is a second order issue of choosing a market rather than being chosen by a market. If this degree of control is not available then they can at least influence the position in the market they find themselves in (Bourgeois, 1984).

Evolutionists feel that strategy is too expensive and long-term strategies will be undermined by the short-term strategies of the competition especially if they are lower cost strategies. Evolutionists suggest that economy is the only strategy and that elaborate plans are mere delusion as they can be copied easily. Anyone with £20 can buy a book on how to do strategy. Usually the book will be based on how someone actually did it and so will have some use in developing your strategy or counter strategy. Evolutionary strategy suggests that it is better to let the environment choose the strategy rather than the manager.

The underpinning of evolutionary strategy is that of biology moderated through sociology. Here evolutionary strategy does not use evolutionary theory but a kind of social Darwinism. Darwin's theories of natural selection have been interpreted in different ways for example the notion of 'survival of the fittest', which implies 'only the strong survive' may have alternative meanings. Fit can mean 'healthy' or 'strong' but it can also mean 'match'. 'Survival of the fittest' is more likely to mean 'only those that can fit in with their environment survive'. The organism changes iteratively to continually 'fit' in with the continually changing environment.

1.5 Systemic Approaches

Systemic approaches (Granovetter, 1985) accept the idea of transformation and purpose of the organisation but believe them to be embedded in the social/political/cultural structures of the organisation. For systemics decisions are not made separately from the normal functioning of the organisation. Behaviour may not be rational in the classical sense but is perfectly acceptable to the local decision makers. A simple exercise may be useful to explore these notions at a national level.

You are probably familiar with the automobile company Mercedes Benz, if so pause for a moment and consider the company, its brand, what it stands for etc. Could you imagine Mercedes Benz being a Spanish company? The reason that you probably cannot is because Mercedes Benz is bound up with germaness (whatever germaness is) or the perception of German national qualities. Similarly it is difficult to imagine a Swedish Coca Cola. It is not only national characteristics or culture that can promote or constrain behaviour. We find it equally difficult to imagine 'The Accounting Department Christmas Party' or 'The Sales Department Ethics Sub-group'.

On the set of 'It ain't half hot mum' the British situation comedy about an army concert party set in colonial India, the actors would have lunch and tea breaks in the canteen. The actors playing the officers would sit on one table whilst the actors playing the other ranks would sit on another table. Even though the situation was fictional and all the actors were equal they fell into a role-play within a role-play that they were all familiar with. Their actions were instigated from a position of embeddedness in a perceived social order.

Systemic theorists don't believe in profit maximisation as a choice (as do classical strategists) or because they are obliged to (as with evolutionary strategists). And they don't accept the processual approach that suggests strategy is a result of internal compromises and idiosyncrasies. Systemists believe that strategy is guided not so much by bounded rationality or micro-politics but by cultural rules, purpose, social interests and the resources of the surrounding context.

1.6 Reflecting On 'Different' Schools Of Strategy

Whittington's (2001) model can be reconsidered in terms of chronology and maturity so that the 2x2 matrix of demarcation, which is perhaps a classical interpretation, can be structured as a model of evolving. We start with classical management and the notion of the organisation as a machine being driven towards the obvious goal of profit. We then have an obvious and simple interpretation of an organisation given credence by an industrial revolution and the pervasiveness of mass production in the western economies. The classical model has deficiencies i.e. that people not machines populate organisations. We might address the organisation as a reaction to classical thinking by consideration of people and their needs (Maslow, 1954).

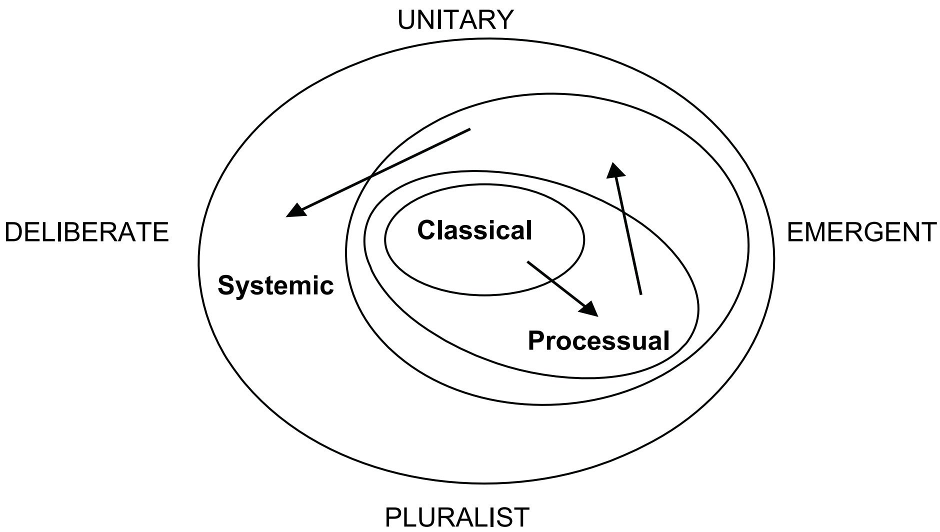

Figure 1.5: Interpreted from Whittington's (2001) Model

The organisation becomes conscious so cognition and politics take over (in processual management) from the strictures of the machine. We move then partially as a reaction to the humanistic model to the 'harsh realities' of the market and the need to survive. The organism replaces the machine and the exigencies of the environment replace the psyche of the administrative bureaucracy. Evolutionary strategy sees the organisation as a living thing (e.g. as with a tree) or as a super-organisation containing living things (e.g. as with a beehive). The machine metaphor and the political metaphor need to be moderated by a life metaphor and so evolution displaces physics. Now that the organisation, from processualism, is established as thinking it can be a social reflective creature with a history, a culture and a future that it can think about. The limits of processualism require a more advanced model that systemic management can offer. This interpretation could be used to revise Whittington's model as outlined in Figure 1.5.

Clearly Whittington's (2001) model is an excellent tool for the consideration of different schools of strategic thinking. Figure 1.5 in no way attempts to detract from Whittington's (2001) model, Figure 1.5 simply outlines the possibility of different perspectives.

We see from Whittington's (2001) model a separation of schools of thought that may give us the impression of demarcation and order in the process of thinking about strategy. The idea that some people are classical and others are evolutionary. This demarcation (or switch) could be exchanged for a model of growth and development of strategy, where once we were classical in our thinking but now we are evolutionary. This does not necessarily mean that the classical thinking has gone away. It may have become vestigial to our current being or usefully forgotten into our organisational culture or individual subconscious. This may be explained in terms of Hegelian aufheben – that the new organised form negates yet retains the original in an improved being.

We see here the process of recursion in that if we are systemic strategists now then systemic strategy holds classical, processual and evolutionary strategy to make sense of them – that they have been negotiated into our individual subconscious or organisational culture.

The model in Figure 1.5 accepts that a new school of thought may be developed from an existing school of thought but the original thinking does not go away. Whilst you might prefer a particular approach to dealing with a problem it does not mean you are unable to use others, or are always precluded from using them. The revised model is cumulative in that processes are accepted as existing within others. The possibility exists that pluralists might sometimes wish to be unitary or vice versa and classical managers might wish to wait and see what emerges. Theory does not always stand in the way of practice.

Barley and Kunda (1992) suggest that management thinking swings from normative to rational rhetoric's of control. Our model could (potentially) be revised in the light of the industrial betterment movement to scientific management to welfare capitalism/human relations to systems rationalism and organisational culture/quality. This fluctuation model may be a further explanation of Whittington's (2001) matrix. In that a reaction to the unitary (profit maximisation) of classical strategy was the pluralism of processual strategy. That in turn, due to the suppression of the importance of profit, causes a reaction in favour of profit to give (in a more competitive market place) evolutionary strategy. Again the pre-eminence of profit spurs on a backlash in a more global market place to give a more pluralistic systemic strategic approach.

We could further discuss the ebb and flow of the thinking of academics, gurus and practitioners from economics to organisation theory in search of a greater understanding of strategy – such that strategy fluctuates between a consideration of the industry and the consideration of the organisation:

- Classical strategy sees the planning (and control) as the focus of our thinking;
- Processual strategy sees the organisation (power, cognition) as the focus of our thinking;
- Evolutionary strategy returns to the market as the focus of our thinking and;
- Systemic strategy returns to the organisation as the focus of our thinking whilst considering the environment in terms of culture and sociology rather than economics.

We could of course criticise or re-interpret this evolutionary or social fluctuation model of thinking using a 'postmodern' approach. We could argue that a more complex or even chaotic model that sees causal links replaced by correspondence, and chance supersede cause and effect. In this model Rolf Harris can go from loveable, mild mannered didgeridoo playing, paintbrush wielding, three-legged antipodean entertainer into an animal welfare expert over the course of a BBC light entertainment series. We see that what has gone before is not necessarily a predictor of what will happen next and our current perceptions and nostrums may have only temporary validity.

1.7 Summary

The chapter has attempted to explain potentially different schools of strategic thought to show that strategy can mean different things to different organisations or different people. You may wish to buy into one or more of these approaches or search for or create an alternative.

In consideration of the interpretation of strategy schools of and how we might reflect on them, it is important to remember that there are not four schools of strategic management. It is Whittington's (2001) view that there are four schools of strategic thought and that this might be useful as a starting point for our thinking but we need to develop our own perspectives and understanding.

2 Strategic Management: Models And Ideas

James Rowe

The purpose of this chapter is to consider: what are the tools of strategic management? And how do they work? This chapter is a sort of shopping list of the more common strategy tools you might come across.

As seen from Whittington (2001) classical strategic management was at its peak in the 1960s but it is the culmination of centuries of western, largely Anglo-Saxon management, social and scientific thinking. Whittington (2001) suggests that classical management is defined primarily in two ways. Firstly it is voluntarist, that is to say the strategic manager is in control of his/her actions and outcomes. Strategic management is something that you can do (or cannot if you don't have the skills) and not something that happens to you and not something you do passively.

Classical strategic management is like driving your car to a desired destination rather than living with the weather. And secondly it is unitary, that is it is concerned with one thing, in this case, profit maximisation. From these two maxims of voluntarism and profit maximization classical strategic management can be defined simply as the thinking and actions of managers in organisations that maximise the profit made by that organisation.

2.1 Profit Maximization

From the famous Milton Friedman quote "the business of business is business" evolves the idea that the sole purpose of business is to make a profit. The idea that the purpose of business is profit seems intuitively correct, it appears fundamental There is no need to question this nostrum it is obvious, even charities make a profit, it might be a profit of one euro or one dollar or one pound sterling but making no profit may mean making a loss and that would clearly be death for the enterprise. If however we look at this notion of profit several issues arise.

Firstly, there is no agreed definition of profit. An accountant might argue that profit is income less costs. An economist might argue for the inclusion of opportunity cost i.e. what you might gain if you did something else with your investment. Norburn and Grinyer (1973–4) discovered in their research that whilst there was almost universal agreement amongst the company directors of large British firms that the purpose of business was profit – there was little agreement on how profit was actually measured.

Secondly, profit maximisation infers the notion of optimum; and optimisation in mathematical terms would require the use of differential equations to determine the variables that most affect profit. Then using this information to make decisions in relation to the adjustment of these variables, if they are controllable, which of course they might not be. There may in fact be too many variables to control or the variable we need to control may be beyond our scope.

The situation appears to be as follows – we are not really sure what profit is and secondly we might not be able to maximize on it. However, just because we cannot do the maths doesn't mean we are not profit maximizers – we are not all accountants but we manage to stay in the black (just) every month. Maybe intuitively we maximize in the same way that we don't live beyond our means? The problem with this argument is that is that the evidence is against it.

If companies profit maximized then the most popular company car would be a bicycle and owners of companies would be selling their organisations for this in reality is the only form of profit maximization that would be guaranteed to work. Russell Ackoff suggested that the only true objective of an organisation or an individual is 'to survive well'. This maxim accommodates profit maximisation as long as we don't go too far and make our lives a misery in attempting to achieve it.

Considering the purpose of managers as opposed to the purpose of the owners, Marris (1964) observed that given the choice managers optimise on growth rather than profit. Optimising on growth offers greater security in size, personal prestige and often correlates with higher salary.

This, Marris (1964) suggests is at loggerheads with the owner's strategy. This idea was supported by the study of the oil industry by Grant and Cibin (1996) who observed that the oil crisis of 1973/4 caused a restructuring and realignment of the oil industry. The restructuring didn't come immediately but almost a decade later. Grant and Cibin (1996) suggested that environmental change on its own will not overcome organisational inertia – but a fall in profits that undermines top management's security of tenure will become a primary trigger for change. Top management did not act until it was threatened itself even though the need for change in the organisation was clear – in the oil industry case due to a universally accepted 'crisis'.

In recent times this gap between management and ownership has been added to or further explored in terms of stakeholder (Hutton, 1995) rather than just shareholder analysis. The stakeholder perspective broadens the argument that the purpose of business is to maximise profits for shareholders – to that of managing the tensions between the competing interests of various stakeholder groups. These groups include; shareholders, employees, customers and suppliers (Campbell, 1997), though often the stakeholder groups are expanded to include government, the local community, pressure groups, trade associations, banks etc.

Often the discussion between the two perspectives evolves from a sort theory X, theory Y argument in relation to profit versus responsibility; de Wit and Meyer (1998) explore this approach. However this work takes Whittington's (2001) unitary/plural axis as its reference point. The shareholder, stakeholder argument is encapsulated in a discussion between John Argenti (1997) and Andrew Campbell (1997). Some of Argenti's (1997) key points may be summarised as follows:

1. Only shareholders (and regulators) have legal rights over a company – they can sack the management in extremis;
2. Only shareholders are a homogenous group – they are all equal unlike customers, employees and suppliers, so who are the stakeholders? The theory doesn't tell us;
3. Stakeholder theory equivocates over the relative importance of stakeholders i.e. is one shareholder worth three employees when sharing profits;
4. Historically, an unfocussed management doesn't work and divergent purposes cannot be measured in the way that profit can;

Argenti's (1997) reasoning rests on the philosophical foundation that:

> "…the sole purpose of all human organisations is to deliver a satisfactory benefit to a specific set of human beings…" (Argenti, 1997)

This, he suggests, translates into meaning that schools are there purely to educate children and not for the benefit of teachers or publishers. Hospitals exist to cure patients not for doctors and nurses or pharmaceutical companies. Trade unions exist to back workers etc. If this were not the case then Cancer Research might as well merge with United Tobacco.

Some of Campbell's (1997) counter views are summarised as follows:

1. Argenti's view of organisational purpose is too simplistic. It is necessary and desirable to make profit for shareholders but it cannot be the raison d'être of the company as nobody would want to work there;
2. We don't need to be told who the stakeholders are – it's management's job to work it out;
3. It's management's job to determine how important each group of stakeholders are and decide what benefits each stakeholder group should receive;
4. Historically a management that only thinks of high dividends today may be on the brink of collapse tomorrow and common sense would suggest that managers cannot risk losing customers in favour paying greater dividends.

These arguments are valid in themselves; however Whittington's (2001) unitary versus pluralistic dichotomy allows a more generic perspective. To suggest that the 'purpose of business is profit' is akin to suggesting that the purpose of mankind is to eat. Clearly if we don't eat we will die but someone who lived to eat would be considered to have physical or emotional problems.

Looking at Argenti's (1997) examples of the school, the hospital etc. it is noticeable that none of the purposes he lists were profit maximization. Thus it is difficult to distinguish having profit maximization as a single goal from the idea of having any single goal. The two appear to be synonymous. However, hospitals cannot have a single goal, they must serve patients but hospitals cannot ignore the notion of profit, even if the profit is marginal, hospitals cannot be profligate in their endeavours to serve patients.

The unitary purpose idea also falls foul of reality. During periods of high competition, for example, survival through cost and price-cutting or growth or acquisition, all of which may well reduce profit, are likely to be welcomed by shareholders looking for long-term investments rather than quick profits.

What evolves from the shareholder versus stakeholder debate are not necessarily the advantages of one theory over another, but a more fundamental reflection of the generic problem of rationalizing complex problems down into simple ones. We may have to accept a more complex reality at face value and attempt to find models that facilitate holding the complexity, even if the various aspects of the model cannot be quantified in terms of profit or another single metric.

2.2 Models and Paradigms

The classical idea that the purpose of business is profit could be considered as a model for running a commercial organisation. This model (notwithstanding the criticisms above) would be useful in helping the managers of the company to run it successfully. It might be useful at this point to consider what models are, why we use them, when they become paradigms. We can then look at some of the more popular strategic models.

A model can be defined as an 'intellectual construct designed to simplify a complex reality' and a paradigm can be defined as a 'socialised model'. Whilst definitions are useful the following scenario may clarify the practical implications. Consider you (the reader) need some information or need to carry out some kind of human activity – suppose you are a student of management.[4] Say you are reading this text as preparation for your next seminar or activity on strategic models or for revision.

You then are using a model. What is this model and why use it? The model is fairly simple, teachers know something and you want to know it too. So you go to their classes and learn from them. The model has certain rules, teachers speak, students listen, students ask questions, teachers explain, students require confirmation, teachers explore exemplars and so it goes. If we deconstruct this model or look more widely we find much more complex perspectives and underlying assumptions but let's just keep it simple for this exercise.

The model is not linear, as asking questions and getting answers, and doing assignments and getting feedback close the loop. So where did this model come from? Without getting into a chicken and egg debate going further back than amino acids in primordial soup the obvious starting point would be childhood.

Since the very first over eager relative leant over your cot and attempted to dismember your toes to the strains of 'This little piggy went to market, this little piggy stayed at home…' you have engaged in a teacher-learner relationship modelled as outlined earlier. This text is simply a surrogate for your overbearing relatives – this of course is a crude analysis but fairly close to reality. You have become so used to this model that you and a group of your peers are 'happy' to sit in lecture theatres or classrooms and listen to a teacher espouse their (or other peoples') ideas often without question. The model has become socially accepted you consider it 'normal', accept it without question and has therefore become a paradigm. We may find it easy to choose between MRP and JIT as models of production – but if your economics teacher wished to explore supply and demand through the medium of avant-garde trombone and whippet barking you might find this paradigm shift difficult to accept.

Models then make complex realities easier to deal with. Every time you meet a teacher in an education establishment you don't have to start from scratch in working out what your relationship with them will be (or them with you) because you have a model of behaviour. Think how easy it is to talk to your teacher compared to chatting to a stranger in a pub where the model may be asymmetrical (i.e. not the same for both parties). You may have found subtle differences in teacher/student model over the years such as less formality with your teachers but the model has endured fairly well. This model of behaviour may even be enshrined in a Student Charter or other such documents. These models may become paradigms if they become accepted in to general social behaviour and paradigms are more difficult to change than models for this reason.

Taking the earlier definition of a model 'an intellectual construct designed to simplify a complex reality' some technical issues should be made clear as they impact upon the efficacy of models when used in strategy (or in general). A model is a model and not reality, this seems simple and obvious but forgetting this idea will allow models to take over your thinking rather than be useful to it. An example from Steve Wright and Heinz von Foerster may help to clarify this.

The American comedian Steve Wright once said 'I've just bought a map of the world and it's full size'. His point was that a map of the world that was full size would be an unusable global blanket; the map would not help you in navigation, as it would not simplify reality enough for you to make decisions. So the model (a map) necessarily loses some of the detail or scope of reality in order to be helpful. This is OK if the model doesn't lose stuff you might need and as long as you don't then take a model and use it for something it was never designed to do; without checking that the two realities are similar enough.

What we see here is that a model (as with an organisation) has a relationship with its environment; i.e. there is a second-order relationship to be considered. A strategic model is a simplification of a strategic situation to enable things to be said about that situation but the use of the model is validated by the environment, for example take the simple piece of algebra:

$$\mathbf{5+7=14}$$

Prima facie the equation seems wrong, five plus seven is equal to twelve, we know this from primary school. However what is missing here is information about the environment, which has been filled in automatically without thinking. The information we need to make the formula correct is that it is in[5] base eight, so instead of 1-2-3-4-5-6-7-8-9-10-11-12… etc. we have 1-2-3-4-5-6-7-10-11-12-13-14… etc. A pre-decimalisation education in the mysteries of feet and inches, pounds and ounces and yards and chains would help here. What we see is that whilst we are involved in the process of adding five and seven together; it is the environment (base 10 or base 8) that makes it correct. It is important to consider the model in its environment and not just the workings of the model.

The becoming of a paradigm is perhaps best explained with another example this time from Wittgenstein. The question here is:

Will the sun rise tomorrow?

The answer seems obvious – yes! The sun rises every morning and has done for millions of years (about 10^{10} years) so clearly as long as we don't allow for tricks like 'not if it's cloudy' then the sun will rise tomorrow. Of course the answer is 'no the sun will not rise tomorrow'.

The reason for this is that relative to the earth the sun is fixed, in fact the earth is rotating on its own axis whilst precessing around the sun such that if you stand on the earth's surface it looks like the sun is rising.

You almost certainly knew this already but due to years of unquestioning use by yourself and others this 'sun rising' model has become a paradigm. Even after being reminded of its falsity you will still see it this way. So that if your partner woke you up at 3:30 on a Sunday morning and suggested that you drive down to the beach to watch the earth rotate on its own axis whilst precessing around the sun. You'll probably beat them around the head with the alarm clock due to the lack of any romantic allure in such an idea. What also develops out of this example is that though the sun looks like it is rising it isn't. This causes further difficulty when using models as very often they may look reasonable in terms of modelling reality but they are often flawed; in short just because it looks like that, doesn't mean that it is.

2.3 Strategic Models

As with all models, strategic models are designed or acquired to simplify the complexity of everyday life for some purpose, such as making decisions. When we engage in strategic activity there is a problem of understanding where you are now – the company's current position, where you want to be – what you want to do next or be next and how to get there – how these possibilities are realised. Classical strategy sees two primary ways to deal with the complex reality.

Firstly, reduce the problem down into its constituent parts, work on these parts separately then bring the answers back together and all of the little answers will give one big answer. This reducing (reductionist) technique is common in management science and is used in project planning and forecasting when numbers are attached to each step of the processes. The second approach is to use a simplifying model superimposed on the reality that allows certain things to be said about the situations. These models may have predictive qualities that will enable decisions to be made which will have known outcomes i.e. more than guesses.

The 'where are we now?' of the organisation relates to the outer system of economic, social, political, competitive and industrial sector dynamics as well as the internal context of cultural, structural and political processes. The most common models used for understanding the situation or thinking about 'Where are we now?' are environmental scanning models such as SWOT (strengths, weaknesses, opportunities and threats) and PEST (political, economic, social and technological) sometimes PEST becomes PESTC if culture is also considered.

Before using SWOT or PEST there are some basic ground rules to consider. PEST scans the outside of a company or industry and SWOT scans the outside and inside of a company or industry. There is clearly a need to know what is inside and what is outside. In the current milieu it is sometimes difficult to know what is inside and what is outside, for example in the earlier discussion between stakeholder and shareholder analysis the difference between what is inside the company and outside might appear clouded. C. West Churchman's simple checklist is useful here as it causes a reflection on the system in focus, in this case the company or industry and its environment. Answering the following questions may shed light onto the analysis:

1. Does it affect my system?
2. Can I control it?

If your answers are 1-Yes and 2-Yes, then it is inside the boundary of your system. If your answers are 1-Yes and 2-No, then it is in your environment. If your answers are 1-No and 2-No, then you may not be interested in it at all.

So for example if you are Ford Motors then you might reflect:

1. Does General Motors affect my system?
2. Can I control them?

Your answers would probably be 1-Yes and 2-No so in an analysis of Ford Motors, General Motors would need to be considered in the environmental scan. However, the analysis would probably fall short of including say Rolls Royce, something rarely heard in a car showroom is 'I just can't decide between the Silver Cloud and the Ka.' So that whilst the car industry in general may be a consideration (in terms of rules and practices) it would be pretty reasonable to suggest that Rolls Royce are not in Ford Motors immediate environment.

To a degree the last example is fatuous though the distinctions are not always so clear. Many people now feel stronger allegiance to professional bodies or colleagues outside of their companies than to the company that pays their salary. The Internet has added to this blurring of boundaries between groups of people in organisations; it's as easy to work with someone three thousand miles away as three hundred metres.

2.4 Scanning Models: PEST Analysis

Essentially PEST analysis reduces the environment to Political issues (party politics, legislation, regulations, watchdogs etc.), Economic issues (national growth rates, inflation, interest rates, exchange rates, level of consumerism, unemployment, labour costs, infrastructure costs), Social issues (demographics, income distribution, social values, 'green' agenda, education, work and leisure attitudes, health) and Technological issues (R&D expenditure, horizontal and vertical integration, rate of technology uptake/transfer). These dimensions or lists are applied to particular cases in order to understand how environmental factors can affect strategy development or affect its successful implementation. Ultimately PEST is subjective and so relies on the quality of the individual application of the model, it is reductive and so interrelationships need to be developed in the analysis. PEST uses historical data and therefore relies on slow or no change in the environment to make the process meaningful.

2.5 Scanning Models: SWOT Analysis

SWOT (strengths, weaknesses, opportunities and threats) or its variants – WOTS (Steiner, 1979), WOTS-UP (Rowe, Mason, Dickel and Snyder, 1989) and TWOS (Delbecq, 1989) is an extremely popular situational strategy tool. Teilhard De Chardin (1959) suggested that the analysis of anything requires that we find out something about the inside of it and something about the outside of it. SWOT analysis is grounded philosophically in this idea though the relationship between the inside and outside is not so clear.

Analysis of *strengths* and *weaknesses* constitutes the internal analysis and *opportunities* and *threats* the external analysis. This seems reasonable in the light of resource-based thinking (Penrose, 1959; Wernerfelt, 1984) and market positioning (Porter, 1996), as SWOT appears to bring the two together, however the boundary conditions are not clear. For example consider a potential strength such as 'a well trained workforce'. This is a strength in relation to a poorly trained workforce but how would you find this out? It would not say on all of your competitors' balance sheets and hearsay evidence could be misleading.

If whilst in the pub on Friday night someone suggests that they are stronger than you, you might reasonably roll up your sleeve, plant your elbow in the middle of the nearest table and demand an arm wrestling bout to settle this claim. Companies rarely get the chance to satisfy their curiosity in this way. Here is the problem of the boundary condition – matching the unmatchable. Notice that arm wrestling matches strength against strength not strength against opportunity or threat.

If a firm understood it had strengths in relation to the weaknesses of firms in its environment then this would be useful information on which to act. If you knew your arm wrestling opponent was a big softy and that you were stronger than them – or if you had just come back from Iceland after retaining your 'arm wrestling champion crown of all Reykjavik', you would have information on which to base you future actions. You could for example place a bet on the outcome of the bout. SWOT analysis does not focus on this simple relationship and thus obfuscates the real problem that strengths and weaknesses are often not measured absolutely or relatively against the environment, though to be meaningful they should be.

Opportunities and threats are perceptions of things that only might be. In relation to an opportunity you would have to do a strength-strength analysis first to see if there was an opportunity you could take advantage of. Here there is a problem of second-orderness in that an opportunity is something that is available in the environment only because of a mismatch of strengths between the company and its environment (its competitors or regulators). Figure 2.1 may offer a more practical interpretation of SWOT analysis where opportunities and threats emerge from a comparative analysis of relative strengths and weaknesses between a firm and its environment.

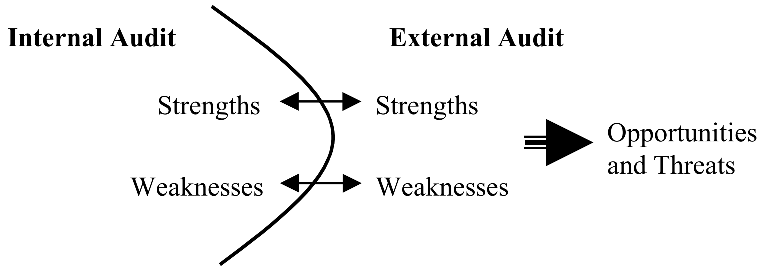

Figure 2.1: SSWWOT Analysis

SWOT is also reductive in that it reduces the internal complexity of an organisation down to strengths and weaknesses and the external complexity of its environment down to opportunities and threats – which loses the richness of the real situation even compared to PEST; which is in itself reductive. SWOT is still very popular and Johnson and Scholes (1997:173–5) outline the use of SWOT with some guidelines for users, which are well worth looking at if you wish to carry out a structured analysis.

Comparing the tools, PEST is externally focussed and tends to have an economics bias with the environment labelled specifically. SWOT is more generalist in nature and is also looking on both sides of the organisation's boundary. SWOT is more subjective where PEST is more prescriptive. PEST is conceptually easier to use as it clearly directs the user to the appropriate areas of concern. As you are more carefully directed your actions are more precise however the tool may not fit the situation completely.

The more flexible tool (SWOT) is easier to bend in into the demands of the situation, however you may not cover the scenario comprehensively or misuse the tool inadvertently. SWOT is a comparative tool that can be used throughout the strategy process whilst PEST is a front-end analysis tool that helps to set the scene. PEST is concerned with the constraints placed upon you whereas SWOT is more dynamic. SWOT is more firm specific as it considers the forces for and against across the boundary between the firm and its environment.

2.6 Mission Statements

Mission statements are a way of defining the raison d'être; the essential overriding purpose of an organisation or its overriding aims, that Porter (1996) suggests we often lose sight of in our rush to improve productivity with operational tools such as TQM, BPR etc. They range from being symbolic such as:

'Our mission is to kill… Porsche, Reebok etc.'

To the much more detailed and specific:

> 'Our mission over the next five years is to increase our global business from 10% of our overall business to 30%; by acquisition in Europe and partnership in the Far East, whilst increasing dividends to our shareholders by 2% per annum.'

Both forms of mission may make organisations hostages to fortune in that they have laid their cards on their shareholders and competitors table. The symbolic mission whilst perhaps inspiring is not necessarily helpful to managers within a company at a functional level; how does a production manager at Mercedes Benz contribute to 'killing Porsche' for example. The seemingly simple, clear mission is in fact quite complex to interpret. Simple generic missions that can be interpreted wherever you are in the company do have an impact. An example of this is a company in the North-East of England, which in developing from start-up to a mature plant went through several missions over a few years.

Initially the mission was to 'Build more machines more quickly'. This first mission was the company motto to get production levels comparable with sister plants around the world. The mission permeated all departments such that the company sustained losses initially rather than lose out on market share. Once production levels were acceptable a new mission was designed, 'Improve quality' became the new motto. The new mission is again reasonably generic to most functions of a company in relation to procedures and practices of administration, the quality control of production and the quality of goods bought in by Purchasing. The final mission was 'Cut costs'; again little explanation is required as to the relevance of such a mission. Managers and workers in the company were always clear about what the company was focussing on at any given moment in time and this allowed for resource allocation and decision making to be underpinned by the company philosophy at that time.

The logic of this example is fairly clear, the company needed to get a market share. Then it needed to make sure its reputation in that market was a good one in relation to quality (as well as reduce the possibility of returned products). Finally it needed to reduce cost of production and distribution to avoid wasted resource expenditure. The mission though symbolic was generic enough to be meaningful to most employees of the company, there are few departments in a company that would not see the implications of improving productivity, quality or cutting costs, equally there are few shareholders that would not see the implications of such missions.

More detailed missions statements often require more interpretation or allow some parts of the organisation to dismiss them as irrelevant.[6] Critics of (particularly complex) missions suggest that they are often instantly forgettable and rarely useful (Goett, 1997). Mission statements may often grow to include value statements or commitments. The growth of the mission adds to the likelihood that they will be ignored. Detailed missions have a further problem for strategic managers in that if commitments to dividend or profit margins are not honoured then shareholders and/or stakeholders may feel aggrieved and moved to take corrective measures.

Managers therefore need to reflect carefully on the content and implications of their missions. If used sensibly however mission statements can act as a mental model or a datum that thinking and action can reference to. In team games, the team may espouse their credo of the team coming first or mental toughness and maturity. When the 'man-of-the-match' is interviewed after the game they will often point to the team play that made them look good or suggest another colleague should have won the accolade. Sometimes golfers imagine a perfect drive shot or footballers imagine the perfect free kick bending into the top corner of the net from 30 metres. This 'imagining' is used to develop routines that help improve or even perfect desired outcome or processes. Similarly mission statements may act to instil or create mindsets that organisations can use to improve or turnaround organisations (Jones and Kahaner, 1995).

2.7 Time Based Models: Industry/Organisational Lifecycle

There are numerous interpretations of lifecycle models; Withane (1997) reviews eleven organisational models to develop an evaluative framework (see Withane (1997) suggests that during the infant stage niche operation, informal structures, centralised authority, identity creation, short-termism, and passive environmental relationships characterise organisations in their struggle for survival. During the adolescent stage specialisation, institutional procedures (e.g. quality), delegation, broadening horizons, product innovation and attempts to influence the environment characterise organisations in their struggle for control.

During the adult stage innovation, formalisation of rules and procedures, efficiency drives, market consolidation, differentiation, long-termism and collective action characterise organisations in their attempts to maintain stability. During the old and revival stage analysis, adaptation, control and competition positioning and re-evaluation of the organisation characterise organisations in their attempts to re-examine their strategies and structures.

Industry Sales	Sales Low	Sales Rise	Sales Plateau	Sales Decline
	Introduction	Growth	Maturity	Decline Time

Figure 2.2: Adapted From The Industry Life Cycle

Similarly, the industry model (see Figure 2.2) is taken from life and is sometimes (particularly when applied to products,) outlined as infancy, adolescence, maturity, senility, death etc. though here as introduction, growth, maturity and decline. Essentially the stages of an industry life cycle will 'determine' strategy or strategies will at least be informed by it.

So in the introduction stage strategy is primal. Interest needs to be drummed up in the company's product or industry's products. Whilst there may be competition with other industries, there will be little internal industry competition due to newness. The industry recipes for success will be unclear allowing for experimentation. After the industry has learned it moves into the growth stage where the attractiveness of the industry increases competition. Here competitive strategies are required to survive in the commercial eco-system.

Following growth there is a period of saturation (maturity) where companies have to struggle to maintain market share. The market becomes more fragmented until ultimately it declines and dies. Classically, differing strategies are associated with each stage ranging from being R&D oriented in the infancy stage to a cost controller in decline. Lynch (2003) outlines the life cycle in relation to specific strategy options and de Wit and Meyer (2004) outline the life cycle in relation to industry evolution.

The model is intuitively appealing due to the Darwinian connotations and its relationship with everyday expectations. However, as suggested above a model is more powerful if it has predictive qualities and this would be particularly important to a model with 'Time' as an axis. The difficulty here is that the life cycle model is not really predictive, whilst we might be able to ascertain sales figures (though not always) we are unlikely to be able to put a metric on time.

The Mars Bar was launched in the 1932s and the Twirl Bar in the 1970s (and again in 1984) but it is difficult to see where these products are in their life cycle and if we say they are mature products then when is their likely decline? The usefulness of life cycle may suffer from potential reincarnation. The UK rail industry has been in decline for decades but a sharp increase in petrol prices might well induce a renaissance; then the life cycle becomes a cycle.

A shift in technology or fashion or politics could disjoint or truncate a life cycle and make it simply a cycle. The life cycle idea may also be also be a product of a bygone age where the prevailing economic paradigm was more pessimistic. The view that eventually a limited definable demand would be satiated then supply would necessarily fall has been replaced by a notion of infinite demand based on constantly and rapidly changing consumer wants.

The concept of planned obsolescence being a producer's trick to push consumers into to purchasing new versions of mass-produced products has been replaced by a consumer pull for increased variety and change in the design and technology of products. There is perhaps a need to move from a model of which focuses on the lifecycle of the product to the lifecycles of the consumer.

2.8 Growth Models: BCG Matrix

As organisations grow certain options may be open to them. Some firms develop alternative products or services they might take to the market. Organisations may need to consider how they manage their product portfolios. The Boston Consultancy Group Matrix evaluates the product portfolio of a company in terms of star, problem child, cash cow and dog. The metric used to determine the strategic stance of each product is the relative market share of a product compared to its market leader, which is then related to the market growth rate of each product. Figure 2.3 outlines the matrix.

The BCG is linked to the industry life cycle. A problem child is a product that is under performing in a growing market. As its name suggests the product needs to be fixed, resources will be needed to fight the competition or to improve the technology of production or distribution. A star is a product that is performing well in a high growth market. It may be an ex-problem child (i.e. a problem that has been turned around) or a product that entered the market as a leader, either way it requires resource for development but it is also generating cash from sales so is largely self-financing.

Problem Product	Not doing well in a growing market and using up resources
Rising Star	Doing well in a growing market and breaking even
Cash Crop	Doing well in a stable market and contributing cash
End Of Season	Not doing well in a stable (or declining) market but breaking even

Figure 2.3: Adapted From The Boston Consultancy Group Matrix

A cash cow is a mature product in a mature market that no longer requires large amounts of resource expenditure on development and is therefore generating income. A dog is a product that is waning and so should not be developed. Dogs are often thought to have an opportunity cost in that they absorb investment that could be used elsewhere, this logic suggest that they should be terminated.

The BCG matrix is still much used as it crosses over from marketing into strategy, however it has changed from its original model to become almost paradigmatic. Originally the model used a mathematical underpinning such that market share and growth rate were measured. The maths may be problematic in that the data is often difficult to get. Some companies may not be able to determine their market share, particularly in emerging markets characterised by large numbers of small companies.

If the company is a one-product company say steel manufacture, then what would be the meaning of star etc. Because the matrix is reductive products may be forced to fit the model rather than the model modelling reality i.e. life is just more complicated than that. Looking at a dog for example if a pharmaceutical company has penicillin in its portfolio then BCG would suggest that the product should be dropped. Patents have expired and the drug can now be produced cheaply making it unattractive. However, a multimillion pound/dollar/euro chemical plant may be destroyed if it is shut down or it may cost a great deal of money to start up again. It would be better therefore to keep up the penicillin production until a new product can be introduced to the process plant.

2.9 Growth Models: Ansoff's Growth Matrix

Ansoff's (1968) model is yet another two by two matrix (see Figure 2.4). The matrix sets out the strategic options open to a company with a particular product in a particular market; that is in the top left hand quadrant. From this position the company has four main options.

Market penetration involves developing a bigger customer base in the current market i.e. gaining more of the market share. Market development involves taking the existing product and looking for new customers. These customers may be in different market segments or different geographical areas, however, the customers are new to the product.

Product development entails developing new products in the same market. This may be to defend against competition; take advantage of new or transferred technology; maintain market leadership in terms of innovation or overall return on investment, product are new to the customers. Diversification may be a high-risk strategy in that the company may be moving into uncharted territory and away from its home product as well as market. Related diversification into markets the company has knowledge of can minimize this risk, for example if the company integrates backward, forward or horizontally; that is with suppliers, buyers/distributors or related markets.

Related markets may be where the product and market is new but the company intrinsically knows something about them. Many UK health trusts are now involved with developing health trusts in ex-eastern bloc countries. Both the ex-eastern bloc and consultancy management are new to the health trusts but they do know about health management and both the medical and administrative staff have consultancy skills. Thus the domain of operation may be different but the generic processes engaged in are similar and therefore transferable along with the requisite skills profile.

Market Penetration	Push to increase market share of current market with current product(s)
Product Development	Push to sell new products to the same market (customers)
Market Development	Push to sell current products in markets that are new or new to you
Diversification	Move into new markets with new products

Figure 2.4: Adapted From Ansoff's Matrix

So far some of the models that tell us where we are and some of the models that might tell us what to do or can do have been outlined. A model that could be discussed here is forecasting (or foresight). There are many models that could be employed see Argenti (1968:70–118) for a seminal work on forecasting and the potential errors in applying forecasting models.

The final stage then is to look at models that tell us how to do it – strategic implementation or making the changes. We need to consider implementation in greater depth – with changes of culture and thinking (through learning) but here we consider two common tools centring on structural change and reengineering and a third model that considers the 'global' perspective.

2.10 Strategy Structure

Alfred Chandler (1962) explored the relationship between strategy and structure in American corporate management. Studying amongst others General Motors he famously suggested that 'structure follows strategy'. This nostrum is challenged by Mintzberg (1990) who suggests that in fact structure constrains strategy or that strategy emerges from organisational structure and behaviour. Thus changes in a structure may be the outcome of a strategy or the driver of a strategy.

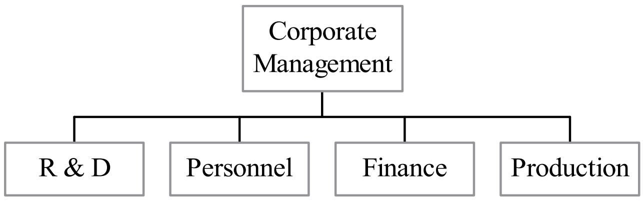

Figure 2.5: Unitary Organisational Structure

Essentially the logic of structure following strategy is similar to the logic of the mission statement or the unitary corporate objective (particularly profit maximisation). It also utilises the Taylorist machine metaphor's separation of thinking from doing and so is hierarchical.

The idea that a management will develop a strategy that will have implications for the organisation that is attempting to manage or deliver it is not contentious. Chandler (1962) takes the idea further in suggesting that decisions about resources and structure need to be subordinate to the organisation's strategy. Companies that take this idea on board will necessarily have a central hub of administration with sub-ordinate functions geared to delivering the company strategy. A typical structure might be as shown in Figure 2.5.

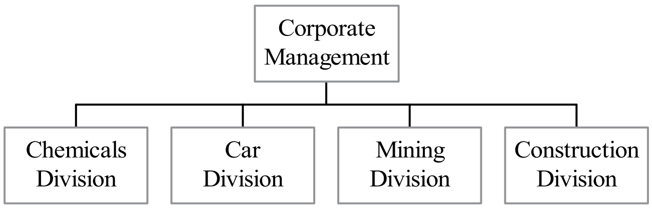

Figure 2.6: Multidivisional Organisational Structure

Decisions can now be made about which function gets the resource in order that the organisation achieves its objective. This type of structure is often referred to as a U-form structure. If the organisation should grow through diversification, then problems may develop in that the management structure may not be able to maintain control of the various divisions of the company. This was a problem Chandler (1962) observed in the Du Pont organisation as its interests grew away from the explosives business. A new type of structure was considered to be appropriate for this multidivisional type of organisation outlined in Figure 2.6. This structure is often referred to as M-form. The diagram shows four divisions often referred to as SBU's – Strategic Business Units.

The M-form structure allows for resource and structure decisions to be made at a divisional level whilst still allowing corporate management to make overall strategic decisions. Corporate management will not then have the problem of dealing with the larger amounts of information relating to the multiplicity of businesses in a diverse conglomerate. The 'structure follows strategy' model allows corporations to implement strategies at subordinate levels to the 'thinking' corporate level of management.[7]

2.11 BPR – Business Process Engineering

Castells (1989, cited in Blackler, 1994) suggests that changes in economic and political interactions have contributed to 'the information mode of development' where information and communication technologies in particular have become vital to the success of business.

Drawing from the use of technology and its impact on structure Business Process Engineering is a natural extension of the strategy-structure model; BPR carries on the traditions of scientific management (Taylor, 1947). Michael Hammer, the doyen of BPR, claims that the problems of large companies during the 1980s and 1990s were based on their propensity to automate work rather than radically re-engineer it. The automation largely involved information technology. Hammer's (1990) view was that technology was being used to 'speed' up existing processes when in fact it should be used to 'radically re-think' processes.

The speeding up of the process ignores the fact that modern employees are not the same as those Taylor (1947) worked with in the early days of mass production and economies of scale. People in organisations today are better educated and prefer autonomy to instruction and control. Hammer (1990) contends that technology is not just a tool to be used in an existing process but has the greater impact of changing what the process is or should be.

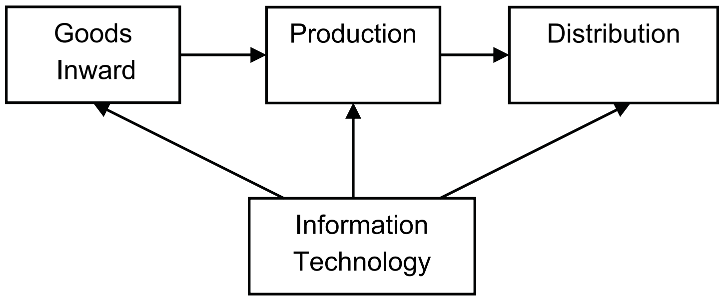

Figure 2.7: Using IT To Speed Up The Organisation

The premise of BPR is that technology should not just be introduced but should act as a primover for a greater radical re-think of what the company is doing and how. Figure 2.7 shows the impact of using IT at each stage of a company's process – here IT is outside of the organisation's processes.

Figure 2.8 depicts a more BPR view of how IT might be used in a management intervention. Here technology has been used inside the company's processes and alongside a re-think of what the company needs to look like. In Figure 2.8 it's not just that IT is used but 'Goods Inward' has become a much more integrated subsystem of the company which interfaces with the outside world of the company in a more generic way. This example is a little contrived but Hammer (1990) gives two examples of this process in Ford and Mutual Benefit Life.

Keith Grint (1994, 1997) reflects on the wave of BPRing along with other management tools and suggests that they have not been entirely successful. Grint (1994) points to an alarming failure rate of such tools and suggest amongst other things that far from being revolutionary BRP is simply a handful of existing (in fact old) ideas cobbled together; which became a (Western) culturally acceptable backlash to the (Eastern) Kaizen philosophy.

More recently strategy has become intertwined with developments in operational effectiveness technologies such as BPR, TQM, outsourcing etc. Though Porter (1980, 1985) espouses the deconstruction of the organisation with such tools as the value chain for understanding competitive strategy he is concerned about the reductive nature of strategic management that has tended to focus on operational issues, he suggests that:

> "The importance of fit among functional policies is one of the oldest ideas in strategy. Gradually, however, it has been supplanted on the management agenda. Rather than seeing the company as a whole, managers have turned to "core" competencies, "critical" resources, and "key" success factors. In fact, fit is a far more central component of competitive advantage than most realise." (Porter, 1996:70)

Consequently we need to focus on the overarching concerns of the purpose of the organisation and its market position and customer focus as well as attempting to become more efficient in our production processes. Strategy is about production, marketing, finance, HRM etc. but it is about much more than these things, it is about how they relate, interact and generate difficult to imitate approaches to competition, survival and a fruitful existence. TQM and marketing ideas might be easy for your competitors to copy but their emergent interactions are not.

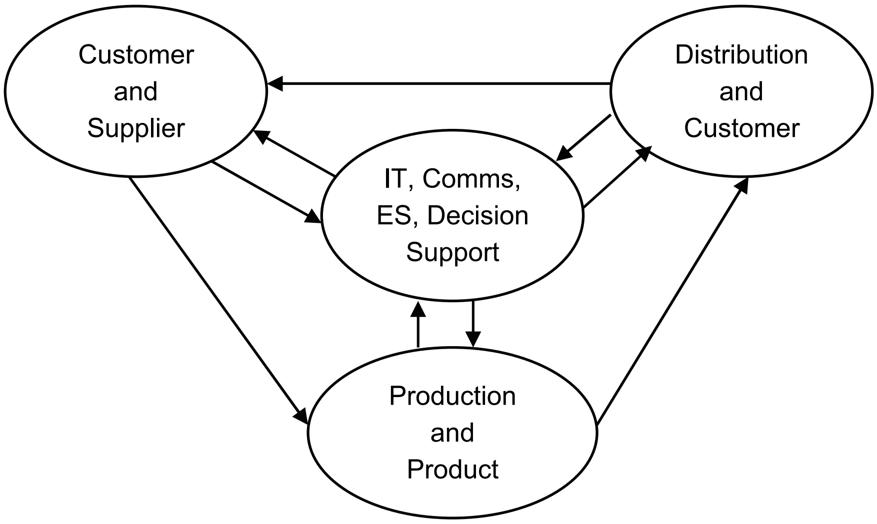

Figure 2.8: Re-thinking The Process And Integrating Technology

2.12 Summary

There are a multiplicity of models, approaches and paradigms in the business policy and strategy arena; too many to cover in a brief overview. This chapter has attempted to introduce some of the more popular strategic management tools, point to further reading and offer some useful examples. Regardless of the nature of the models the key fact that must be borne in mind is the appropriateness of the model and what the model remembers and disregards, as this will indicate its usefulness. Remember Stafford Beer's maxim 'A model is neither right nor wrong, just more or less useful.'

Many models especially those that have become paradigmatic may have lost their rooting in the original data or theory, for example, you may have applied the BCG matrix to a portfolio of products but did you do the maths? These models often become 'favourite models' and get applied regardless of their applicability. Heinz Weilrich (1999) used SWOT analysis to carry out an analysis of Germany's competitive advantages and disadvantages. Weilrich's (1999) paper exemplifies the assumed transferability of models into different cultures, products, companies, geographies etc. There is a need to show some care in using tools in relation to appropriateness such as: can we get the data the model needs? Can we measure the things the tool requires to be measured? Is it a multi-product tool and are we a multi-product company? Was the tool designed for the current purpose? Is the model predictive and do we need it to be? Has the world changed since the inception of this model?

The model may well be useful even if negative responses are gleaned from these questions. It may be reasonable to use a model in a different way or for a different purpose if there is a clear justification or assumptions made in the decision to use a tool are considered in the interpretation of the outputs of the use of the tool.

2.13 Summary Points

- We can use models to think about (strategise) and implement strategy (strategic action).
- Some models have become paradigms – we often accept them to the point of forgetting we are doing so.
- The purpose, aim or goal of business is to make a profit – but does the evidence support this?
- To fully understand the purpose of business we may need to consider the stakeholders as well as the shareholders.
- Some outcomes are emergent i.e. we don't directly control them e.g. we attempt to maximise profit by reducing costs and increasing revenues.
- SWOT and PEST are reductive tools that can help us to see our starting point – where we are now.
- Mission statements can tell us, guide us or inspire us to think about our future – where we want to be.
- Life cycle models and BCG can tell us in general terms, how to do strategy (how to get there) at different times of the life of our product or industry.
- Ansoff's matrix can show us how to grow our organisation as a strategy for survival or success.
- 'M' form, 'U' form and BPR show us how to restructure our organisation in order to support our organisational goals.

3 Strategic Management: Approaches And Methods

James Rowe

After consideration of strategic models such as SWOT, PEST and mission statements etc. the process or method or approach of strategic management within which these models could be used will be discussed. There are a number of approaches that might be adopted but the approaches discussed here are Ansoff (1965), Johnson and Scholes (1997), Porter (1985) and Stacey (1996). The fundamental method against which approaches will be considered is based on Hegel's model of thesis, antithesis and synthesis i.e.

Where are we now?
Where do we want to be?
How do we get there?

This model of an approach will act as the structure of this chapter and will be the reference for reflection.

Perception, Formulation, Evaluation And Choice

Ansoff (1965) developed a model for strategic decisions based on the work of Simon (1960). Simon's (1960) model is in four-stages based on the notion that to solve a strategic problem, managers would need to consider perception, formulation, evaluation and choice. The perception of a decision needing to be made because of a set of circumstances, or in relation to a potential opportunity is referred to as the intelligence stage.

Ansoff (1965) prefers a mechanism for recognising that the time has come to make a decision before strategies are sought (making a decision) i.e. knowing a decision is needed is distinct from making a decision – rather than relying on intuition and judgement to disaggregate operational problems from strategic problems or in fact not disaggregate them but see them as a continuous process.

Formulation of alternative courses of action relates to the search for strategic alternatives that may or may not be known at the beginning of the planning stage. Formulation may take place under conditions of partial ignorance about the future and so Ansoff (1965) suggests a twofold problem exists; to conduct a search for active opportunities; and allocate limited resources to the opportunities that have been uncovered and those just out of sight.

Evaluation of the alternatives for their respective contributions to the strategic project often relates to the classical notion of Capital Investment Theory (CIT). Here payback period, internal rate of return (IRR) and net present value (NPV) are used, though more complex perspectives may relate back to stakeholder analysis or issues of growth versus profit objectives. This creates what Ansoff (1965) refers to as a "vector" of objectives that includes profit along with other components. Ansoff (1965) was concerned that the popular CIT approach ignored perception and formulation. Choice is considered in terms of choices between differing strategies and the rules for decision, he goes on to elaborate on a new method (Ansoff, 1965:19):

1. Include all four, rather than the last two steps of the generalized problem solving sequence. Emphasis should be on the first two steps (perception and formulation).
2. Handle allocation of the firm's resources between opportunities in hand and probable future opportunities.
3. Evaluate joint effects (synergy) resulting from new product-market activity.
4. Single out opportunities with outstanding competitive advantages.
5. Handle a vector of potentially antagonistic objectives.
6. Evaluate the long-term potential of projects even though cash flow projections are unreliable.

There are some reflections that might suggest flaws in the approach such as the unwillingness to rely on judgement and intuition. The 'formulation' of alternatives stage in Ansoff's (1965) interpretation becomes a 'search' for alternatives. To Ansoff (1965) alternatives are not so much generated, synthesised or created – they already exist and only need be found. This scanning approach suggests that strategic management is more reactive or serendipitous than creative, which undermines the notion of entrepreneurial and intrapreneurial activity.

Reflecting on the process of strategy Ansoff (1965:17–18) himself points out that relying on long-term projections can be dangerous due to unreliable data. Cash flows tend to offer typical rather than specific data in relation to product-market areas, making analysis of a unique strategy difficult. Finally he suggests that it is difficult to extract data in relation to one product-market activity from the portfolio of the firm's activities. This may be due to inadequacies in the reporting system but also the synergistic or joint effects of a company's portfolio of products operating in different markets. This in a sense leads into a counterview of organisational decision making expressed by Cyert and March (1963) who suggested that the way organisations made decisions was different to the anthropomorphic model of Simon (1960) and Ansoff (1965).

Cyert and March (1963) suggest a more reactive feedback oriented model rather than a predictive process and that organisations may make decisions differently to individuals. It is possible that an organisation and not the individuals in the organisation have to be considered as the decision maker. This opens up a number of issues for the consideration of strategy (strategising) but more so for the implementation of strategy. Strategising is an activity that can be restricted to the 'leading figures' of an organisation but implementation is something the organisation as a whole will be involved in and as such the organisation as decision maker might need to be considered.

3.1 Strategic Analysis, Choice and Implementation

Johnson and Scholes and Johnson's (1997) strategic analysis, choice and implementation approach operates as a reflexive (closed loop) process.

The possibility exists to consider the process to be linear (see Figure 3.1) i.e. that strategic managers engage firstly in strategic analysis, which feeds into strategic choice then into strategic implementation. This would be reasonable in the quasi-scientific classical sense that discrete activities are carried out consecutively in the framework of a particular method. Johnson and Scholes (1997) however, see the process as emergent, evolving from concurrent activities (or at least implementation feeding back into the analysis).

Strategic analysis involves the scanning of the inside and the outside of the firm to evaluate the firm's strategic position in terms of economic, political, technological, resource as well as other factors. The purpose and objectives of the firm are also addressed.

Strategic choice is concerned with the generation of strategic options in relation to product-market but also in relation to joint ventures, growth, mergers or acquisitions. The evaluation of strategic options can take a number of forms though 'strategic fit' or suitability of a strategy; either with the inside of an organisation or with its environment centring on the building on strengths and overcoming of weaknesses of a firm; and the opportunities and threats of its environment. Specific development of the interrelationships of possibilities of the internal-external audit (SWOT) of the firm might then indicate the feasibility of a strategy.

The political-cultural dimension of the firm may also determine whether or not a strategy chosen by the power-holders of the firm is acceptable to the stakeholders of the firm. Strategy selection may be rational i.e. based on payback or profit projections; however, it may not be quantifiable and therefore rely on judgement or intuition or even a function of the organisation's power balance.

Strategic analysis of current position	Reflect and review your environment
	Evaluate current and potential resources
	Determine/seek desires, objectives and power holders
Strategies available	Seek/design strategy options
	Evaluate pros and cons (success/failure)
	Determine or choose your strategy
Implementing strategies	Plan and allocate resources
	Maintain, strengthen, review, change structure
	Review people, systems and culture

Figure 3.1: Adapted From Johnson And Scholes Model Of Strategy

Child (1997) in his reflection on 'strategic choice analysis' suggests that strategic choice is a political process such that strategies are not determinist i.e. not dependant on the structures or people that create them but borne of the interrelationship between strategists, organisational structures and the environmental context they exist in. Strategy here has the potential to be a learning adaptive process as well as a rational decision making process.

Strategic implementation requires the planning and organisation of the use of resources, the possible restructuring of the organisation and its personnel as well as the system of management of the organisation. Johnson and Scholes (1997) suggest that managers need to consider the:

- 'Suitability' of a strategy to the organisation's internal and environmental situation i.e. how appropriate to our current predicament is a strategy?
- 'Feasibility' of a strategy i.e. have we got (or can we get) the resources and capabilities to carry out this strategy?
- 'Acceptability' of a strategy to the stakeholders of the organisation and their expectations i.e. are we happy with 'growth' or 'going global' etc. and are we happy to do it in this particular way – does it fit with our way of doing things?

From Ansoff (1965) to Johnson and Scholes (1997) it is possible to see where the application of strategy tools may occur in the overall strategic approach. With the perception of a problem, tools such as PEST and SWOT may be useful in setting out the situation conceptually. With formulation resource allocation is on the basis of known opportunities (from SWOT) or forecasts. Evaluation may be profit oriented (from shareholder theory) or be pluralistic in nature (from stakeholder theory). Similarly strategic analysis, choice and implementation can use the tools.

PEST, SWOT and mission statements may be helpful in strategic analysis. SWOT may also impact upon strategic choice and the industry life cycle, BCG matrix and Ansoff's growth matrix all offer potential strategies and evaluation capabilities. Strategy-structure thinking offers a lead into the implementation of strategy in that it causes organisational structures to be considered an outcome of strategy as well as vice versa. It is important also to notice that different approaches might use tools differently or even words differently.

Ansoff (1965) uses choice to mean choosing between alternative strategies within a framework of decision and is therefore a reflective process, looking back over possibilities to evaluate their potential. Johnson and Scholes (1997) use choice to mean the generation of possibilities and is a more creative act. SWOT is a front-end analysis tool that might be useful in depicting or defining a starting point, however, Johnson and Scholes (1997) use SWOT beyond analysis to guide choice and implementation.

3.2 Competitive Strategy

The word 'strategy' is commonplace in the language of business as is 'competition', this was not always so. Before strategy was strategy Fayol's (1949) notion of "…one head and one plan for a group of activities having the same objective." and Barnard's (1938) concept of the executive function that is "…to formulate and define the purposes, objectives and ends of the organization." centre our thinking on the operations and plans of the firm. Early literature on strategy was much more concerned with operational planning and financial effectiveness than is the strategic management of today.

In the 1960s firms moved their attention from trying to meet the demand for their products (the customer) to dealing with oversupply (the competition). The most notable work on competitive strategic thinking is by Porter (1980, 1985).

When considering competitive strategy the two main issues are: Industry Attractiveness (the industry itself) and Competitive Position (your position within the industry) (Porter, 1980). Competitive strategy must evolve from an understanding of the rules of competition that determine an industry's attractiveness. The ultimate goal of a firm's competitive strategy is to deal with/modify the rules to the advantage of the firm. Porter (1980) outlines an industry as five competitive forces: entry of a new competitor; threat of substitution; bargaining power of buyers; bargaining power of suppliers; rivalry amongst existing competitors.

Supplier Industry	Power to keep its value from the industry it supplies
Buyer/Customer Industry	Power to take value from the industry it buys from
Substitute Industries	Ability to match or offer more value with different products
Exit/Entry Barriers	Ability/power to jump into or out of an industry
Industry In Focus	Power to take value from suppliers/keep value from buyers/fend off substitutes/ prevent new entrants or escape from the industry and manage internal rivalry

Figure 3.2: Based On Porter's Five Forces

Figure 3.2 is based on the five forces and their interrelationships. Here we see Williamson's (1984) 'authority and power' construct come into play as the buyer's and supplier's relationship with a firm (and industry) is understood in terms of power. This notion may be undermined in that the suppliers and buyers may not engage solely in power struggles or conflict but may enter into mutually beneficial relationships resulting in obligation rather than antagonism.

The potency of the five competitive processes is dependant on 'industry structure' i.e. the underlying market and technical attributes of the industry. Changes in the competitive forces affected by alterations to industry structure can influence industry profitability favourably or unfavourably. Thus the industry changes with the greatest impact on its structure should be considered most when developing strategies.

When five forces are solely dependant on intrinsic industry characteristics, then competitive strategy would rely on industry selection. Firms, however, are not bound by industry structure and can influence the structure through their strategies.

Strategies that change industry structure can backfire on the instigator, a new product design which is cheaper to manufacture will reduce barriers to entry, thus, though profit may be high in the short-term rivalry will increase such that profitability could be eroded. Many organisations make strategic moves that may have short-term gains; these successes ignore the possible damage of competitive reaction and changes in industry structure. This places a great responsibility on the industry leaders as they have most power over the suppliers and very often they must take decisions that help the industry as a whole rather than gain competitive advantage for themselves.

After industry attractiveness, the second central issue in competitive strategy is the firm's competitive position. The main types of competitive advantage are cost leadership and differentiation, which stem from industry structure and a firms ability to cope with the five forces as compared to rivals. This scenario leads to the three generic strategies cost leadership, differentiation and focus; the focus strategy having two threads cost focus and differentiation focus (see Figure 3.3). Cost leadership and differentiation strategies compete across a broad spectrum of customers across the bulk of the market, focus strategies are directed towards the extremes of the market to narrower spectrums. The crux of the argument is that competitive advantage is at the heart of any strategy, thus a choice has to be made regarding the type of strategy to adopt as trying to be 'Jack of all trades' may lead to mediocrity and below average performance.

If a firm serves a broader market segment of an industry Porter outlines two potential strategies: cost leadership and differentiation (see Figure 3.3). Cost leadership is the most understandable strategy to follow, to achieve this a firm must reduce costs at every level e.g. utilise economies of scale, standardisation, application of technology and reduce raw material cost. Cost leaders cannot, however, ignore differentiation; they must endeavour to achieve parity with other products within the industry. The success of cost leadership strategies usually depends upon the absence of other cost leaders competing for the pole position.

Focus Differentiator	Being different in a small market segment
Differentiator	Being different to sell across the broader market
Cost (price?) Leadership	Cutting costs to sell across the broader market
Focus Cost (price?) Leadership	Cutting costs to sell in a small market segment
Stuck In The Middle	No clear strategy or mixing the strategies above

Figure 3.3: Adapted From Porter's Generic Strategies

Differentiation is where a firm seeks advantage from being unique in a particular facet or facets of the product valued or thought to be valued by a broad spectrum of buyers. The differentiator positions itself to exploit one or more of the attributes many of the buyers see as being important and for this receives a premium price for its product. The vehicles for differentiation are dependent on the industry. We need to be clear that cost leadership is about production and delivery costs rather than price cutting of the product itself. We would probably expect a cost leader's product to be cheaper than the associated differentiator's product but we would not expect them to be 'worlds apart'.

Focus strategies differ from broader market strategies in that the focuser selects a niche market segment (or segments) and gears its strategy towards servicing the niche(s) to the exclusion of the rest of the market. The two strands of niche focus are cost focus and differentiation focus (see Figure 3.3). Both strands are dependent on perceived differences in the focuser's segment as opposed to the rest of the market. The target segment must have unusual needs or buyers in the segment who require different production/ delivery systems from the rest of the market – this implies that other firms in the industry under serve the niche segment. In short the differentiator is not different enough for the focus-differentiating customer and the cost leaders is not cheap enough for the focus-cost-leading customer.

In the motor car industry we might consider Ford to be a cost leader, General Motors, Toyota, Volkswagen to be differentiators whilst Porsche, Lamborghini, Skoda, Volvo, BMW all find a niche where customers are not served well by cost leaders and differentiators.

A strategy that attempts to cover more than one of the generic strategies is in danger of being stuck in the middle. Being stuck in the middle results in a below average performance as the industry is carved up by the cost leaders, differentiators and the focusers. Unless the industry is very favourable or competitors are also stuck in the middle, the firm will soon be in difficulties. Porter (1985) suggests that being stuck in the middle is a particular danger for focusers as they take over a particular segment on the basis of limited sales volume. For focusers, growth therefore will blur the focus that brought success such that it would be wise for focusers to grow through development in different market segments.

The Accor hotel group have some 2200 hotels worldwide but are competing in five different market segments rather than saturating one particular segment. Cost leadership and differentiation are also usually inconsistent strategies as differentiation is usually costly and cost cutting usually means losing some of the differentiating qualities. Cost cutting is not the same as cost advantage and when a firm reaches a critical point in cost cutting where differentiation may be compromised then a strategic choice has to be made. Should differentiation and cost leadership both be achievable for a firm then the benefits will be additive. Porter (1985) suggests that there are only three ways a firm can achieve cost leadership and differentiation:

a) If competitors are also stuck in the middle.
b) If cost is affected by market share or interrelationships e.g. Porter cites Black & Decker who have a large market share and thus have at their disposal a large backup of high production technology and skilled labour which enables them to introduce new products faster than their competitors. Relationships are separated into three groupings:
    i. Tangible interrelationships i.e. shared technology
    ii. Intangible interrelationships i.e. shared expertise
    iii. Competitive interrelationships where two or more firms are competing in the same market and one or more of them have mis-matched interrelationships them the firm with matched interrelationships will be able to lower the cost of differentiation.
c) Pioneering a major innovation that facilitates cost reduction and differentiation. (Porter, 1985)

Porter (1996) developed the notion of competitive strategy into what he termed 'strategic positioning'. Porter (1996) was concerned that organisations can lose sight of strategy in favour of operational tools such as outsourcing, TQM or BPR that can often be copied quickly and so don't offer sustainable competitive advantage. This mimicking of technology undermines the industry as a whole due to the focus on costs and scale bringing all of the firms in the industry down to the lowest point to slug it out whilst large groups of customers go unserved.

Strategic positioning attempts to focus on customers in a more specific way than the broad brush of the generic strategies. Porter (1996) observes three principle types of positioning:

1. Variety based positioning is where a firm offers customers a specific distinctive product or service usually at the expense of offering broader based service or product ranges i.e. specialist firms. In the motor trade firms who specialise in fitting tyres and exhausts, in the building trade firms who specialise in roofing and in the plumbing trade firms that specialise in drainage work are common examples.
2. Needs based positioning seeks to satisfy a particular market segment e.g. Porter (1996) suggests that IKEA can meet all the home furnishing needs of price sensitive buyers who are prepared to pick off the shelf, carry home and assemble products themselves for the benefit of cheapness. Some segments can be schizophrenic in that when weekending away with friends we might favour economy airlines and three star hotels. Family trips with our small children might cause us to forgo the DIY travel of the economy airline for the greater flexibility and service of a regular carrier and the facilities and service of a five star (child friendly) hotel.

3. Access based positioning focuses on customers that are perhaps denied the more common modes of distribution or have particular needs. The UK Open University offers undergraduate to postdoctoral education to people who live in remote places or who cannot free themselves from work or who didn't come to higher education when most people do – in their late teens. The Open University does this through remote support, weekend working of part time lecturers/tutors, technology support and the development of high quality text-based teaching materials.

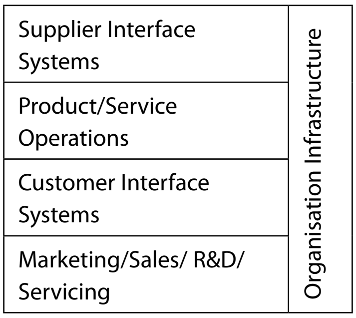

Figure 3.4: Adapted From Porter's Value Chain

Referring back to Chandler's (1962) strategy-structure axiom, different generic strategies require different skill sets i.e. cost leadership implies tight cost control systems, economies of scale, overhead reduction and a great deal of attention to the learning curve. These pre-occupations could undermine the flexible, creative environment required to allow for innovative developments in differentiation. There are organisational attributes implicit in each of the generic strategies. A firm should avoid inconsistencies between generic strategy and organisational structure.

Related to the organisational structure is the culture of the firm, this is difficult to define but relates to the attitudes of the organisation and the values it holds important. Culture is important to the type of strategy followed; differentiation tends to encourage creative risk taking culture whilst cost leadership must encourage safe, pragmatic environments. Thus culture can support competitive strategy/advantage. In multi-divisional firms there is a danger of a particular strategic business unit (SBU) suffering under this regime as it cannot follow the overall strategy of the corporation, or the corporation cannot comprehend its strategy. Divisions may have their strategies undermined by corporate management where natural cultural stance is at loggerheads with the overall corporate direction.

The value chain (see Figure 3.4) is competition theory's model of the firm. The value chain sees the organisation as a series of primary value adding activities: supplier interface, operations, customer interface and market activities – along with a series of secondary value adding activities: human resources, financial resources, technology and other support functions.

So far the logic of this chapter and the last has been fairly simple. In the previous chapter a series of tools and models were outlined and in this chapter possible frameworks in which the tools can be dropped into have been outlined. Competitive strategy is discussed for two reasons: it is important to know something about competition in strategic management; three new tools are outlined but more importantly these three tools are held together by the concept of value rather than profit (though ultimately value is codified into profit).

3.3 Value

Value is the language of competitive strategy. In simplistic terms if a pen costs £1 to make but through clever advertising you can charge £2 for the pen, then the advertising has added value (in this case a £1's worth). Thinking in terms of value allows for transactions to occur between different processes within the firm and between firms and firms and customers. Value acts as a kind of language that enables a multiplicity of conversations (or transactions) in a firm or industry. The notion of profit and profit maximisation is a unitary consideration (Whittington, 2001). The unitary nature of profit and cash flow limits its use to transactions within the firm (assuming shareholders are within the firm's boundary). Even within the firm the notion of profit is not universally serviceable in transactions e.g. much of R&D expenditure could be considered 'loss' in the profit and loss account. Value offers a language of transaction that can be used inside the firm and with its environment (customers, suppliers etc.).

A designer may recognise that a particular design of a product would *add value* in relation to that product in terms of ease of use (for example) whilst a marketing manager might see the same design as *adding value* in terms potential market development or share increase. A financial manager might see the design as *adding value* in terms of increased sales or decreased costs.[8]

Value allows different processes (in this case functions) in a firm to have a common language to use in their transactions such that they are not all trying to maximize profit they are all trying to add value. Even shareholders can think in this way; value may be a large dividend now but might also be lower dividends over a longer time span. Competitors can consider acquiring your firm on the grounds that it will or will not add value to their corporation.

The value-chain (as well as the five forces and generic strategies) use the language of value in their operation, all three models are designed to consider the getting, adding and keeping of value. The value-chain models the firm as a linear series of value adding activities from inbound logistics to servicing, with support activities adding value throughout the firm.

Though the three competition theory models are important to the understanding of strategy as a competitive process, value is more fundamental to competition. Value is the 'language' that allows managers to think about strategy and move from one tool to another in the process of developing and implementing a strategy.

The five forces model is used to see where the value is; who has the value; how much value is there; can our industry get the value; can our industry keep the value; who might try to arrest it from us etc. When using the generic strategies model again it centres on value. Cost leadership assumes reducing cost will mean we keep any value within the firm or that in some cases being cheep is of great value to customers. Differentiation assumes that being different is of great value to customers and so if our industry can keep hold of value then in being low-cost or being different our firm might get and keep some of the value in our industry. The value chain is a model of a firm designed around the notion of value. In the way that a hierarchy outlines a firm in terms of chain of command or power structure i.e. the way power flows then the value chain depicts they way value flows (or is prevented from flowing) through a firm and its industry.

In general terms the logic of competition theory is similar to Hegel's model in that the five forces analysis is used to determine where we are now, the generic strategies model helps determine where we want to be and the value chain is a model that enables us to consider how we might organise to the firm to get there.

Some problems to be resolved are that the five forces model is at the industry level of recursion and is therefore a generalist model whilst the generic strategy of the firm is specific and so requires analysis as well as interpretation of the particular predicament of a firm in relation to the industry as a whole. Defining an industry can be problematic i.e. if we make mobile phones are we in the mobile phone industry or the consumer electronics industry – the latter broadening our scope of analysis substantially.

The five forces model uses economics as a base model rather than politics. Leading economies may force smaller economies into leaving their industries unprotected from the free market before they are strong enough to compete, this in extreme cases can lead to economic downturn even collapse in developing economies. The same leading economies may well protect their own industries in difficult economic periods, thus politics rather than economics often prevails.

Competition theory suggests that we should not get 'stuck in the middle' however most firms are 'stuck in the middle' especially if firms are in industries with many indigenous firms.

3.4 Chaos and Complexity – Ordinary and Extraordinary Management

Many of the models used in management and strategic management use the notion of ceteris paribus i.e. that all-else remains the same e.g. if managers do a SWOT analysis does the world stand still while they carry it out? Clearly not, steady state may in fact be a rare experience for many firms rather than something they can depend upon to be the norm. The world does not stand still and models that require stability will not be usable in changing environments. Chaos and complexity theory have been used to explore the notion of changing environments that may appear stable or unstable at different times.

Stacey (1996) suggests that strategic management problems can be as described as ordinary or extraordinary (as in Figure 3.5.) Strategic problems may be closed or open-ended. Ordinary problems have definite boundaries and are constrained by agreed limits. Managers observing ordinary problems would probably agree on what the problem was, as they operate under a known agreed model which has become paradigmatic. The solution or solutions to the problem may be understood and agreed upon. This leaves managers to simply run through a procedure or make rational choices between definable potential solutions based on agreed performance indicators such as profit or growth or market share etc. Ordinary problems may seem like puzzles to be solved or games to be played.

Ordinary Management	Plays games and solves puzzles to achieve clear objectives through agreed strategies in relatively stable environments
Extraordinary Management	Runs experiments to resolve paradox and synthesise new strategies and organisational forms amidst fluctuating pluralistic strategic environments

Figure 3.5: Adapted From Stacey's Ordinary Extraordinary Management

Extraordinary management is more problematic in that the problems are open-ended, not so definable and not agreed upon. Extraordinary problems do not have clear boundaries and may contain dichotomies and contradictions; they may not be solvable by applying a known procedure such as linear programming or by agreeing a performance indicator. Whilst ordinary management requires modifying things to maintain the system, extraordinary management may require that the paradigm be broken in favour of a new one. Teilhard de Chardin (1959) suggested that it is and always has been the role of the researcher to discover the universal hidden in the exceptional and so extraordinary management is often prompted by exceptions that ordinary management throws up and cannot deal with.

Extraordinary management is not simply an exotic form of management that acts as a safety net for the unsolved problems of the mundane ordinary management. Organisations may for a number of reasons exist in a state of constant flux brought about by rapid economic, product, customer or competitive changes. For most industries and companies steady state is the exception rather than the rule, making extraordinary management the rule rather than the exception.

Dutton (1993) offers a caution here in that the ordinariness and extraordinariness may be in the eye of the beholder rather than rooted in the problem or environment itself. Dutton (1993) suggests that learning from past events will produce a tendency in managers to develop categories they will then put problems into. This allows them to recall 'scripted responses' to problems or issues based on prior learning. This categorisation of problems reduces complexity rather than managing or absorbing it and so is a more comfortable approach but of course it may break down when attempting to manage problems too extraordinary.

3.5 Summary

The above examples of the strategy process show that there are almost as many approaches to strategy as there are authors of books on strategy. However, if the corporate model (Where are we now? Where do we want to be? How do we get there?) is adopted as a datum then the various approaches can at least be tested in relation to a meta-model or a sound logic. This in turn allows the strategic tools to be considered as appropriate to the fundamental tasks of telling us: where we are now; where we want to be; how we get there and if the tools are used for activities they were not designed for, then at least a framework exist to explore the efficacy of such a transplant.

3.6 Summary Points

- Strategy models and tools can be used within or as part of an overall approach to strategy.
- Ansoff's approach is based on a decision-making (scientific) method of strategy that seeks rational profit maximising outcomes leading to sensible plans made by intelligent strategic managers.
- Johnson and Scholes see an organic reflective process of choosing appropriate options based on analysis of strengths, weaknesses, opportunities and threats in relation to the implementability of the available choices.
- Porter sees the firm as being in competition with other firms in its industry. Five forces affect firms such that they need to develop a strategy of cost leadership or differentiation based on their resources and capabilities in relation to these five forces. The organisation that implements these competitive strategies can be considered as linear chain of activities that attempt to add value to the product or service of the firm.
- Strategy and strategic transactions use a language of value that allows organisations as a whole to be involved with strategy. Profit or finance as the 'language of business' offers a limited language but value (through 'added value') offers a medium we can all use to communicate with.
- Stacey sees the world not as relatively stable but veering from instability to instability or even chaos – stability here is a special case. The organisation needs to think in terms of 'ordinary' times with 'ordinary problems' that require the firm to 'stay the same' or maintain stability or consolidate. Alternatively the firm may need to think in terms of 'extraordinary times' with 'extraordinary problems' where radical changes may need to be made and 'staying the same' is not a viable option. Here the organisation may need to surface its accepted paradigm(s) in order to think about instigating new or different ones.

4 Influences on Action: Of Lobsters, Boiling Frogs and Nappies

James Rowe

This chapter will attempt to reflect on the role of managers and leaders in relation to strategic management. The concern here is whether managers consciously develop and deliver strategies that are realised in action – or whether strategies emerge from an organisation's internal or external context. The assumed dichotomy of voluntarism and determinism will be explored. The chapter works from the assumption that the classical notion of planning a deliberate or voluntarist strategy i.e. that the strategy we get and the resultant achieved objectives are those we planned for – is countered by investigating the possibility that strategy could in fact be the emergent outcome of determinist forces from the internal machinations of the organisation and/or the external forces upon it.

4.1 Prologue

Undoing Whittington's (2001) perspective on the four generic strategies we find key to the model is the axis of deliberate and emergent behaviour. See Figure 4.1.

Classical Strategy	Unitary and deliberate
Processual Strategy	Pluralist and emergent
Evolutionary Strategy	Unitary and emergent
Systemic Strategy	Pluralist and deliberate

Figure 4.1: Adapted From Whittington's Generic Schools Of Strategy

Mintzberg and Waters (1985) consider the idea that strategy is a deliberate voluntary act of free will or a deterministic emergent process in terms of various schools of thought[9]. They suggest that voluntarist deliberate strategy focuses on the notions of direction and control whereas determinist emergent strategy relates more to the learning of what the organisation is and what it might be. Mintzberg and Waters (1985) consider the idea that strategy is patterns of decisions (intended strategy) or that strategy is patterns of action (realised strategy).

Mintzberg and Waters (1985) outline a typology of deliberate strategy (the intended strategies that are realised), unrealised strategy (the intended strategies that are not realised) and emergent strategy (the realised strategies that were never wholly intended). The discussion essentially lies in the notion of whether we should focus on decision making and planning as strategic activities that will bring about an actual implemented (realised) strategy or focus on the realised strategy through the emergent forces within the organisation and in its environment. In a sense, is strategy something we plan for, predict and look forward to or is it something we look back on tolearn from.

This chapter takes a slightly different perspective to Mintzberg and Waters (1985), looking at more specific modes of action and relating to models of human and organisation development as well as human and organisational lifecycles.

From Whittington's (2001) model (Figure 4.1) above we can extract the axis of voluntarism and determinism and define each end of the continuum as follows:

Voluntarism/Deliberate

Strategies are deliberate and voluntary. They can be controlled and depend on how good you are. Voluntarism is defined as the exercise of free will.

Versus

Determinism/Emergent

Strategy cannot be done. Strategy is what has been going on up to now – it is emergent. Determinism defines actions and choices as being determined by preceding events and states.

As classical strategy is our starting point and given that intuitively the notion of voluntarism – the idea that we are in control of our actions and destiny – appears the most reasonable, this chapter will adopt a stance of questioning the efficacy of voluntarism.

Voluntarism produces very little evidence of success i.e. objectives usually don't get achieved. It is often difficult to recall times when lunch occurred at the desired time let alone a particular profit margin or rate of growth. It is rare that the exercise of free will overcomes determinist forces. Wilson (1992) points to various internal activities that would seem controllable but are not i.e. even voluntary actions internal to an organisation are not sustainable.

Taking Whittington's (2001) four perspectives on strategy (see Figure 4.2.) Looking particularly at the strategy focus, we see that determinist forces on strategy may be internal or external to an organisation – they could be either or both.

If we look at strategic focus then we see the classical and processual approaches are both internally focused though classical is considered voluntarist whilst processual is considered determinist. The evolutionary and systemic approaches are both externally focused though systemic is considered voluntarist whilst evolutionary is considered determinist.

	Classic	Processual	Evolutionary	Systemic
Focus	**Internal (plans)**	**Internal (politics/ cognitions)**	**External (markets)**	**External (societies)**

Figure 4.2: Extracted From Whittington's (2001) Four Perspectives On Strategy

At the risk of overstating, it is important to consider that whilst we can reasonably see that we could be required by some external force to do something we might rationally avoid, it is less obvious to us that we might prevent ourselves from behaving rationally.

The conclusion drawn from this is that the forces of determinism may be internally or externally driven such that organisations may be prisoners of their environment or their own cognitive limits. Choices may be made but you may not have all of the choices.

People don't make free choices they make choices from a position of embeddedness of one form or another be it personal, political, cultural or social. Stafford Beer explains this with his famous question:

"Why do lobsters get caught in lobster pots?"

The immediate response to the question might cause an investigation into the dimensions of the entrance to a lobster pot or the allure of the trap. Some analysis of lobster eyesight or manoeuvrability might offer a logical argument; however, Beer's reasoning is more fundamental i.e. because they're lobsters. The logic here is that you are what you do, that an organisation is bound to act as it would naturally act. Some strategies are not open to the lobster due to its nature and structure. How often have we said 'I knew he would do that' – we see our reaction to typical behaviour. There are other approaches to constraining your choices and this chapter will outline and discuss them.

When Maya Angelou suggested that:

> "People pay for what they do and still more what they have allowed themselves to become and they pay for it simply in the lives they lead." (Maya Angelou)

She draws together the second theme of this chapter – that there is a relationship between being and doing and responsibility for the being and doing lies with the organisation itself – the organisation must accept the results of its actions. From a strategic perspective organisations can be described as being in a particular form due to structure or age or culture and that they can engage in particular strategic activities. Dawe (1979) refers to this as 'human agency becoming human bondage'. That people are free to create systems or processes to produce action but once created these same systems limit our freedom to create different systems that might result in alternative action. Organisations can be something and they can do something but these two are linked inexorably. This chapter will explore voluntarism and determinism as a dichotomy to be resolved by examining things that organisations do and things that they are.

4.2 Recipes

Child (1997) in an investigation into the processes of strategic choice suggests:

> "…there is a growing body of evidence indicating that the managers of different firms within an industry do share perceptions and cognitive maps and that these are enacted through common environmental relationships…" (Child, 1997:55)

We see the possibility that corporate managers act in a social system and may have a shared identity governing, however partially, their behaviour and so strategies – these may in time become industry recipes.

Recipes are ways in which organisations suppress voluntary action. Recipes are ways in which some of the thinking is already done for you. Some of the choices are already made because of the industry you are in. Grinyer and Spender (1979) and Johnson and Scholes (1989) refer to industry specific recipes, which in later works they refer to as paradigms (Johnson and Scholes, 1997). Johnson and Scholes (1997) suggest that managers cannot always go through the extensive strategic process and so develop shortcuts that become industry recipes for the process of strategic management.

The advantage of recipes is that they speed up the strategic process though usually at the expense of having full information to use in making decisions. These recipes that differ from industry to industry are not so much strategies but the 'collective managerial experience seen to be important in strategy formulation'.

The usefulness of a recipe is fairly obvious, anyone wishing to throw a dinner party knows that they have basically two options; enrol on a cookery course two years before the party or the much cheaper option; buy a cookbook and follow the instructions encapsulated in the recipes. Similarly strategists can develop or buy recipes for what to look for and what to ignore when devising strategies. There is an alternative to cooking your own food; you could pay Delia Smith to do the cooking for you – if you have the money. This later option might explain the proliferation of management consultants. In order to learn from others in your industry there is a perhaps a meta-recipe:

1. Find out which companies are successful in your industry;
2. Find out or work out what their recipe is;
3. Determine whether or not anyone would be successful if they used this recipe i.e. is the recipe generic;
4. Evaluate the potential of your management and other resources to copy the recipe;

This approach resonates with the evolutionary approach of Hannan and Freeman (1977, 1989) and the institutional or professional approach of DiMaggio and Powell (1983) and Powell and DiMaggio (1991) where organisations need to match their internal competences, capabilities and resources to the environment. Organisations that don't have the required or typical characteristics of their market, industry or niche are less likely to survive. In terms of a sound bite: the environment selects the successful – the successful don't select the environment.

Recipes are cheap compared to the analysis of an industry or an organisation, which can be both difficult and expensive. Recipes may ignore the environment, the recipe for spaghetti bolognaise is blithely unaware of the BSE epidemic, and so if an entire industry is in recession or wandering off to destruction, a recipe that limits itself to that industry may well miss the inevitable crash. In the 1970s the Swiss watch industry was engrossed in its endeavours to produce the ultimate timepiece meanwhile far eastern manufacturers were producing an electronic watch so cheap it could be given away free with two gallons of petrol.

In the Cornsweet illusion we may see this problem exemplified.[10] Swiss watch manufacturers focused too much on the on the central dot of making the perfect mechanical timepiece and lost sight of the developments in electronics and quartz crystal technology. Their internal focus ignored the environment, which was undergoing fundamental changes and nearly caused the industry to disappear.

The Cornsweet Illusion may be a metaphor for the inability of organisations to see gradual changes in their environment. This causes continuous change to be perceived periodically as discontinuous change necessitating radical change programmes or strategy changes rather than contemporaneous development of strategy in line with its changing environment. Grinyer and Spender (1979:126) suggest that even financial forecasts are located within patterns of belief and so are subject to the cognitive limits of the observer.

There are of course some companies who have chosen to use anti-recipes to great success. The Body Shop goes against the beauty industry recipe to sell conservation or green-beauty. Anita Roddick in Body Shop Marketing (1986) outlined:

> "What is our mission statement? It's easy – we will be the most honest cosmetic company around. How will we do it? That's easy too – we will go diametrically in the opposite direction to the cosmetic industry." (Anita Roddick, 1986)

Since the Body Shop, Daewoo showed us that high tensile polyester mix burgundy blazers and not so matching mid grey slacks were not necessarily required to sell cars. We also have banks without branches and insurance 'men' who don't knock on the door on Thursday evenings. Kenco have devised the ultimate double whammy in anti-recipes by using the best beans to make instant coffee and making a woman the managing director. Ultimately a recipe or sometimes an anti-recipe directs voluntarist action or at least actions are moderated by it making strategy emergent or subject to determinist forces.

4.3 Archetypes

Rather than evaluating recipes of action Greenwood and Hinings (1988) consider different types of organisation design in relation to their context (contingency theory) and their tracks (or ruts), that is, the way the organisation changes its design over time.

Work by Miller and Friesen (1980; 1984) had already suggested that momentum is the dominant organisational condition and that usually change occurs within a design rather than between designs. This is partially a reflection of vested interests and associated power becoming intertwined with the archetype. This correlates with Wilson's (1992) assertion that most change management in organisations is concerned with changing to remain the same. The change from one archetype to another is referred to as 'quantum' change by Miller and Friesen (1984) and this occurs only when the organisation faces critical problems (or crisis). The design tracks are:

- Inertia
- Aborted excursions
- Reorientation
- Oscillatory transformations
- Delayed transformations
- Unresolved excursions

The first and most common track is 'inertia'. This is where an organisation is in a design track that it cannot change.

The momentum of the organisation keeps change limited to within the scope of the design, restricting the choices open to the organisation. Inertia[11] is the only thing that keeps the organisation going forward but prevents it from responding to stimuli from the environment. Should the environment change sufficiently the archetype may become inappropriate and the organisation might die.

The second design track is aborted excursions. Here ephemeral disorder in the organisation results in a re-evaluation of the archetype and the organisation moves into an embryonic archetype. The movement away from the archetype is short lived usually due to the sojourn being a 'failed' experiment. The organisation may see the need to project a different structure for political reasons (such as external quality audits) that at some point in the future will be deemed unnecessary. Projecting a different structure to the prevailing archetype may be brought about to create an assumed customer focus or reassert power balances within the organisation. Managers attempt to revert (or sink) back to their original position; this is not really possible but they can often get quite close to it.

The third design track is reorientation or transformation. Linear transformations are changes in the organisation design type that have been successful. However, even if the organisation moves through to a new archetype there will be periods when the organisation will be quite fragmented (chaotic), a schizoid phase is lived through when people may be unsure whether the change will be successful. During these difficult times individuals who may be adept at dealing with these disorienting situations may emerge or be called upon to hold the disorder together, Kanter (1983) refers to these people as 'change masters'.

Oscillatory transformations are repeated 'aborted excursions'. Trying something – giving up but realising it's not good enough and going back to improve it. Then finally settling on a new archetype – some organisations seem to be constantly re-evaluating their position. Delayed transformations are embarked upon but then something always intervenes. Wilson (1992) suggests for example a company embarking on a program of say TQM might have a take-over bid put in for them. The TQM stops until this is dealt with before the transformation resumes or dies.

The final design track is unresolved excursions. These are 'linear transformations' that get stuck in inappropriate forms. This may be caused due to continuously failing experimentation or a resistance to the emergence of the new design by the prevailing design.

The underlying principle of the archetype approach is that organisations find it difficult to look out from an archetype or step out of an archetype in order to reflect on its appropriateness to its context. Even when the organisation has evidence that it is in difficulty the tendency exists to carry on 'making the same mistakes' rather than reflect and redefine its own design. There is an unwillingness to risk the uncertainty of the new or reject the safety of the present.

There is also the possibility that whilst organisations may be able to perceive drastic change or crises, organisations do not or cannot perceive incremental change. This echoes the boiling frog scenario where if you throw a frog into a pan of boiling water it senses the drastic change and leaps out. If you put a frog in cold water then bring it slowly to the boil the frog will not detect the incremental changes and will poach.

4.4 Institutional Isomorphism

DiMaggio and Powell (1983) offer another form of recipe – institutional isomorphism[12]. They re-evaluate Weber's ideas that bureaucratisation is brought about by competition between states and bourgeois demands for equal protection under the law but also primarily and most importantly by the competition of firms in the market.

DiMaggio and Powell (1983) argue that now the power of the state and the firm has been achieved it is the professions that have become the force behind bureaucratisation. Whilst this might be construed as vested interest and the development and legitimisation of management; DiMaggio and Powell (1983) take a more analytic approach which in some senses counters Hannan and Freeman's (1977) evolutionary management question 'why are firms so different?' to ask 'why are firms so similar?'

DiMaggio and Powell (1983) suggest that in the early stages of development of an organisation it is the market that prevails upon the design of the organisation's form and processes. They cite the profusion of differing models of textbooks and education moving over time to a duopoly. Also cited is the work of Zucker and Tolbert (1981) that showed that in the United States of America early civil service reform could be predicted in terms of such characteristics as the size of the city, its immigrant population, political reform movements and socio-economic composition. Later reform did not correlate to the early predictors but correlated more to the norms of municipal structure.

DiMaggio and Powell (1983) explained this isomorphism as falling into three categories: coercive, mimetic and normative isomorphism. Coercive isomorphism occurs when firms are pressured to into structuring in line with other organisations that they are dependant on or local societal cultural expectations. Milofsky (1981) is cited to show that neighbourhood organisations committed to democracy are often forced to adopt hierarchical structures in order to ensure support from donor organisations that are also hierarchically structured.

Mimetic isomorphism, the copying of something to get the same shape is not something an organisation is forced into; rather it is copying successful practice to avoid uncertainty. Kanter (1977) refers to the notion of risk avoidance causing difference to be shunned and the development of the 'homosexual reproduction of management'. The copying of structures and processes in organisations is not necessarily deliberate but brought about through the osmosis of practices through professional associations or employee transfer.

In business and management 'benchmarking' and 'role models' are probably the most common variants of mimetic isomorphism. This recipe is not necessarily industry specific it is success specific. Peters and Waterman (1982) suggest a famous '7s' model of success based on research in a sample of 'successful'[13] companies. This recipe for success is supposedly generic enough to operate in a multiplicity of organisational contexts.

Normative isomorphism stems from the professionalisation of management in two ways. Firstly the formalisation of the education of managers and secondly the growth and pervasiveness of professional bodies and networks.

Ultimately institutional isomorphism acts to limit choice on the basis of preconceptions of what is or will be successful.

4.5 Growth Cycles

Following on from the notion of a recipe as a limiting factor in voluntarist action a slightly different perspective is taken by Greiner (1972), who considers a series of possibilities or potential organisational tracks in the development and growth of an organisation from inception to maturity. This seems intuitively correct, organisations seem to start small (as sole traders if our first accounting lecture is to be believed) then grow and become mature. Williamson (1970) outlines the movement from 'U' form to 'M' form organisation structure as the firm grows. Grinyer and Spender (1979:120) suggested that changes in recipe only occur under conditions of crisis and Greiner (1972) developed this theme further by outlining a series of crises that a firm might encounter as it grows both in size and age.

Greiner (1972) sees the development of the firm in five phases of evolution and revolution (see Figure 4.3). Phase 1; sees the organisation as young and small, run by entrepreneurs. Growth is through creativity and control is simple as people are local to each other and their market. Roles are ill defined and people simply help each other. However, the person in the middle of the organisation web gets busier as the organisation grows and the local management have no structure to support them. This leads to a – *crisis of leadership* – some form of structure has to be applied so procedures and job description become leadership by proxy and functions (or departments) take on specific roles.

Phase	Crisis	
1. Firm is founded and grows through creativity	Hits a **crisis of leadership** as there are too many people for the founder to manage personally	Reacts to crisis by 2.
2. Grows through Direction	Hits **crisis of autonomy** as functions need to act independently	Reacts to crisis by 3.
3. Grows through delegation	Hits **crisis of control** as managers are not following the leaders direction	Reacts to crisis by 4.
4. Grows through coordination	Hits **crisis of red-tape** as the compiling then assimilation of monthly/quarterly/yearly reports becomes impossible	Reacts to crisis by 5.
5. Grows through collaboration	Hits a **crisis of?**	

Figure 4.3: Adapted From Greiner's Five Phases Of Growth

Phase 2; sees the organisation evolve under the control of professional managers. This functional growth (growth through direction) continues under the auspices of the leader. This is tenable until the functional area's life becomes more complicated and separate from the firm as a whole e.g. HRM have to deal with changes in the law peculiar only to HRM. Functional managers also become more expert in their field than the leaders of the firm.

Whilst control is still from the centre opportunities cannot be taken easily as there aren't any rules for the new areas. This then is a – *crisis of autonomy* – as individual functional areas cannot cope with the current structure and need more freedom. To rectify these problems the organisation develops into a new phase.

Phase 3; sees the organisation decentralised. This growth through delegation (empowering people) allows the senior management to manage by exception. The centre sets missions and objectives and let their people go? The difficulty here is that people at the periphery might be more capable than the people at the centre (who own the organisation) and they may behave independently causing a – *crisis of control* – where the senior managers feel their position is or may become undermined.

Phase 4; sees the organisation respond to the lack of control – something must be done to reinstate control. Growth through coordination exemplifies this phase; the centre tries to exert control by requiring monthly, weekly reports etc. Business units are merged; formal (especially financial and resource allocation) procedures are instituted leading to greater central control. The constant referencing back to the centre causes a lack of confidence between centre and periphery to develop leading to a – *crisis of red tape*.

Greiner (1972) suggests that the next development is Phase 5, which sees growth through collaboration with inter-functional teams, turning groups of workers to small firms, self determining work groups and profit sharing sub units.

Greiner (1972) considers changes of patterns of management in terms of growth and that firm's lurch from periods of control/stability then slipping out of control into periods of crisis where managers feel they have to do something. Greiner (1972) suggests that management practices that worked well in one phase of growth may themselves lead to crises in another phase.

Managers may feel that their action is intended (voluntary) because they feel they have got to do something but it's the fact that they have got to do it that makes the process deterministic. Your choices then are limited by where you are in your life cycle – your next crisis. Strategies are not defined until you meet the crisis. Strategy is defined by crisis otherwise you just carry on along your evolutionary track – economists might argue that it's technology change that forces reappraisal rather than the social changes within the organisation but this also would be a determinist force. Greiner (1972:38) suggests that organisations can be considered in a historical context and that each stage in their history is in some way portentous of the next.

4.6 Life Cycles

Greiner (1972) sees organizations having a history in terms of evolving and revolutionizing, which determines their action. Lessem (1989) suggests that organisations develop strategies that are determined by stages of a life akin to a human development such that what you are and where you are in your life determines what you do and what you get out of life. We don't separate our lives from our business lives so we can consider emotional or metaphysical issues in business as well as life in general.

Lessem (1989) outlines a four-stage life cycle (primal, rational, developmental and metaphysical) and suggests that choices are limited because of where you (and your organisation) are in the life cycle from youth to collection or collation of a history.

The primal stage of an organisation's development is exemplified by youthful exuberance organisations are grasping, learning, instinctive and entrepreneurial, they want to do and know about everything. Consider the question:

"Why do babies wear nappies?"

The natural answer to this might be that we don't want our living rooms to resemble a gibbon sanctuary. However, the other reason is that babies will grab out at most anything – they are fearless and fascinated by everything and unless you prevent them from getting their little hands on it…[14]

This process is a fairly primitive instinctual impulse – the judgement or aesthetic valuation of an object is essentially a question of whether or not it is edible (Phillips, 1994). This may cause a reflection on the notion that young companies are 'hungry for success' and hungry to try anything in pursuit of it. Young organisations are fearless they don't know what change is and so won't be scared by it. The Nike – 'Just do it!' slogan encapsulates this ethos though we cannot ignore its Taylorist roots in the 'just do it – don't think about it' head-hands separation of the scientific method.

The next stage is the rational phase, organizations move from the age of enterprise to the age of reason where the organization is structured and orderly. Procedures are put in place and intelligence replaces gut instinct. Rational management is intellectual, here organisations suppress opportunism and eradicate mistakes through utilising tried and tested methodological approaches. Much of management education is stuck in the rational phase.

Next is the developmental stage or the age of renewal where organizations have a mid life crisis attempting to answer the question 'what else is there?' There is often a reflection on the past and a desire to develop yourself and other people, you and the organisation have experiences that may be worth sharing. The organisation may wish to go in new directions, sometimes divisive, perhaps having an affair with a much younger organisation or buying a flashy sports car.

Many firms are being developmental when they engage with processes such as Investors in People (IiP). Management education is still largely rational causing a tension to exist (Cunningham and Dawes, 1997) e.g. JIT was developed on the shop floor of Toyota not in a business school, thus the divide and changing relationship between academia and practice may be exposed. Collins (2001) explores this as the debate between guru and academic perspectives on management discourse.

The final stage is the metaphysical phase or the age of transformation. This is when firms become wise and concerned not just with profit but also with defining a space for the organisation which considers what the organisation wishes to be remembered for. Here moral and ethical issues dominate rather than materialism and profit.

There is a limit on strategy depending on where you are in your life cycle. You cannot pursue a strategy from a stage you haven't yet reached and you don't want to go back. The age, size, resources, desire or fear inherent in an organisation may cause it or allow it not to act independently but rather behave in accordance with external or internal forces such that strategic management is ultimately determinist.

Lessem (1989) suggests that strategy is never unitary therefore a mixture of types and strategies is required. Sales is a primal activity and training is developmental for example. Strategies are intrinsic to types of people and so an understanding of the development of the organisation will impact upon the likely strategies the organisation will follow.

4.7 Summary

The classical view that strategy is driven by intent may not be as simple as it first looks, the age of the organisation or the age of its inhabitants or the recipes it follows could in fact determine the strategy of the organisation. Voluntary action and the successful application of the linear cause and effect plan may well be a rarity or even put down to good or bad luck such that Napoleons desire for lucky generals rather than good ones may not be as whimsical as it seems.

4.8 Summary Points

- Does the classical idea that strategists plan and implement strategy as an act of realisable free will hold true or is strategy the outcome of the buffeting of internal and external forces on the strategist and the organisation itself?
- Johnson and Scholes suggest that organisations give up their deliberate individual plans and actions in favour of adopting recognised industry recipes for strategy or perhaps feel they must follow the crowd.
- Greenwood and Hinings see organisations getting into ruts that are difficult recognise, see out from or get out of.
- DiMaggio and Powell suggest that firms get locked into success (rather than industry) recipes that see organisations buying into approaches and organisation structures that are 'guaranteed' to bring success.
- Griener suggests that strategies available to the firm are dependant on the size of the firm and the different stages of the growth of the firm will open up and close down strategic choices and possibilities.
- Lessem sees the organisation in terms of an 'age of man' process where strategy is dependant on how old and wise your organisation is.

5 Resource Based Strategy

James Rowe

This chapter explores the ideas behind the inward focussed approach to strategy rather than the outward focus of market positioning explored by Porter (1980, 1985, 1996) in competition theory. The chapter addresses the idea that strategy lies in the resources and competences of the organisation rather than attempting to fill gaps in the external market.

5.1 Prologue

It might be useful to consider some of the background of strategy development, which may have contributed in some part to the way that resource based strategy has been embraced by academics and practitioners.

We know from economics that there tends to be a development from 'U form' to 'M form' structures. This development is partly due to growth and perceived advantages in diversification i.e. spreading risk and the benefits of the synergies related to a multi-business firm.

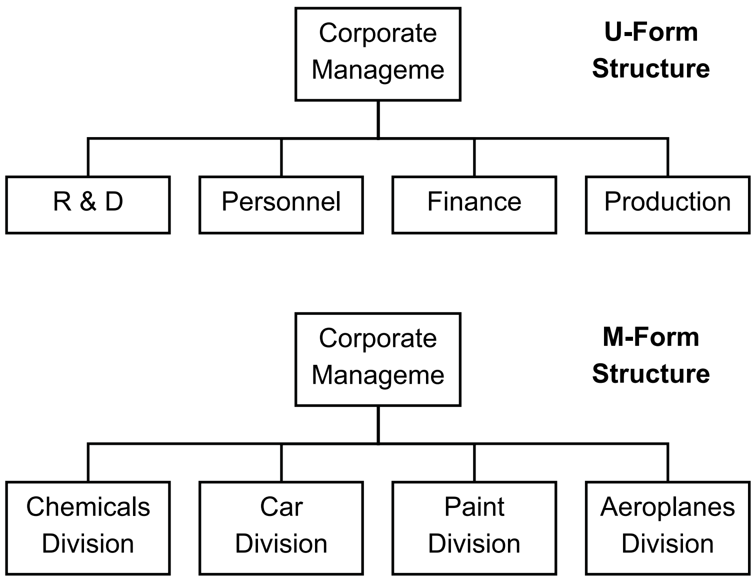

Figure 5.1: Unitary And Multi-divisional Firm Structures

In a unitary firm, say a car manufacturer, the structure is fairly simple, functions are clearly defined and strategy and culture are reasonably uniform and understood. In unitary firms that make a number of products, say cars, paints, chemicals and aeroplanes, we see a problem of conflicting interests. The firm requires functions with a huge breadth of knowledge and capability, complex financial systems, complex R&D etc. Consequently firms that make many products tend to be or drift towards a multi-divisional form. Here individual sub-business units or strategic business units (SBU's) have their own management control systems to look after their own strategies, products and markets with a corporate unit (or head office) that deals with over-arching issues of corporate strategy.

When firms tended to become multi-divisional many options and relationships became available for instance: do we share or are we an economy? So for instance if the Car division needs paint – does the Paint division supply for free or is it to be bought at cost or at a profit? If the Paint division wants to supply paint – is the Car division obliged to buy it or can it make the Paint division tender along with other competitors such that the Paint division has to face up to market competition? If the Aeroplane division invents a new product that the Car division might use to give it a market advantage – do the divisions share knowledge or is it kept secret or must the Car division buy it?

The above questions go beyond the structures of Figure 5.1 and offer an insight into the way that SBU's can drift apart or become more 'selfish' in their strategic development. So would the Paint division divest itself of a technology or competence for reasons of divisional efficiency and individual profit, even if the Aeroplane division benefited from this resource? These issues are what cause us to think beyond the division and beyond structure to consider what makes the corporation a corporation? What are the reasons for the division, what holds them together what is key to the division and the corporation as a whole and what can corporate management offer the division as a whole?

In what de Wit and Meyer (2004) refer to as the portfolio approach, the main synergy in the multi-business firm is financial. Each SBU responds to its own market and essentially stands alone in its competitive industry, with financial accountability to the corporate centre. The portfolio approach sees the business units as a collection of investments as separate pieces of work. The portfolio is possibly best understood as a collective through the Boston Consultancy Group matrix where the relationship between the SBU's is a short-term/long-term investment project with market growth rates and market share being the key performance indicators.

In some part the resource-based view counteracts the portfolio view by reflecting on core technologies and products, core competences and corporate level processes such as networks, communication corporate governance and culture. The resource-based perspective looks to synergies other than just finance to act as a common base of competence that glues the SBU's together. The resource-based view looks to the whole first before separating the SBU's up.

5.2 What Is A Key Resource?

Original definitions of management tended to evoke traditional definitions of resources e.g.

> Management is the planned deployment and control of finance, physical assets, human capital and information.

The resources were those assets that were easy to put into a firm's balance sheet. In this sense management was defined as controlling things (such as land, machinery or people) or stuff we could treat as things for instance information in documents, these assets are usually termed – tangible assets.

Development of communication technologies and more importantly 'rapid' communication technologies, movement from production to service economies as well as globalisation and global development have changed the perspective on assets. We see now a lessening of physical (tangible) assets in favour of the importance of intangible assets (Teece et al, 1997; Itami, 1987).

Some researchers see intangible assets such as management and technical skills, brands, reputations, organisational culture, networks, relationships and competences as the key drivers of competitive advantage. As important as the resources themselves is the dynamic relationships between them and the emergent nature of intangible resources. Competitive advantage stems from the assets being essentially tacit, difficult (preferably impossible) to copy or substitute for and synergistic potentially making them unique.

We begin to see two streams of thought emerge in the resource-based view that of assets (e.g. with Itami, 1987) and competences (e.g. with Prahalad and Hamel, 1990). The assets perspective tends to evoke a slightly more classical or traditional approach and competences evokes a slightly more social organisational approach. The twin themes make the resource-based view quite broad and complex to deal with.

5.3 The Emergence of Resource Based Strategy

It is generally accepted that the roots of the resource based view lie in the work of Edith Penrose (1959) then codified in the work of Wernerfelt (1984) who suggested that competitive advantage was more of an organisational issue than a market issue. In a sense resource based strategy can be seen as the antithesis of the market based strategy, this however should not necessarily reduce its importance in our thinking. There is a prevailing view that there are two principle perspectives on strategy, crudely:

1. Find a gap in the market then position your firm in it,
2. Evaluate your internal (preferably unique) resources and use them to build your strategy on.

It might be useful to reflect on this construct a little. Strategy stemmed originally from economics, Michael Porter, one of the doyens of strategy comes from an industrial economics background.

Originally firms were concerned with manufacturing to meet economic demand so the focus was on operations and economics as the drivers of strategy. Once demand was met (around the 1960s) the concern moved from economics to industrial economics and competition. It was not so much customers as other firms who were the primary concern of competitive strategy. During this transformation operations became less strategic (until its renaissance with JIT, BPR etc.) and marketing grew in importance. Marketing is the process of the firm that provides a link between production and economics and so we see 'market positioning strategy'. In the 1980s some universities and professional bodies were delivering courses in 'Strategy and Marketing' as there was such a strong link between the two subjects.

We might see here the 'age of marketing' that resource-based strategy (particularly the competence stream) may be reacting against i.e. resource-based strategy might be interpreted as the 'age of human resource management'. This of course may be inappropriate or unfair i.e. just because marketing got there first doesn't mean that we should view human resource management as an impostor or parvenu or defined simply as the opposite of the market positioning approach. The resource-based approach has it's own independent logic.

The market positioning perspective is outwardly focussed as it seeks to satisfy customer and market needs and fend off competitors whilst 'playing the industry game'. In this sense the market creates the firm and strategy is based on market opportunities. The resource-based perspective is inwardly focussed developing resources that will make the firm strong and develop products and markets. Hopefully these resources will be difficult to copy and the firm may be able to create the market with strategies based on idiosyncratic resources.

It is important to recognise that each approach does not ignore the other 'marketers' don't ignore resources and 'resourcers' don't ignore markets – it's a question of focus.

However we view resource-based strategy, the idea that an organisation's performance or strategy or success might be in some way be determined by its internal, preferably difficult to emulate, competences or strengths or assets is worthy of consideration.

Nadler and Tushman (1999) see the change in strategic focus brought on by changes in perspective from pre World War II notions of the organisation as a machine to "social and technical perspectives", the evolution of the internet, for example. Nadler and Tushman (1999) cite the seminal work of Lawrence and Lorsch (1967) whose work on a systems approach developed the idea that an organisation's structure was contingent on its environment, and that there was a "duel demand" on organisations of both differentiation and integration.

There is a further complication cited by some of resource-based strategy's advocates (Nadler and Tushman, 1999; Prahalad and Hamel, 1990) that of globalisation. The inference here is that the old market positioning tools and models were fine for domestic strategy. But globalisation brings a need to be more open to change and sensitive new product and market developments based on more complex competence and cultural relationships. This more complex perspective tends to fit with Barney's (1991) view that market positioning assumes resource heterogeneity for only a short period of time because within an industry (or group of firms) resources are mobile and so easily transferred.

The resource-based view tends to assume that the heterogeneity is longer lived and that the idiosyncratic nature of a firm's resources prevents them from being easily transferred (Barney, 1991). This is what Penrose (1959) referred to as "relatively impregnable bases". Penrose (1959) suggested that to survive firms need a foothold (an edge) it could be a production base or a specialisation or a technology – something that would sustain a firm in changing environments. To the resource-based perspective it is the depth of key resources rather than the possession or acquisition of a miscellany of 'lesser' resources that underpins competitive advantage.

To globalisation, Nadler and Tushman (1999) add technology (from the internet to personal technologies) as another driver of strategic focus that has enabled or created a post-industrial service oriented economy. The impact of this is far-reaching and complex, with hyper-differentiation and integration going hand in hand in certain markets. We see a broad array of mobile phones all doing similar but different things, whilst integrating with digital camera, MP3 player, calculator, personal organiser, web browser… These development have necessitated a creative rather than reactive approach to strategy.

5.4 Core Competence

Prahalad and Hamel (1990) suggest that it is core competences that are the spine of an organisation, especially organisations that operate in different markets. If an organisation's product range is what exemplifies difference and the need for separate attention at the strategic business unit level – then core competence is what makes the organisation the same and exemplifies the need for an overall strategy. Multi-national and multi-product organisations have moved away from the single business model approach, to develop a multiplicity of models that are better suited to the particular market and customer needs they have to address. The core competence approach in some senses attempts to re-integrate the differentiation.

Prahalad and Hamel (1990) outline three tests that can be used to detect core competences.

1. The competence must have broad potential. If we are good at making small slim wristwatches, is our competence 'watch making' or 'miniaturisation'? If our competence is miniaturisation then can we lever this resource i.e. use it to develop other products such as smaller mobile phones, MP3 players, televisions etc?
2. Would our customers value the output of our applied competence? Do people need or can we make them want smaller mobile phones, MP3 players, televisions etc and would our brand stretch into these other markets.
3. The core competences should be difficult to imitate. Imitation is difficult if it is a technology under patent but this can often be circumvented through the use of similar but different technologies. What are more difficult to imitate are the complex relationships between competences that are often hidden in cultural practices, organisational learning or internal systems of communication.

Barney (1991) suggests further that resources are valuable and so lead to competitive advantage if they are rare, inimitable and non-substitutable as these factors will maintain performance differentials and develop 'relatively impregnable bases'.

Core competence is not always obvious to the outside world and sometimes not obvious to people within the organisation and this can often result in an unforeseen competitive advantage. It might have been expected that should a company that owns Twining, Ovaltine, Silver Spoon, Mazola, Ryvita, Kingsmill, Allinsons and Patak's move into the retail sector it would do so in the grocery sector. But Associated British Foods realised that a core competence lay not just in food processing but also in logistics and stock control. So when it was able to buy up old Co-op, Littlewoods, BHS and C&A stores in central city locations it applied this core competence to mass-fashion retail with Primark.

Addressing the core competence question is a difficult problem for some companies because they have to address the question: which business are we in? – The answer to which might not be the car industry or the food retail business but in creative technology or logistics or distribution or franchising or integrating multicultural teams. The competences can be hidden in organisations under layers of functionality or short-term strategies or a lack of perspective on the organisation as a whole i.e. only seeing your part of the organisation.

It is important to understand that organisations don't make products or deliver services, they engage in the development of processes, the outcome of which is products and services. Resource-based strategy is concerned with the competences that facilitate the process rather than just the outcome, though clearly products and services are important in as well.

Problems can arise for organisations when they don't fully understand their core competences and focus too much on individual business units, the product and the financial imperatives of profit and price. This can lead to 'inadvertently' outsourcing core competence in an attempt to cut costs. Companies that outsource core competence may find initial cost advantage but may struggle to develop the 'next' product or service and may find themselves dependant on suppliers or worse still competitors. Prahalad and Hamel (1990) cite car company Chrysler who outsourced engines as 'just another component' and then found themselves dependent on two competitors to supply them. In this scenario should the suppliers hold the company to ransom or attempt to penetrate into the market themselves then much of the core competence expertise and experts may be difficult to recoup.

Initial outsourcing gains may lead to long-term erosion of competence. A company can stop producing particular products then re-enter the market at a later time but if a company outsources a core competence it may never be able to regain the competence. The industry, technology, expertise or market may have become too advanced or complex to be caught up. Conversely, companies that maintain and develop core competence regardless of product portfolio changes, have first mover advantage with regards to new product and market development.

Core competence can be used to create new products, develop new markets, and make new connections between strategic business units and strategic alliances with external organisations.

Table 1 compares the two business models of strategic business units and generic competence.

	Business Focus Strategy or Corporate Focus Strategy	
	SBU Focus	**Core Competence Focus**
Competitive Thrust	Price, quality and values of current individual product portfolio	Creating, developing and sharing of present and potential future core competences
Business Structure **Status/Role Of The Business Unit**	Portfolio of businesses each embedded in their own specific markets. Individuality and autonomy is unassailable, the business controls all of its resources other than some financial	Collection of core products and businesses related/built on shared core competences. SBU is a well spring of competence and learning adding to a network/pattern of other SBU competences
Resource Allocation	SBU's are discreet and distinct entities with resource allocated and performance measured for each business specifically	Competences as well as SBU's are the focus of synthesis with capital and talent allocated for each business specifically and across businesses
Strategic Leadership/ Management Task	Optimise profit through resource bargaining amongst SBU's	Design and implement intra and inter business structures that create, recognize, enhance and capitalise on core competences

Table 5.1: SBU Focus and Core Competence Focus Models of the Organisation Based on Prahalad and Hamel, 1990)

From Table 5.1 we see that the role of the overarching corporate management is to see and develop the 'big picture'. Organisation structures and processes need to reflect the development of core competence and assets within and across the strategic business units. Issues of information systems, technology development, R&D and human resource development (in terms of personal development and inter-strategic business unit movement of key staff) all need to be permeated through the organisation. Core competences that are in hiding within a particular strategic business unit are an under used resource.

Black & Decker build many products on basic core competence and basic technologies. The use of simple motors is the bedrock of many products but the creative use of technology in the control of the devices has offered variable-speed, torque-control as additions to basic hand tools as well as product differentiation e.g. power drill to electric screwdriver.

Prahalad and Hamel (1990) offer a useful model (Figure 5.2) to conceptualise how we might consider an organisation in relation to competences rather than products or strategic business units.

Core products are the conduit between the key core competences of the organisation and the SBU's. Core products are often the tangible artefacts of the core competence – the core microprocessor used in a multiplicity of computer products – the graphic display unit used in the domestic products division and the industrial control division. Core products are how core competences feed into SBU's and express the synergies within corporation as well as acting as the logic for the overall corporate existence.

Individual business units draw on the core products as well as their own particular components in order to produce their own portfolio of products.

Competence A	Supports	Core Product A	Supports	SBU A	Supports	End Products 1, 2, 3
Competence B	→	Core Product B	→	SBU B	→	End Products A, B, C

Figure 5.2: Competence, Core Product, SBU And Product Scheme (Based on Prahalad and Hamel, 1990)

Figure 5.2 also delineates the building of competences that underpin core products that in turn underpin strategic business units that ultimately produce the end products and services of the organisation.

Prahalad and Hamel (1990) suggest that firms that think only of current end product are not building for the future. Firms that think about end product but also think about building the core competence that end products and services are built upon will ultimately be more competitive into the future.

As Pitelis (2004) summarises in a reflection on the work of Edith Penrose:

> "The building of 'relatively impregnable bases', is itself predicated upon the successful development of resources, competences and other advantages, in a dynamic changing environment." (Pitelis, 2004:530)

Figure 5.2 outlines relationships core competences have with core products, SBU's and ultimately individual products. These interactions will lead to 'relatively impregnable bases' or positions of competitive advantage through nurturing and sharing rather than separating and looking after yourself. As Penrose (1959) puts it 'bundles of human and non-human' resources underpin inter-firm performance disparities – in fact Penrose (1959) and Wernerfelt (1984) refer to/define the firm as a bundle of productive resources.

5.5 Key Assets

Figure 5.3 outlines the asset dimension of the resource-based view of strategy. Tangible assets are fairly self-explanatory, essentially things that can appear on the balance sheet – skilled labour, capital, property, machinery, computers, lorries etc.

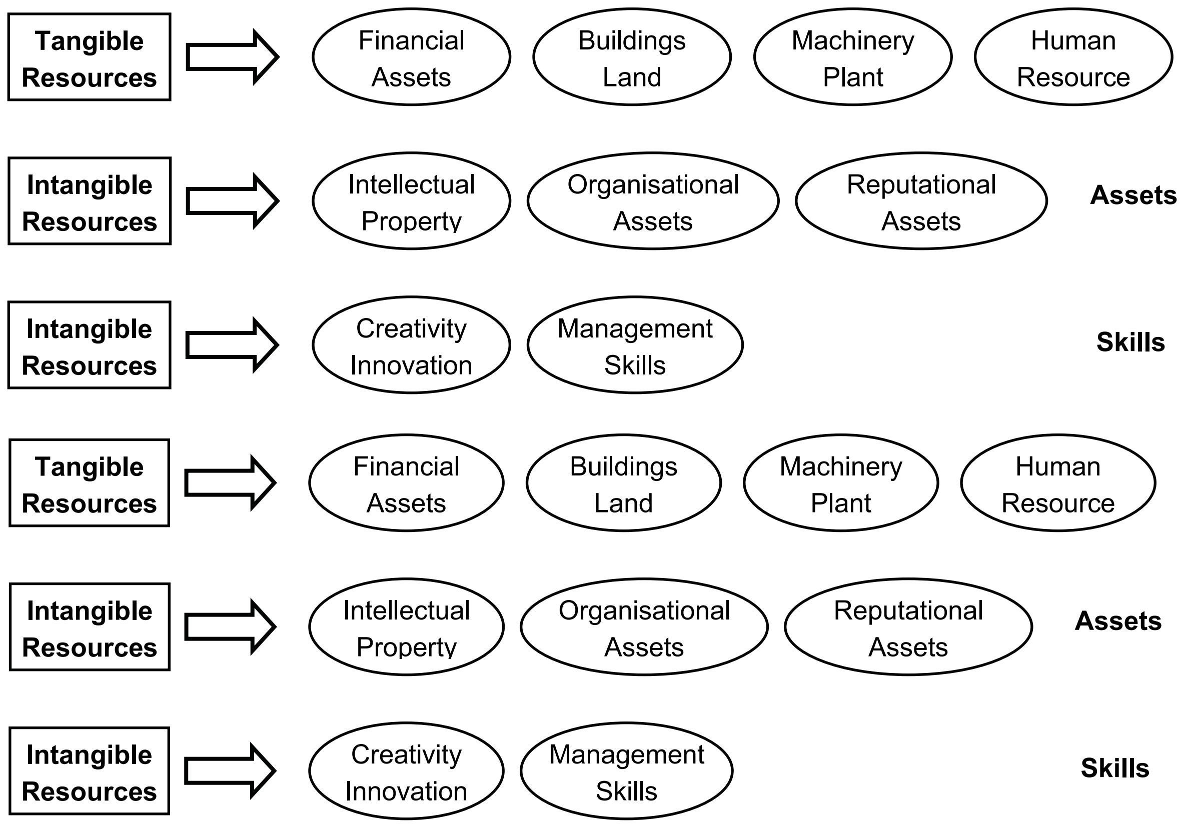

Figure 5.3: Organisational Resource Scheme

Intangible resources are sometimes split into two groups (Hall, 1992) – assets and skills – this can be a useful tool but can equally be confusing. We might consider management skills to be an organisational asset or that intellectual property isn't so much the resource as the creative process that produces it.

It is probably more important that the model in Figure 5.3 prompts our thinking rather than structures it.

Intangible resources are often more difficult to imitate than tangible assets. Intellectual property such as patents, copyrights, registered brands and company names are all protected under national and usually international law. The law then will act as a barrier to entry and facilitate a competitive advantage, as competitors are prevented from imitating the assets.

Firms may develop particular business models or proprietary technologies that they can keep undisclosed. Systems of operation are near impossible to patent but very often they are complex or subtle such that competitors may not be able to fully comprehend the depth or breadth of the system and so find it difficult to copy.

Organisational assets such as franchise and licence agreements like patents are usually protected by the law and so difficult to imitate. Assets such as culture are difficult to imitate as they are tied inexorably to the history and peculiarities of the organisation. Whilst ostensibly, organisational structure and human resource practices seem easier to copy, very often they are culturally bound (by commitment, loyalty, motivation etc.) and so full understanding is difficult to extract and transplant.

Reputational assets may be bound up in brand names and logos but reputation goes beyond that to underpin or undermine trust and credibility amongst stakeholders – clearly this is a marketing advantage. Reputation can encapsulate how customers and other stakeholders feel about the firm and feel about dealing with the firm – how they might respond to mistakes, successes and failures.

Skill, capabilities or competences – the firm's know-how is considered to be the principle resource of the organisation (Teece, 2000; Johnson and Scholes, 2002). Because knowledge and being knowledgeable are often complex, proprietary and tacit they are difficult to copy and so McEvily and Chakravarthy (2002) suggest they encapsulate the most long lasting competitive advantage. Other competences such as internal and external relationships, knowledge transfer, learning practices, problems solving, entrepreneurial tendency, speed of development – idea to-market/speed to-market capabilities can be tied into daily practice such that they act as the tacit infrastructure of what the firm does and how it does it.

5.6 Resource Networks

As important if not more important is the network, interrelationships or correspondences of resources. Often it is not just individual resources that create or maintain competitive advantage but the combination and synthesis of (particularly intangible assets) that creates the products and services that gives the firm a market advantage.

Kaplan and Norton (2000) outline the use of strategy maps that are designed as a communication/planning tool to outline graphically the various perspectives, relationships and 'causal links' within an organisation's strategy. In general Kaplan and Norton (2000) suggest that:

> "From a larger perspective, strategy maps show how an organisation will convert its initiatives and resources – including assets such as corporate culture and employee knowledge – into tangible outcomes." (Kaplan and Norton, 2000:4)

Capital		Management Of		Strategic Advantages In		Business Success Through
Human capital Knowledge capital Business capital	Supports →	Customers Production/ Service Innovation Environment	Creates →	Product leadership Customer interaction Operational superiority	Produces →	Efficient productivity + Improved revenue streams = Long term stakeholder value

Figure 5.4: Strategy Scheme (Based on Kaplan And Norton, 2000)

Key to the strategy map is the relationship between assets – tangible and intangible. If a company wishes to expand into new countries then it would need finance, customer knowledge, cultural knowledge, legal expertise, information system, training and development… The having or investing in one or even a few of these assets may reduce the probability of having a successful strategy. In this sense the breadth of assets is important but so also is the way that assets are bundled and interact – there needs to be a coming together, an interaction, a synergy. The strategy map therefore is a graphic representation of how assets interact in order to achieve desired outputs.

Finney et al (2005) suggest that bundling is important for two reasons:

1. When the firm bundles a set of resources the outcome is a set of 'higher order resources' that are more complex and difficult to copy;
2. Carefully bundled resources can result in products that exhibit superior customer value.

5.7 Interconnections And Embeddedness

Although we can see potentially slightly differing perspectives on the resources based view i.e. physical asset, tangible, intangible etc. ultimately it is the bond between them or interaction that creates the competitive advantage. Intangible and tangible resources are difficult to separate in some cases particularly in manufacturing where knowledge is related to a technology. The design and manufacture of a computer brings together the technologies and the knowledge of the designers and builders and the components.

Prahalad and Hamel (1990) cite 3M as using core competences in substrates, coatings and adhesives that shared and combined facilitate developments in various sticky tapes, pressure sensitive tapes, magnetic tape, photographic film and 'post-it' notes. The interaction between resources is often complex and/or serendipitous and relies on sharing or communication. Schön (1983) outlines how 3M used a process of failure or mistake promulgation that creates new markets accidentally e.g. with scotch tape or new products e.g. with 'post-it' notes using failed super-glue.

Clearly resources can be developed top-down on the basis of market requirements. SWOT analysis can be used as a device to bring together the market-positioning and resource-based perspectives but the bottom-up approach is likely to be the most creative in developing new products and interactions. Marr (2005) outlines a pragmatic and useful approach to running managerial workshops where managers list and prioritise resources then consider the influences resources have on each other. The mapping of resources and their interrelationships can provide a useful insight into exactly which resources are key and adding the most value.

5.8 Summary

It is possible that an over development of specific resources could leave an organisation vulnerable in that it becomes difficult to change. The metaphor of the pianist is cited in de Wit and Meyer (2004), that if a pianist spends too much time learning to become an expert then it will be more difficult to become a saxophone player should the bottom drop out of piano playing market. This is of course reasonable in some senses but equally for market driven strategies – just because you see an opportunity doesn't mean you have the resources to take it. Not many shipbuilders have gone into fashion retail regardless of the opportunities there – so there are always problems associated with radical change regardless of the strategy focus.

Change for the resource-based organisation tends to look radical at first because the company may appear to be going into a different industry but this is often not the case. The resource-based approach requires that you 'define' your company by its competence not its products. Once the competence has been recognised it is a question of seeing where you might apply it.

Where some care might be taken is when considering redundancy. Redundancy is a facet of organisations that is often a target for cost savings and this is in many ways reasonable and sensible. The converse perspective is that redundancy is often a systemic necessity – in communication for instance. You only have to watch two people in conversation to see the redundancy of facial expressions, eye contact, hand waving, stance etc. that are an essential add-ons to the words spoken.

Redundancy or slack can often be useful when organisations need to be creative or attempt projects they might normally reject for financial reasons. The resource-based approach tends to lever resources to get the most out of them and so resource efficiency evolves and excess resources diminish. This of course is ironic given that the resource-based approach eschews cutting SBU resources if they support the organisation as a whole whereas market positioning might cut resource to make the individual SBU more efficient. We see the possibility that ultimately the resource-based organisation might become more resource efficient and that this could undermine longer-term creativity and innovation.

Clearly criticisms tend to assume worst-case scenarios in order to point out the sometimes but not always obvious. A market positioning firm that that goes too far will see a gap in the market and attempt to fill with products it has no expertise in or experience of and fail. A resource-based firm that goes too far will ultimately have one competence and apply it so thinly that it will overstretch the resource or it will be so specialised that no one will need the products it can produce. The reality is more practical in that firms will look to resources and to markets in order to make strategic decision about the way they develop into the future.

5.9 Summary Points

- Portfolio firms have individual sub-business units or strategic business units (SBU's) that look after their own strategies, products and markets.
- The resource-based perspective looks to synergies to act as a common base of competence that glues the SBU's together.
- The market positioning perspective is outwardly focussed and plays the industry game'. Strategy is based on market opportunities.
- The resource-based perspective is inwardly focussed developing resources that will make the firm strong and develop products and markets.
- The idiosyncratic nature of a firm's resources prevents them from being easily transferred and this can lead to "relatively impregnable bases".
- Resources are valuable and so lead to competitive advantage if they are rare, inimitable and non substitutable as these factors will maintain performance differentials and develop 'relatively impregnable bases'.
- Core competence must not be outsourced.
- Firms are bundles of productive resources.
- It is not individual resources that creates or maintains competitive advantage but the networks of (particularly intangible assets) that create the products and services that give the firm a market advantage.

6 Global And International Strategic Management

James Rowe

This chapter explores the ideas behind and methods of, dealing with international or global strategy. The chapter attempts to introduce and evaluate the usefulness of international and global strategy thinking.

6.1 Prologue

Before globalisation is considered we perhaps need to put it into perspective. There is a general sense in business today that we are living in a global community or at least we are going that way. According to the Institute of Policy Studies in Washington DC – 51 of the top 100 economies in the world were corporations (cited in Wheen, 2004). Thus the 'Principality of' General Motors was more economically powerful than Denmark. We might reasonably feel that this is an example of the growth of globalisation; however, during the eighteenth century the East India Company once collected £3.5m in taxes at a time when the total expenditure of the UK exchequer was £7m. On this basis we might ask if we will ever see globalisation on this scale again.

In a social sense Wheen (2004) also points out that:

> "During the nineteenth century about 60 million people left Europe for America, Oceania or Africa; 10 million moved from Russia to central Asia and Siberia; 12 million Chinese and 6 million Japanese emigrated to East and South Asia; 1.5 million left India for South-East Asia and Africa." (Wheen, 2004:257)

Current global economic migration doesn't come anywhere close to this scale of mass movement.

We see then that globalisation could in fact be in decline, and in terms of the movement of capital and labour it probably is, however, there has been an increase in media and technology around the globe. Although globalisation in terms of trade is in decline; globalisation of culture, politics, economic values and media makes it look like there is more globalisation. Whether or not we are experiencing a decline or growth of globalisation we do need to consider the affect it has on strategy development.

If we were to brainstorm a list of the dimensions of strategy or strategic management we might come up with a list such as:

- Product/Service
- Finance
- Labour
- Management Skills
- Culture (of the workforce and the market)
- Marketing (including logistics)
- Infrastructure (transport, education, communication etc.)
- Environment (economic, legal etc.)

This list is not extensive or exclusive and we will go no further with it but the point here is that should these issues only be considered when thinking about a home strategy and not a strategy in another country or continent or even the globe? The obvious answer is 'no' strategy is strategy is strategy and it doesn't matter where you are, it's just the emphasis that changes. When we live in a country, do strategy in that country, transport our products and sell our products/services in that country we probably don't consider culture, infrastructure and economics that much, as they are pretty much the same for the workforce, management and the customers. We probably don't consider the limitations of the infrastructure that much because we have grown to accept them and they are in our subconscious rather than in our explicit plans. Globalisation requires us to revisit some of the dimensions of strategy we can take for granted in domestic strategy formulation and implementation.

The multinational enterprise (MNE) and globalisation provides a problem for strategists in that strategy as a subject has drifted away from the universalism and biases of economics in favour of other constructs such as technology and organisation theory. In globalisation, we need to go back to basics and revisit Coase's (1937) seminal question 'Why do firms exist?' – The original answer being broadly that market transactions are less efficient than those brought within the control of the firm. Madhok and Phene (2001) in rethinking Coase's question into 'Why do multinational firms exist?' suggest that again because markets will fail but also it's because of the multinational's superior ability to take advantage of knowledge creation and transfer.

Ultimately the world develops globally, social and technological changes have allowed or encouraged the more significant changes that may be construed as globalisation. That is, there is a tendency for things to evolve and grow in size or in number (unless constrained by internal structure or environment) – we see this in nature and in commerce. The American anti-trust laws and the UK Mergers and Monopolies commission are evidence as is the concern of the power held by large organisations in relation to governments, from General Motors, IBM, Du Pont in the past and now the concerns of Microsoft and Google determining how we access the internet superhighway.

Perhaps Michie's (2003) notion that globalisation, due to its political dimension, is a choice and that we can chose not to have it, is not really open to us. In electronic communication you cannot always choose who picks the phone up or even it seems where they are. 0800 numbers and personal telephones are independent of the other participant in the transaction – once when you phoned someone up and then asked 'where are you?' it was a stupid question but no more.

Bird and Stevens (2003) in their case study of the thirty nations that competed in the 1996 ESPN Extreme Games, noted that the competitors were largely indistinguishable due to their similar dress, argot and aspirations. Clearly it is not surprising that late teens in Shanghai have more in common with late teens in Colorado than their respective middle aged parents but more interesting is their similar tastes in slang, tee shirts and cultural mores. Bird and Stevens (2003) go on to explore the idea that this globalisation is the result of similar culturisation processes of these young people who have ventured out into other cultures. In doing so they have changed and so seek others with similar experience that they may 'connect' with. Bird and Stevens (2003) suggest that these 'local globals' or 'glocals' have travelled and experienced the world to the point of holding dual nationality – they are citizens of their own country and citizens of the world also. These world citizens tend to be:

- Well-educated and knowledgeable about world affairs.
- Connected to the world i.e. able to travel and communicate.
- Self-confident based on their success and spirit of adventure.
- Pragmatic (not un-principled) in that they will find creative and imaginative ways to get things done.
- Not intimidated by national cultures and boundaries.
- Democratic and participatory – will take initiative and expect others to.
- Individualistic (sometimes idiosyncratic) but inclusive in that they take the initiative but design others in rather than out.
- Flexible and open.
- Begin from a position of trust when initiating relationships – tolerant but not necessarily approving of others. (Bird and Stevens, 2003:401–2)

Tensions may develop between local globals (or glocals) and nonglobals in that glocals may be seen as defectors from the national worldview or nonglobals may become alienated or feel alienation from world developments. As with the Extreme Games competitors global managers have more in common with other global managers than their national compatriots. In a sense this is not new we have seen the pervasiveness of global language with Greek then Latin then French then English and now (American) English so we may simply be entering a new chapter rather than a new book.

Enterprise has and will cross national boundaries, globalisation (as used currently) is the same but different. Trade is not only in inert objects but also in information and here the medium is instantaneous (or nearly) and often not controllable by either participant in the transaction; consequently the choice is not whether or not we have globalisation, its how you choose to match its variety – how you deal with it.

Dunning (1980) is concerned with developing an approach that is useful and flexible in dealing with the multifaceted problem of globalisation and living with it.

6.2 The Eclectic Paradigm: Ownership, Location and Internalisation

The lack of an adequate theory lead Dunning (1980, 1993, 1995, 2000) to develop his 'eclectic' or 'OLI' paradigm which attempts to bring together elements of theories and empirical research together in order to create a useable approach to multinational strategy development. Dunning (2000) posits that the three dimensions of O(wnership), L(ocation) and I(nternalisation) allow us to consider the activities of multinational enterprises (MNEs) and determinants that drive foreign direct investment (FDI). Dunning (2000):

> "…avers that the extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables…" (Dunning, 2000:163)

These 'interdependent variables', ownership, location and internalisation, offer a locus for our thinking in doing analysis, synthesis and making decisions in relation to international or global strategy development.

Ownership factors relate to the resources and skills your organisation owns and so can deploy and utilise. Location relates to the issues (advantages/disadvantages) of a particular location your organisation is looking to develop or develop in. Internalisation considers the mechanisms and degree of control of the global venture required or desired by your organisation.

Ownership factors compensate for the disadvantages of being ‘foreign’ that tend to create barriers to entry and range from:

- Issues of size and power such as financial clout, patent protection, political power, economies of scale or market share.
- Competence issues such as technical skills, marketing skill, management competences.
- Resource issues such as raw materials, distribution networks, human (including intellectual) capital.

From the above factors, an emergent source of competitive advantage or barrier to competitors evolves in that the ability to network or combine the various sources to augment an advantage offers another development tool to use in the creation of international strategy.

Dunning and Lundan’s (1998) research suggested that MNEs could derive benefits from foreign-based activities. Dunning and Lundan (1998) point specifically to locations of high technology development (such as Silicon Valley and Silicon Glen). They suggest that created assets can be location specific (particularly in high technology industries). And that this might explain the increasing amount of FDI activity through mergers and acquisitions rather than green-field investment, as this is the only way to gain access to their required assets.

Location factors relate to spatial concentration/separation and clustering. It might seem obvious that in considering globalisation location would be important, historically however, most economic literature tended to be concerned with location factors in the home country. Location advantages and issues tend to be tied up with the:

- Interaction issues of exchange rate mechanisms and risks, infrastructure, cultural differences and similarities, political situations in, and relationships between ‘home’ and ‘foreign’ locations.
- Supra national issues such as policies and regulation of global bodies WTO, World Bank, UN etc.
- Business or industry issues such as logistics (transportation, distribution etc.), market size, demand levels, growth rates, transaction costs introduced due to geography, industry standards, labour costs, property costs, clustering of competitors and suppliers.
- Synergy issues around creating new (difficult to imitate) assets through learning, interactions, innovations and economies of scale.

Internalisation can be loosely considered as the control (and so the reduction of uncertainty) and cost of control of international or global activity. So in a sense there is a scale of our commitment to international growth, expansion and competition. Figure 6.1 makes an attempt to show the degree of internalisation and so internationalisation.

Low Control And Internationalisation **High Control And Internationalisation**

Export Goods	Use Of Agents	Licence Agreement	Franchise Agreements	Joint Venture	Merger & Acquisition	Build New Plant	Plant + R&D + Marketing

Clearly the degree of internalisation is dependant on several factors:

- Firstly the economics of transactions, for example why build a plant in a country when your production capacity can handle the growth and shipping the product is so easy and cheap you can simply export. Conversely if you need greater capacity anyway and transportation is going to be expensive and the market you wish to sell to has the appropriate labour and infrastructure and can act as a spring-board for other markets then build a plant there. Exchange rates and their volatility can also influence internalisation costs and decisions.
- The nature of the product will impact upon the decision if it is hamburgers we can offer franchise agreements, if it is so specialist that only the home workforce can make it then export, if we are so concerned about maintaining the patent and protecting our knowledge then build a plant there, if there is a company in the location we can learn from enter into a joint venture.
- Political considerations can be far-reaching and complex as governments may require a physical presence in their country or region, the use of local materials or suppliers, the sharing of knowledge and technology (technology transfer).

The consummate form of internationalisation is probably to build a plant within the market you are expanding into but move on from drone production to the development of intelligence in the region. With innovative activities (e.g. marketing, R&D) indicating a commitment to learning and developing market specific products/services but also the learning from those markets to influence the rest of your organisation.

6.3 Why Globalise?

Dunning (2000) suggests that the logic of globalisation or international strategy is tied to growth of the organisation and competition:

- FDI could be demand specific in that particular geographic markets might require products or services a company can offer.
- FDI could also be supply specific in that geographically specific resources might attract an organisation wishing to take advantage of them.
- FDI may be efficiency specific in that it is the natural extension of the deconstruction of the value chain. For example, once upon a time if you wanted to be a car manufacturer you might start by building power station, a steel mill, a foundry and a rubber plantation. Alternatively you could buy steel and components such as tyres into your assembly plant. However, due to developments in IT and communication technologies as well as improved transportation, global infrastructure and political access, the assembly function itself can be deconstructed into sub-units of value addition. This means that low-tech assembly can be done in one country then the skilled element of assembly done in another.
- FDI might also be competitively oriented by maximising your competitive advantages you displace those of your competitors.

These largely economic reasons may also be clouded by the political exigencies of the firm or even the nation for example if an American firm develops the market in say China the firm's main rivals may simply follow in order to keep their options open. Governments may have vested interests in its home firms developing in particular regions based on political desires. There is also the management-labour power balance to consider in that the ability to simply switch production to another country is potentially a trump card in wage and productivity negotiations.

We must not confuse a desire to do something with our ability to do it, Vernon's (1966) explanation of how firms penetrate and widen their markets and then location requirements; change as the firm evolves from innovation to standardisation of products and production. This may offer the 'why' of globalisation but it is the development of our increasing reliance on knowledge and technology based commerce that have reduced the barrier that distance and geography might once have created. As well as the reduction of trade barriers in Asia, Europe and America (with international treaties) combined with the emergence of countries such as China, Malaysia and South Korea as powerful economic forces that offers us the 'how' and 'where'.

Madhok and Phene (2001) pick up on the notion of the changed environment since OLI was developed. There is now a developed global presence of MNE's where value creation depends on innovation in overseas locations as well as in the home base and knowledge creation and transfer is the source of competitive advantage.

Cross-border commercial activity is now commonplace such that cross-border joint ventures, mergers, cooperation and competition are no longer exceptional events for many organisations. These organisational forms may be unstable or temporary but this is an economic reality and not grounds for dismissing the phenomenon. There has been a breaking up of the production and globalisation process in that some firms partially outsource production and service activities across borders. The automotive industry with feeder factories shipping engines and sub-frames to assembly plants and service sector organisations outsourcing financial and IT facilities from western Europe to the Indian sub-continent being examples of these new organisational forms. These variations on the structure and process of the organisation are breaking down the distinction (or boundaries) between notions of the 'firm' as distinct from the 'market' – here we see the MNE as a sub-economy in itself.

Madhok and Phene (2001) suggest that in a mature global commercial environment, where knowledge plays an increasing role, we see advantage being created in headquarters or within the subsidiary or in the systemic interactions between them. This might explain the continued existence of the MNE as they have a unique advantage in the creation and transference of knowledge. Madhok and Phene (2001) consider the converging nature of MNEs in terms of configuration of activities and suggest that the separate consideration of O, L and I does not help explain this.

6.4 The Single Diamond Model of Global Competitiveness

Porter (1980, 1985) developed ideas based on the use of value and competition from industrial economics, the five forces, generic strategies, the value chain are well known concepts. Porter (1990) went on to develop ideas in and around competitiveness and competitive advantage at a national level. A gross simplification of this approach might be based on the philosophy of Sparta or Nietzsche's assertion that 'that which does not kill me will make me strong'. If you have a 'home based' industry made up of companies within your country that are very competitive then this intensely competitive environment will be a breeding ground for strong global companies (MNEs). Porter (1990, 1998) asserts that to breed globally successful companies, this competitive environment needs clusters of supporting industries i.e. geographic concentrations of interrelated organisations (private or public) within a particular field.

Porter (1990) devised the diamond model of 'determinants of national advantage' for considering international or global strategic development. The model essentially consists of four determinants (see Figure 6.2) with the two meta-factors of chance and governmental influence.

Political Economy -Government
Industry Specific Factors – Human, Knowledge, Finance Capital
Product/Service Demand Conditions – Customer/Market Profiles
Related Industries Network – Synergistic Networks Of Tacit Collaboration
National Industry Strategy And Rivalry – Domestic Forces Prepare For Globalisation
Luck-Chance-Serendipity-Chaos

Figure 6.2: Adapted From Porter's (1990) National Strategy Drivers

Porter (1990) suggests that the primary determinants are:

- Factor conditions, which encapsulate production factors such as the skilled labour, land, natural resources, capital, knowledge and infrastructure, required for competing in a particular industry.
- Demand conditions, which encapsulate the nature of the home demand for a firm's or its industry's product or service. Issues such as the volume, growth rate and market segmentation of demand and the level of sophistication in the demand requirements – such as quality, price, delivery, specification will all impact on a firm's and industry's performance. Possibly the key dimension however, is the degree to which the home demand conditions reflect the needs or desires of global or international markets now or in the near future. Here the USA's exploitation of its culture through the film and music industries creates the second-order structure of desire for products and services that US commerce can supply.

- The related and supporting industries determinant reflects the way synergies can help a home firm or industry become a global player. Here we are concerned with Porters (1985) supply chain in that if you want to become a strong car maker then developing in a nation that has a strong tradition in steel pressing, tyre production, electronics, industrial design etc. will be of great help. As the firm has preferential access to high quality inputs to its value chain. The strength in an emerging industry is often based on the strength of its predecessor. Porter (1985:101) suggests that a strong Swiss dye industry to some degree gave birth to a strong Swiss pharmaceutical industry. Possibly the key dimension however, is the degree to which home suppliers interact with the firm in terms of innovation, technology development and synergistic relationships for new products.
- The firm's (and industry's) strategy, structure and rivalry are to some extent nation specific i.e. are we individualistic or group or shareholder or stakeholder oriented etc. The logic here is that for some industries being successful in a home market will be a good grounding to be successful globally as long as national characteristics compare favourably with the international markets the firm is going into. Possibly the key element is the home rivalry. Firms that have had to become strong and have sustained a competitive advantage in conditions of intense rivalry in their home market are likely to be well prepared for global or international competition.

Chance is usually associated with sudden events that create discontinuities in markets: oil crises, new technologies, new inventions, political events and wars etc. can all undermine the industry leader's advantage and help install new firms to prominent positions.

Citing the electronics industry as an example Dunning and Lundan (1998) suggest that governments can shape industries through policies such as protecting industries from the market until they have matured, or by incentives for green field development. The European Union's common agricultural policy effects farming in Europe but also affects agriculture in other countries that might wish to trade with Europe. We must also recognise that policies are not necessarily always protectionist or 'helpful' in a direct sense – it could be argued that Honda became a global car manufacturer because government policy makers in Japan felt that there were enough home car manufacturers forcing Honda to operate abroad.

Porter's (1990) work has been criticised, most notably by Davies and Ellis (2000) who cite Porter's (1990) confusing use of competitive and comparative advantage as well as productivity and market share in defining competitiveness, further confusion over nation, industry and company is cited as clouding the analysis. Davies and Ellis (2000) suggest that these shifting terms allow Porter (1990) to argue in circles without actually proving anything specific as the basis of his analysis.

The assertion that global success rests on the strength of the home-diamond may initially be true for a global firm. But as globalisation matures and more and more activity is outside of the home market it would be more likely that the 'foreign' diamonds would play a more important role in a firm's global success.

6.5 The Double Diamond Model of Global Competitiveness

The major criticisms of Porter's (1990) diamond are centred on its not accounting for existing multinational activity. The focus of MNE activity has moved on from the dynamic between global firms in a local market to the dynamic between global firms in multiple locations. From Porter (1990) we see an economic based western perspective of globalisation where self-reliance and personal responsibility feed through into strategic response. This may be compounded by Hofstede's (1999:37) view that "… many Americans believe in a historical necessity for the rest of the world to become like them." Ritzer (2004) suggests that global culture and globalisation tend to flow from the US to the rest of the world. Ritzer (2004) explores this in terms of 'grobalisation' defined as:

> "…the imperialistic ambitions of nations, corporations, organisations, and the like and their desire, indeed need, to impose themselves on various geographic areas." (Ritzer, 2004:164)

Corporations seek the growth of their power, influence and profit at the expense of local cultures and economies. We see that it is easy to sell Coca-Cola in countries when Hollywood and pop music have got there first.

As with Porter's (1980, 1985) earlier work on competition the work on globalisation (Porter, 1990) focuses on self perhaps to the extent of seeing others by looking in a mirror. This idea that there is a collection of firms all behaving in a similar and simplistic way diminishes the necessity to consider other firms. This has advantages in that it makes life simple but also disadvantages, as you are not taking full account of your environment. In an attempt to rectify the omission of the 'other' Rugman (1990, 1991, 1992), who to some extent operated as Porter's bête noir offers insightful critique but also extends the diamond model in a more inclusive way to create the 'double diamond'. Figure 6.3 outlines the double diamond model.

Geo-political Economies-Supranational Institutions

Industry Specific Factors – Human, Knowledge, Finance Capital	Inter-National Factors	Global Industry Factors – Resources, Workforce, Education
Product/Service Demand Conditions – Customer/ Market Profiles	Inter-National Conditions	Global Product/Service Demand Conditions – Growth Rate
Related Industries Network – Synergistic Networks Of Tacit Collaboration	Inter-National Networks	Global Industrial Networks Of Related Industries
National Industry Strategy And Rivalry – Domestic Forces Prepare For Globalisation	Inter-National Structures	Global Industrial Structure, Global Industry Rivalry And Generic Strategies

Luck-Chance-Serendipity-Chaos

Figure 6.3: Global Strategy Drivers (Adapted From The Double Diamond Model)

The double diamond sees competitiveness not through the introspection of a national diamond but accepts that the activities of the environment of the national diamond will impact on the competitive dynamic. Rugman (1990, 1991, 1992) creates a recursive model where the national industrial diamond (see the inner diamond of Figure 6.3) interacts with the global industrial diamond (see the outer diamond of Figure 6.3) – the interaction between the national and global diamonds is accommodated by an inter-national diamond.

Moon, Rugman and Verbeke (1998) suggest that it was the failure to take a wider or more holistic view of globalisation that caused Porter (1990) to underestimate the global success of Singapore (without a strong national diamond) and overestimate the global success of Korea (with strong national diamonds). The double diamond model does not see national industry in isolation but includes the role of multinationals into the global competitiveness dynamic.

The notion of a national diamond has some efficacy in large developed economies. However, economies in smaller countries often don't have the degree of rivalry needed to support a strong 'home base', the critical mass of a national diamond does not exist without the inclusion of multinational activity. Porter's (1990) notion of the 'home base' is difficult to realise in small or peripheral economies. Clancy, O'Malley, O'Connell and Van Egeraat (2001) develop similar perspectives in their study of Eire.

In Eire, despite a healthy and improving economy, finding strong and competitive indigenous industries proved difficult as many of the industrial clusters were across borders and much of the industrial commercial development was due to FDI. Clancy et al. (2001) further question the usefulness of the single diamond when the domestic industry is small but experiencing a fast growth rate rather than being already established. Their research into Irish industry questions the use of the single diamond in affecting industrial policy.

Porter (1990) is concerned with the scope of the 'home base' of competition in a single country i.e. the size of the industrial cluster rather than the process of the development of clusters (clustering) that might move across geographic boundaries. This concern for the static cluster rather than the locus of clustering of related industries causes problems with the single diamond as it assumes industries or countries are always starting from a level playing field or are the first industry to 'go global'. The role of multinationals is to allow the clustering to develop across countries and regions.

Moon, Rugman and Verbeke (1998) develop the double diamond by attaching figures to the axes that show the diamonds pulled out of shape and the less symmetry the less globally competitive will be the industry.

The single diamond is unidirectional; it looks from domestic to international. In this sense we use the single diamond to see how *our* FDI will do in *your* country. We are not necessarily taking due consideration of *your* multinational activity that might be compensating for what appears to be a weakness *we* are attempting to take advantage of. The double diamond essentially incorporates the inter-national activity (with the principle trading partner in particular) to more comprehensively evaluate the competitiveness of the home base in the global domain.

The diamond research has been developed and expanded, Bellak and Weiss (1993) and Narula (1993) call for the inclusion of factors external to the home diamond creating supranational or multiple diamonds. Research by Brouthers and Brouthers (1997) further developed the diamond model by considering the service sector. They found that the use of double diamonds improved the effectiveness of analysis but multiple diamonds offered very little if nothing more than the use of the double diamond.

The usefulness of the diamond model may be limited in that clustering is often not possible in small and developing countries (Brouthers and Brouthers, 1997; Clancy et al., 2001). And for a country (especially a small or developing one) to centre its scarce resources in attempting to achieve a cluster may find itself chasing a forlorn hope when making strategic alliances across borders might have been more pragmatic. As with much of Porter's (1980, 1985, 1990) work on competition the mode of intervention is instrumental in that the dynamics of competition are seen in an instrumental, objective way. The political dimension is alluded to or even stipulated in the models (with 'Government' in the diamond). But poor performance of say major oil producers such as Iraq or Venezuela cannot be explained in terms of clusters to the degree it can be explained in terms of their political relationships with powerful western economies.

6.6 Strategy, Resources and Knowledge

When business in general and strategy in particular meets something new they tend to revert back to economics. This may have occurred in globalisation resulting in what Clark and Knowles (2003) refer to as Economic Procrusteanism or forcing globalisation to fit inappropriate economic strictures. Clark and Knowles (2003) suggest globalisation is a "super topic" that needs wider involvement of academics and practitioners. With this in mind we turn our attention to other dimensions of globalisation.

Madhok and Phene (2001) are concerned to introduce strategic management ideas into the mature MNE environment in considering the macro-co-evolution and micro-co-evolution of the MNE. Macro-co-evolution is the co-evolution between subsidiaries of the MNE and their respective market niches whilst micro-co-evolution is the co-evolution between subsidiaries borne of their interaction with each other.

We see macro-co-evolution in the development of call-centres in India due initially to low labour costs has in combination with the local economic situation attracted highly educated graduates because of the relatively high (local) wages offered. This creates innovative, intelligent call centre facilities some of which are developing innovative services adding value and driving service strategies.

Micro-co-evolution tends to centre on knowledge creation and transfer when the globalisation of the organisation is complete (see Figure 6.1). And the intelligent activities of the organisation such as R&D, technology developments etc. are spread throughout the MNE rather than concentrated in 'headquarters'. We see then the organic development of knowledge creation and transfer not up or down an organisational structure but between networked subsidiaries that work close to their markets and with greater autonomy and responsibility for adding value and maintaining comparative advantage.

Fahy (2002) develops a model that links resources, competitive advantage and performance through consideration of resources that are difficult to duplicate. Key resources are divided into basic and advanced resources with assets and capabilities considered separately. Fahy (2002) suggest that it is the dynamic relationship between assets, capabilities and resources in relation to the home and foreign bases that creates the global competitive advantage.

In Fahy's (2002) research it was the barriers to duplication of the firm's specific resources that became important in providing a source of competitive advantage in the global arena rather than a country's resources. Consequently the ranking of Porter's (1990) country-of-origin effect on competitiveness may in fact be a false indicator in determining global competitive effectiveness. Whilst economic factors may be important in the competitive relationship between a global firm and a local market, it is management factors that become important in the global firm versus global firm competitive relationship.

Fahy's (2002) conclusions suggest that resources themselves will not create competitive advantage. That given the greater array of resources and customers in the global environment the greater emphasis is on the ability of managers to be responsible for the identification, development and deployment of resources. Here FDI should not only focus on access to markets but also the development of firm-specific resources in conjunction with advanced (technology, education system etc.) country-specific resources.

6.7 Cultural Dimensions

So far with the OLI and the diamond we have considered globalisation objectively (at least as far as we can be objective) to consider models or tools that will help us structure our thoughts. In using globalisation models, Dunning with location and Porter with national characteristics are directing our thoughts towards the sticky issue of culture. Whilst people are people are people all over the world with a great deal that binds us together – at a continental, national and regional level we are all very different. As van den Bosch and van Prooijen (1992) posit, culture may need to be considered more directly than Porter (1990) suggests i.e. through dimensions of the diamond model. O'Shaughnessy's (1997) custom, history and politics dynamic should similarly be considered as developing trajectories of global activity – for example the USA has a long history of investing in Eire that has something to do with the infrastructure and well educated workforce but as much to do with their historical links.

The impact of national culture is difficult to consider not least because we each view culture from a position of embeddedness in our own culture that is bound to infer a bias. If we take Lammers (1990) research into consideration that most of the literature available to us is written in North America, this will further bias our perspective. Lammers (1990) explored the differing national perspectives "varieties" of organisational sociology that have grown up alongside and influenced different national managerial practices. Lammers (1990) concludes that most sociological analysis tends toward a 'unitary' or 'pluralist' view or a combination of the two and that their dimensions tend to traditional versus modern; hierarchical versus democratic; mechanical versus organic – this research indicates that we may be able to make observations of national cultural differences and similarities.

Hofstede (1991, 1993) suggests that cultures vary from nation to nation (region to region) dependant on the core values of particular sets of people and that culture is the "collective programming of the mind that distinguishes the members of one group or category of people from another." Core values are a people's broad preferences for particular states of affairs over another – clean or dirty, fair or unfair, immoral or moral etc. D'Iribarne (1997) did more focussed research into cultural differences and similarities (in a French, Dutch and US company) that balances Hofstede's (1991, 1993) broad-brush approach. D'Iribarne's (1997) work points out some inconsistencies and possible deeper interpretations but broadly supports Hofstede's (1991, 1993) observations.

In his extensive empirical research Hofstede (1991, 1993) explores cultural differences and similarities in relation to management with his original four then five cultural dimensions. Cultural characteristics act as a kind of mental programming of our responses to particular situations or our perceptions of them. The five dimensions are:

1. Individualism versus collectivism. Individualism is the propensity some societies have to consider life a free for all where individuals have to look after and think for themselves (and their immediate family) rather than others. Collectivism is the propensity some societies have to be tight knit collective units. We see here extended family and strong social bonds with group perspectives dominating individual freedom.
2. Power distance. In large power-distance societies the inequalities of society are allowed to develop and become institutionalised, often creating disparities in wealth and social status and reducing democracy in managing and decision making. In low power-distance societies power is more evenly distributed so the degree of autocracy and polarisation in society is lessened.
3. Uncertainty avoidance. Weak uncertainty avoidance is exhibited by societies that accept and accommodate the uncertainty of the future. They tend to be secure in themselves, relaxed about doing work, taking risks and are tolerant of the behaviour and views of others and so underprepare. Strong uncertainty avoidance is exhibited by societies that are anxious about the future. They tend to be nervous, emotional and aggressive as well as hedging against risk by developing security systems with technologies, laws, expert opinion and religion or dogmas and so over prepare.
4. Masculinity-femininity. Is based on the biological difference between men and women, though here the socialisation of these differences becomes salient. A masculine society is one where the difference between male and female roles is great. A feminine society is one where the difference between male and female roles is not significant. We need to be specific here in that a society where men went to work and women looked after the home and children would be masculine but a society where women went to work and men looked after the home and children would also be masculine. A society where either men or women went to work or looked after the home and children would be feminine. It is the separation of roles not the roles themselves that is key to masculinity and femininity.
5. Long-termism versus short-termism. Long-termism is a society's propensity to concern itself with matters of the future, its willingness to suffer hardship or mediocrity now for the realisation of long-term benefits this will hopefully bring in the future. Clearly this assumes a surety in predicting the future or at least having some control on your own destiny. Short-termism is a society's propensity to concern itself with matters of the present, its willingness to take immediate responsibility in the present with out deferral of hardship or success.

Another perspective developed by Trompenaars (1993) and Hampden-Turner and Trompenaars (1993) that due to some academic differences between Hofstede (1996) and Hampden-Turner and Trompenaars (1997) might well have become an alternative perspective. Trompenaars (1993) research developed seven dichotomous relationships that define cultural behaviour, these are:

1. Universalism versus particularism. Universalism is a society's propensity to seek and apply general theories or truths that might exclude lesser or newer abstractions from real experience. Particularism seeks, accepts and accommodates a more pluralistic perspective to the variations that life might throw up.
2. Analysis versus integration. Analysis broadly covers a society's desire for a reductionist technical-rational understanding of the world that reduces the whole into its constituent parts in order to understand, manage, repair and control it. Integration takes a more holistic perspective of the world that views the interconnectedness (lost in analysis) as key to understanding how we might cope with our reality.
3. Individualism versus communitarianism. This driver explores the concern for oneself and immediate family over concern for the greater community. Issues around personal freedom and the concomitant responsibility over our duty to society and reliance on its support will evolve from this polarisation.
4. Inner directions versus outer directions. This polarisation develops from notions of internal and external attribution at a social and individual level. Thus success or failure of a strategy might be considered the result of our own efforts or down to the exigencies of the environment. Sometimes complications and cognitive dissonance may occur when we attribute success to our own efforts but failure to the efforts of others.
5. Status by achievement versus status by ascription. This polarisation centres on whether or not status is based on performance, ability and track record or on the basis of what is expected of you given your credentials. In an organisational sense this might relate to your success or failure in particular jobs or industries contributing to a track record that people might use to judge you, alternatively your university or social class or gender or race may play a greater role in the judgement.
6. Equality versus hierarchy. This polarisation explores a society's relationship with power and knowledge in a number of ways. The Tayloristic separation of thinking and doing is evoked here in that the CEO does the thinking whilst others do the doing. There are other issues around the depth of the hierarchy and so the density of the organisation in relation to communication and bureaucracy over flexibility. Still more consideration might be given to the ascribed validity of views of those not at the top of the hierarchy and information and knowledge developed by them.
7. Time as sequence versus a synchronised view of time. This dimension is concerned broadly with whether or not it is best to do things quickly or together. Here we might consider time as relating to the sequence of events in our own part of the organisation or even our own job or activity, alternatively we might see other activities or parts of the organisation operating in different time scales that we might need to accommodate for the greater interconnected purpose of the organisation.

Hofstede (1996) questioned Trompenaars (1993) work suggesting that the analysis that offers seven cultural drivers was not sound and Hofstede's (1996) own analysis of Trompenaars (1993) data showed fewer drivers that loosely related to his own research.

Hampden-Turner and Trompenaars (1997) responded to Hofstede's (1996) criticism evoking perhaps the culture of culture in that we may be looking for drivers of culture that enable us to position particular modes of management that we can either understand, accommodate or attempt to change. Or we can look for drivers of culture that fluctuate between ostensibly polar opposites that we have to follow in order to gain a more localised or current understanding. For example, if we take Hofstede's individualism versus collectivism or Trompenaars' individualism versus communitarianism, we might ask are we concerned with whether or not French or German managers are individual or collective. Or how they manage (or accommodate) the paradox of individualism versus collectivism; or in fact move between these apparent opposites in their management of the organisation. This might be further complicated by Bird and Steven's (2003) perception that national cultures may be being eroded or subsumed by the emerging (or converging) global culture anyway.

6.8 Summary

Clark and Knowles (2003) suggest that globalisation has created some strange allegiances – such as the World Bank and International Communism (see Clark and Knowles, 2003). This makes life more interesting and more complex in trying to pin down what exactly globalisation means.

The difficulty Clark and Knowles (2003) show is that globalisation could be defined as economics, sociology, anthropology, linguistics etc. causing inherent tensions in the subject domain due to the coming together but at the same time the divergence of various academic perspectives and practitioner strands and cultures.

Ritzer (2004) draws our attention to the globalisation-glocalisation tension of the homogenous world of globalisation and the heterogeneous world of glocalisation where local and global are integrated rather than local being overrun by global or global being rejected by local.

Anthony Giddens (1999) offers an interesting exegesis on this polarisation referring to the hyper-globalisers whose ideology can be found in the works of Kenichi Ohmae (1985, 1990, 1995, 2001). Here globalisation relates to the renaissance of the city-state in a global market. Giddens (1999) suggests that this seemingly improbable scenario has some efficacy, as it is to some extent the 'informing ideology' of business.

At the other end of the axis lie the globalisation sceptics (Hirst and Thompson, 1996, 2003; Rugman and Hodgetts, 2001; Rugman, 2003; O'Neill, 2004) who debunk the globalisation myth, suggesting the development of a triad society rather than a global society and producing a tranche of statistics such as:

> "The 50 years between 1950–2000 are not remarkable when compared with the period 1850–1914 – in that period flows of merchandise trade, capital investment and labour migration were all comparable to or greater than those of today" (Hirst and Thompson, 1999 cited in Hirst and Thompson, 2003:17)

This suggests that there was more global trade in the 1900's than in the latter part of the nineteenth century, the notion being nothing much has changed.

Rugman (2003) is similarly sceptical of the notion of globalisation preferring regionalism or triadism as a more appropriate focus for our research and practice. Rugman (2003) produces economic statistics to show that in 2000 intraregional trade in Europe, NAFTA and Asia accounted for more that half (but less than two thirds) of all exports. Rugman (2003) suggests that out of the largest 500 corporations in the world only nine could be considered global and the rule he uses is that only 20% of sales have to be in each of the triad regions. The indication being that electronics is the only industry we can consider global and possibly the chemical industry and some of the companies we might consider global are at best bi-regional.

There seems to be a divergence in our reflections on globalisation or at least different time lines amongst the various perspectives. The 'evidence' of economics suggests that the world is not global but regional (Europe, Asia and NAFTA) or has possibly stopped off at regional on the way to global. At the same time sociology and cultural perspectives are observing an already global or glocal world.

We see that the 'business' of globalisation can draw on the 'hard' issues of economics and management or the softer issues of culture or sociology to enable us to consider and evaluate our potential for 'going global' or 'going regional'. However we might reflect on the consequences of the global firm as a global sub-economy itself with the possibility of a reduced role for government and the potential for the economic gap between first and third world to be closed or widened. At the risk of being overly pessimistic it might be wise to remember that the British Empire – that last great traditional empire was based on mercantile entrepreneurship rather than nationalistic inspired bellicosity or philanthropy.

We see that global strategy may have developed from a peripheral consideration to a central consideration in strategy thinking until eventually we may revert to the 'strategy is strategy is strategy' nostrum we began this chapter with, as strategy absorbs global strategy or vice versa.

6.9 Summary Points

- Globalisation is not an agreed understood area of strategy (which in itself is not an agreed area of management and organisational thought).
- Globalisation is a cultural, political, industrial issue that the limited business and management perspective must recognise and acknowledge in order to contextualise and reflect on the limits of business and management models.
- The eclectic paradigm of OLI offers a useful starting point for global (and or international) strategy thinking but may require follow up research of political and cultural dimensions of global activity.
- Porter's diamond is useful in understanding initial global activity for large developed economies but may lack the complexity needed to deal with smaller economies and mature global industries – here the double diamond may offer a deeper understanding.
- We see again the balance of economics and organisation theory in that the OLI model considers the organisation and its potential foreign location as the focus of strategic thought whereas Porter's diamond sees strategic activity as the outcome of an analysis of the industry the organisation exists in.
- As global activity matures the more mainstream strategy tools and approaches may absorb or be absorbed by globalisation tools and approaches. This may also be the result of the global firm becoming a mini-economy in itself such that issues of knowledge and resource become more prevalent to doing strategy.
- Cultural perspectives on life the world and everything will affect and be affected by globalisation strategies and outcomes.

7 Strategic Action: Culture, Change And Leadership

James Rowe

This chapter paper suggests that when we consider management we consider also its tentacles reaching out into things such as resources, operations, technology, rationality, control and stability. When we consider leadership we need to consider its tentacles reaching out to a different set of relationships of process, emotionality, instability, change, time and culture. This chapter attempts to explore some of these relationships to gain a greater insight into the differences between leadership and management in a strategic context.

Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blooddimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.
Surely some revelation is at hand;
Surely the Second Coming is at hand.

From 'The Second Coming' by W.B. Yeats

7.1 Change

In considering the notion of change and our dealing with it, the poem by William Butler Yeats (above) serves to engage the thinking of complexity and in some cases chaos not as a special case but the reality of the world in which we develop our strategies, then whilst the design of our strategies might be ordered, their implementation is not. Pettigrew (1997:338) explains that "Human conduct is perpetually in a process of becoming." and that "…social reality is not steady state." The trick for strategists is to catch reality on the wing rather than put it into a cage to hold it still.

Judging the pace of change is difficult. Judging its instigation is more so. Often in organisations when we try to stay still we find things are changing and when we try to change we are held back.

If management and leadership have differences (though we cannot discount similarities) in the way they perceive or cope with change and stasis, then we may need to consider what drives their perceptions or underpins their coping.

So far we have considered strategy, and implicitly the role of the strategic manager. We have found perhaps that strategic management is more determinist or emergent than the classical planning and controlled implementation (predict and prepare) model would suggest. From the size and age perspectives of the organisation, the issue of management control appears to become less important or less possible at various times in the organisation's development. This leaves a space or a time when other dimensions may be considered. Miller and Friesen (1984) suggested that quantum change occurs in moving between paradigms. Greenwood and Hinings (1988) and Greiner (1972) see change as a sort of steady state change or growth within a paradigm and transient change between paradigms possibly brought on through crises.

Chia (1999) recognises that change is an organisational (and life) reality and not a special case i.e. that change is the natural state of our existence. This idea of change is problematic for us in that we see change as a special part of our organisational life. We have an entire discourse on 'Change Management' when in reality all management in action is change management – perhaps we need to consider 'Stop Management'. A distinction drawn here is between 'change' and 'rate of change', between change management and acceleration management (or leadership) perhaps. The interesting difference here is between steady state change (within the paradigm) and transient change (between paradigms), both of which imply change to some degree. The acceleration of transience is most difficult to deal with, analyse and synthesise – though sometimes easier to sense or feel. The issue arises as to who does the changing – the CEO or Director of Corporate Affairs or is it leadership from any part of the organisation?

Steady state change opens itself to the possibility of the usefulness of strategic management – the controlling of the organisation and even to a degree its environment. Transient change may require us to consider other dimensions of the strategy knowledge project. One of these dimensions might be that there is a need for leadership rather than management or that there is a situation of flux between the two. Strategic leadership may then be where voluntarism lies in the strategic development of the organisation. If management is the science that reduces the organisation into its perceived constituent parts to become separate and manageable, then leadership is the art that relates to the wholeness and the emotion of the organisation. Figure 7.1 sets out some of the differences between the themes of strategic management and strategic leadership.

Strategic Management	**Strategic Leadership**
Concerned with change	Concerned with rate of change
Steady State	Transience
Appeals to rationalism of science	Appeals to the emotion and spirit of art
Sees the organisation as parts	Creates the organisation as a whole

Figure 7.1: Themes of Strategic Leadership And Management

Whilst we are unable to define management and leadership in an absolute sense, we can consider leadership in relation to management in terms of the sort of things these processes like, can do or appeal to. Basically management is about (or likes) order, control, resources and appeals to rational science (see computers doing information management) and tends to look to or re-evaluate the past. Leadership is about (or likes) chaos or disorder and appeals to emotions, aspirations, fears and looks to the future. These are not absolutes or mutually exclusive in individuals who may flip between manager and leader but exemplars of the possible different ends of the continuum or continua.

To consider the role of voluntarism and leadership we need to consider strategy in a slightly more specific way. Pettigrew (1997) sees a change in thinking and writing on strategy as the consideration of a series of isolated 'things' such as actions, decisions, causes or events to the consideration of "…constellations of forces shaping the character of the process and its outcome." (Pettigrew, 1997:340). The interconnected process (rather than 'thing') view of strategy relates to the notion of organisation meaning 'locked in time'. Considering the organisation as a collection of repeatable behaviours (processes) from which a strategy might emerge is more helpful than considering the organisation as a series of separate static functions, from which a strategy can be joined together. Why should we expect arbitrarily separated production, HRM, marketing etc. to contribute to the organisation's strategy in some ordered planned way.

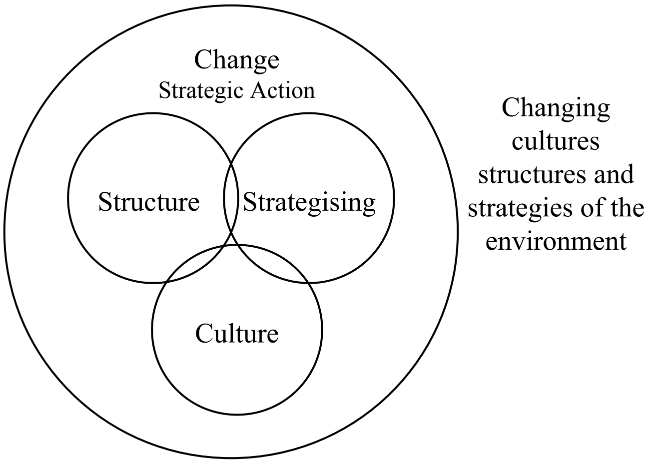

Figure 7.2: Key Facets Of Strategic Management

Figure 7.2 attempts to show strategy in a slightly more strategic (rather than functional) context, as the interaction between the culture and structure of an organisation with strategising (the thinking about strategy) and strategic action (the doing of strategy). Boundaries between organisational processes are for our thinking, as in reality no boundaries exist – the organisation is a series of processes. Processes are 'held together' by interaction rather than being 'held in' by a container. One implication of this idea is that the organisation and its environment is not so much the static entities that say SWOT or PEST might point us to – but the past and future of the organisation.

For leadership, our environment is our past and our future – what was interacting with us and what might interact with us next. Leadership accepts and works within time seeing interrelationships, process and emergence as paramount whilst management accepts ceteris paribus, reductionism, things and puzzle solving as paramount. Strategic leadership changes the present in order to create a future. Strategic management accepts the present then plans for the future.

If we implement a strategy (do strategy) we change something – our organisational culture, structure or thinking. Bate (1994) suggests that strategy is culture and culture strategy so though inextricably linked, for convenience a distinction is drawn between strategising (thinking about strategy), strategic action (the doing of strategy), structure of the organisation and culture.

Failure to deal with all three elements might undermine strategy development, as an example, John et al (1997) outline the three periods of globalisation. Period 1 (1920–50) as Multi-national, Multi-domestic, Period 2 (1950–80) as Global, Pure Global and Period 3 (1980–) as Transnational, Complex Global (John et al, 1997). This model may be an alternative explanation of why the first globalisation in the 1900's became multi-domestic in nature. Structure (including technologies) along with strategising could be transported to new geographies with managers but the culture transplant requires the mass media communication that only the Internet and global telecommunications can facilitate. The strong wave of nationalism seen by Porter (1986) as the main driver of the multi-domestic model may well have become a pure global economy if the globalisation (Americanisation) of culture had got there first, as it so often does today.

7.2 Model Of Culture

Edgar Schein (1997) suggests there are three levels or layers of culture. Firstly values are visible manifestations of culture the broad missions – to increase customer satisfaction or equal pay for equal work etc.

Beneath values lie beliefs. Beliefs are more specific values, assumptions, and behaviours that are sometimes hidden but can be resurfaced to enable discussion and action on them – that hospital managers must not interfere with clinical decision making or female rape victims are taken care of by female doctors and female police officers etc.

Beneath beliefs lies the paradigm. The paradigm is the taken for granted assumptions at the core of culture – the non-negotiable model of the organisation's accepted thinking and behaviours that people find difficult to explain sometimes because they are unaware they are acting in accordance with it.

Often managers and consultants never get down to the deeper issues of the paradigm and it can sometimes take a crisis or catastrophe to gain an insight into the deeper assumptions i.e. to re-surface the forgotten. For this reason some managers and academics think the possibility exists that culture cannot be known that it is impossible to articulate or access. Other writers suggest that culture can be managed or moulded to fit the perceived need of the organisation and in fact see it as imperative to do so.

Regardless of whether we think we can or cannot discuss or define culture what is clear is that culture cannot be extracted as a variable. The culture of an organisation cannot be separated from it – it is inextricably bound up with the organisation. We might as well suggest separating the English language from the writings of William Shakespeare.

Culture as a subject evokes many arcane ideas such as mysticism, fable, folklore and superstition. Superstition is in some sense a systematic dealing with the unexplained. Stories are ways in which ideas are communicated so there is not really any surprise that they exist in organisations. In thinking about these ideas and other ideas such as symbols, power and control Johnson and Scholes (2002) developed the cultural web model to take a strategic view of culture in an organisational setting.

As with Schein (1997), Johnson and Scholes (2002) see the organisational paradigm as the central deep-rooted core of culture but see six principle dimensions of culture contributing to the paradigm. The six dimensions are stories, symbols, rituals and routines, power structures, control systems and organisational structures.

The cultural web is concerned with the stories that exemplify the best and worst of the organisation – the heroes and villains, who to trust and who not to trust and the stories behind why people think this. Ritual and routines represent the order of actions within the organisation 'We always review the departmental budget on the first Monday of the month.' for example. Ritual and routines have often been built up historically in conjunction with stories because they offer a comfortable structure to lean on but they are usually designed to avoid the recurrence of previous mistakes – 'and so ever since that incident we always keep to the procedure to avoid similar customer complaints.'

The symbols of the organisation (or their use) can range from the mundane to the dramatic. Office size, view from the window, what type of chair, company car, parking space etc. At a different level of recursion the company logos and brands are symbolic. More importantly to the notion of culture and change is the idea that leadership of culture change is sometimes seen as the management of symbolism. This attempt to understand leadership through the language of management is problematic as they are not necessarily the same dialect.

Power structures in organisations will relate to the key assumptions of the organisation, power is usually associated with the holders of the resources (senior managers) or the holders of the expertise. Often financial managers (accountants) score twice on this metric as they have expertise and are associated with resource (money), this might explain why a lot of UK chief executives have financial backgrounds. Other power structures that commonly exist centre around trade unions or work councils and technology such as IT. Again many IT systems were historically associated with financial management so the power structure reinforces itself. Pfeffer (1992) and Hardy (1996) outline the key role of power in strategic change in overcoming resistance to the desired changes as well overcoming inertial forces and barriers to networking or collaboration when change is welcomed.

Control systems operate on a broad spectrum from job descriptions to line management structures. At the organisational level similar control structures exist often relating to benchmarking (balanced score cards etc.) in terms of quality of service and targets (performance indicators). The UK health service and other ex-public sector services have used this model with ideas such as controlling (reducing) hospital waiting lists, length of waiting time in Accident and Emergency departments etc. usually tied into budgetary constraints. The organisational structures formal and informal are clearly tied into power and control structures usually in terms of communication and speed of reaction within the organisation. This is interesting, as time is not considered in the cultural web, making it a useful snapshot tool to describe culture, though perhaps limiting it in considering change.

The paradigm then is central to the cultural web in that it reinforces and underpins behaviours and thinking in the other dimensions of the web whilst at the same time being representative of them.

7.3 Modes Of Culture

Debra Meyerson and Joanne Martin (1987) discuss three modes of culture: paradigms one, two and three. The Meyerson and Martin (1987) model uses the organisation's response to ambiguity as a starting point for their development.

Paradigm one deals with the internal and external ambiguity of the organisation by ignoring it or seeing it as a temporary glitch. Culture is seen in terms of what is consistent and unique about an organisation so change in the culture would necessarily, due to its universality, have to be radical. To collapse an entire organisation's belief system in order to create a new one, instigated by the leader of the organisation then passed down to the rest of the organisation.

Paradigm two sees the organisation cope with or manage ambiguity created by the organisation having to act as a composite of gender, various professional, racial and class cultures. Paradigm two accepts the possibility also that culture sits in culture – we might imagine that the culture of IBM or McDonalds or Disney is modified by the culture of the country or region each branch or division is located in. Cultures and sub-cultures overlap or co-exist and so are only unique in terms of their particular combination. Change here is iterative or incremental as there is no one view to radically change. Change is interpreted locally and individually. Organisational change scans the multiple cultures whose relative importance changes due to internal or external forces such as professional development new technology or market forces impacting more specifically on particular sub-cultures and less so on others.

Paradigm three does not ignore ambiguity or attempt to manage it but sees it as the way things are. Culture here is not consistent or inconsistent but unclear due to complexity or our ignorance of it. Here consent and dissent, clarity and confusion coexist or flip from one to the other, nodes of culture collide or coalesce, often in surprising ways. In the Knesset in Israel Hasidic Jews and Palestinian Muslims, whilst in some senses at opposite ends of the religious divide find themselves largely in agreement (and so allies) over the issue of the secular state of Israel. Change here is continuous within and between individuals in terms of behaviour and interpretation. Culture is not what the organisation changes from or to but the means of change.

The Meyerson and Martin (1987) model sees paradigms one and two as fairly safe and straight forward to comprehend as states of being, with paradigm three being more difficult due to its more complex shifting nature. Meyerson and Martin (1987) do not suppose that an organisation is culturally unitary or plural but rather researchers and practitioners view them as such as it is useful at times to do so.

It is clear that if we observe a company for a day we might say 'This Company has a very helpful air about it, people are always helping each other.' After a few months in the same company we might say 'This Company has a culture of helpfulness apart from the XYZ department or the ABC process where infighting is the norm.' So at different levels of recursion (or degrees of focus) a company is unitary and/or pluralist.

Our reasons for simplifying culture into unitary and plural are clear – we would rather deal with simplicity than complexity and (especially when we need to act) the more information we have to order our complexity the more precise our actions can be. Deal and Kennedy (1982) support the idea that a strong (unitary) culture can be powerful in guiding behaviour.

Paul Bate (1994) suggests that strategy emerges within a cultural context and culture emerges in a strategic context. Bate (1994) explores the idea that the issues of strategy, culture and the organisation are in fact interchangeable if not the same thing from a different angle i.e. culture is strategy and strategy is culture. These interrelations can operate at a shallow visible level or deep invisible level. Bate (1994) sees culture as a creation (a fiction) of the organisation where many fictions might exist together. Consequently leaders are like writers of fiction as they are creating the 'story' of the organisation, as it would like to be presented internally and externally. Here we see a tool of the leader. The leader does not use a two by two matrix to order thinking and resources; the leader creates stories to undermine order in thinking and culturally accepted behaviours.

The leadership stories can be positive or life affirming or creative but leadership and change are often painful (Wilson, 1992). The use of Porter's (1980, 1985) notions of value emerge from the leader's toolkit, to act as a proto-story to include people throughout the organisation in the strategy story without making the story explicit. The use of 'value' and other metaphors such as 'machine' or 'organism' etc. allow us access to understanding when we don't have all of the facts.

7.4 The Embodiment Of Leadership – The Leader

We can consider 'a manager' or 'a leader' as individual people. We can consider leaders or managers as groups of people in an identifiable unit e.g. teams of people who lead rather than 'a leader'. More importantly we can consider management and leadership as processes i.e. not things.

The first problem with considering the 'things' is that managers can also be leaders as well as accountants or mothers or friends. To call someone a manager is simply to reduce them to some aspect of behaviour they are capable of at a given moment in time. This could be why management and leadership are difficult to distinguish in the human beings themselves. This may be compounded by the problem that to define is to surround or boundary and we are dealing with a continuum (of leadership/management) rather than an isolatable thing. This may be further compounded in that some of the defining is from (or in terms of) a thought to be understood definition of management, which in fact we may not have. We may need to consider management and leadership in terms of their responses to change and accommodation of it.

Leaders may emerge from a change situation but they are not necessarily dependent on it in the way managers tend to be – in fact the leader's emergence may well be due to their difference to it. Managers need an organisation to manage leaders only need people (or a person) in order to lead. This may be why sometimes leaders brutalise their organisation – they are not so concerned with its stewardship.

7.5 Why Change Culture?

There are clearly a myriad of reasons why an organisation might want or need to change. This strikes at the heart of – why do strategy in the first place. Not the only reason but certainly a pretty good one is strategic drift developed by Gerry Johnson based on James B. Quinn's ideas of logical incrementalism.

If we imagine that the environment is changing in a linear way and the logical changes made by the organisation are designed logically to step in line with the environment. The neat modifications that emerge from careful adjustment, realignment and learning are often not so neat resulting in changes that hunt and fluctuate around the environmental change. So whilst the environment gradually changes our organisations try to stay in line but can't quite do so and hover close to the environment.

This seems like a reasonable model but what if the organisation does not stay in tune with the environment, what if its scanning processes are providing less than accurate information or the learning is not being done or applied?

Sometimes companies that need help with their strategic development will call in consultants who recommend change programs, often the management of the companies feel that they have been changing already. The issue is not change as change in itself is natural and in fact unstoppable, it is rate of change that is problematic. If the scanning and learning are not working or if the organisation's culture is obstructive to designed change and implementation then we could end up with strategic drift. With strategic drift, the environment continues to progress but the organisation's adjustments are based on inadequate data. The organisation begins to drift, leading eventually to a strategic gap between the organisation's perception of where the environment is and where the environment actually is.

Here the organisation thinks it is progressing in line with environmental change but in fact it is drifting. Here then we find a reason why the culture of the organisation may need to be changed in order to draw closer to the environment.

To maintain, develop or transform culture is clearly difficult so we need to think about how we might go about this and what notions and ideas we would have to bear in mind as we progress.

Culture is difficult in that we can instigate green field culture in a designed open system in the way that Nissan did in the North-East of England. Partly because they wanted to avoid 'traditional' car manufacturing culture, Nissan (as did Toyota in Wales) deliberately chose a non-car manufacturing region for their plant and through careful training and inculcation created a particular culture. This transient instigation is then followed by the steady state maintained by arresting the natural entropy of the organisational culture that will see it seek an equilibrium position with its environment (i.e. in this case British or NE English culture). This entropy can be abated by the introduction of negentropy in the form of information and the order or rules and procedures (structure). These approaches require huge amounts of energy primarily because culture is almost impossible to manage, if we assume 'manage' infers control of some sort then culture is lead rather than managed. Culture can be impacted upon and the cultural change and the culture itself may correspond to the leadership given but culture cannot easily be managed.

7.6 On Culture And Change

In organisational management, bureaucracy acts to maintain the stillness as the procedures, routine and order holds steady our lives Binns (1994). We can also pretend management is not about change by putting the change part in a special place called 'change management'. What we see here is that management is about order and order is an attempt at stasis that can never succeed due to the nature of change in the world; at best we can manage a steady state change. Transient change cannot be managed because of the uncertainty and risk involved and the fear of failure. If we are to manage and control change, we must know its outcome – but the visceral, violent, destructive and creative nature of transient change offers few certainties.

If leaders are to transience what managers are to the steady state, then the leader must instil the feeling that death does not lie at the end of the transience. If we consider the schizoid phase of Greenwood and Hinings' (1988) linear transformation, we see that the schizoid phase requires a leader not a manager. The change master is the leader (or leaders) able to create and exist in chaos. Leaders act as a 'centre of indeterminacy' and replace the culture and structure of the organisation with trust and faith in their ability, courage, charisma, common sense, experience etc. Leaders enact transience in themselves and the organisation. Leaders expose and/or protect the organisation from transient change while maintaining the safety of those lead. As Avolio and Bass (1987) suggest, a leader both creates and copes with transient change; they are empowered by their environment but empowered also to ignore it.

In 'steady state change' the structure and culture of the organization are stable and so are managed. In 'transient change', culture and structure become fragmented and less useful in the sensemaking of the organisation. The organisation, which exists in the chaos created by the leaders or from which the leaders have emerged, requires that its sensemaking structures be deferred to the leader.

Leaders act as the organisation's reference point, or safe haven, where sensemaking carries on whilst the culture and structure are in transition. A leader is a singularity that embodies the simultaneity of strategising, strategy in action, structure and cultural influencing during transient change. The luck, uncertainty, chaos and risk in transience create a mutual desire of some in the organisation to embody order in the chaos they have been subjected to or instigated. Whilst others defer order to the leaders given the limited usefulness of the artefacts (structure, rules etc.) of organisation in sensemaking.

7.7 On Implementing Change

Change has many personal costs associated with it (Wilson, 1992). We have a more complex emotional problem with learning about change and learning to change in that, whereas *change management* is often in reality a process of maintenance of core beliefs, learning and change are the movement of being (towards the other). Leadership and change occupy the space left by managers and management.

Social worlds (specifically our organisations) are held together amidst infinite possibility through their transactions, relationships and behaviours.

Boundaries do not exist around our organisations they are held together not bound together. On the other hand our thinking about the world is bounded because our brains are not infinitely capable. We generate models of the world that are similar to other people's models because we are people and we generate models more similar to the people in our organisation because we have more similar starting points from which to generate.

We build up models in similar ways so our culture emerges from our natural propensity to be similar and this similarity can be at once forgotten and at the same time celebrated as a fulfilment of ritual desire for reciprocal mirroring (Orr, 1993). We see people as similar to us because we build up models of ourselves as we build up models of them. This model of the situation may appear to be a little solipsistic – that the world is just a figment of our individual imagination and that other people are roles being played out in our heads – this is not so, we do get information and some of it we process to modify our models.

Culture then is apparent in the relationship between the individual and the social and as such cannot be separated from the group or the individual. The coincidence of meaning must be emergent in the relationship of the individual and the group and not in one or the other.

Hofstede (1999) suggests that whilst management practices may vary, change or develop the underlying culture remains relatively firm. Hofstede (1999) suggests caution when considering culture and management practices, as the former remains stable the latter will change or the former is difficult to change whilst the latter is easier to change. In the famous study by Peters and Waterman (1982) in search of excellence they suggested, "…shared values represent the core of corporate culture." Hofstede (1999) suggests, "…shared (perceptions of) practices should be considered the core of an organisation's culture." Leaders' values shape organisation practice such that organisation culture may be indirectly managed but ultimately societal values will remain stable.

7.8 Culture Change

In moving from the notions of what is meant by culture and change and its place in strategy thinking we can now think about the action of change or implementation. We look at implementation from two perspectives that might be considered top-down or bottom-up. These terms are used only to convey general ideas as the idea that an organisation might have a top or a bottom, or a centre and a periphery are constricts that change and culture work around rather than within.

Bate (1994) outlines four approaches (aggressive, conciliative, corrosive and indoctrinative) to change generally that we can consider applying to culture.

- Aggressive culture is decree based; coercive; conflictual; winning/losing; unitary; imposed.
- Conciliative culture is agreement based; collaborative; winning/winning; pluralist; integrative.
- Corrosive culture is informally based; evolving; unplanned; political; coalitional; networking.
- Indoctrinative culture is training based; normative re-educating. (Bate, 1994:168)

The aggressive approach (or leadership with a machine gun) attacks the incumbent culture head on by challenging the paradigm and breaking it up. Killing the sacred cows is often a job for the 'tough guy/gal', the trouble-shooter, the hatchet man or woman.

Less dramatic approaches can be utilised, what Bate (1994) refers to as re-writing history to make the old order appear villainous in their stewardship such that the new order can appear heroic. We sometimes see this in the financial press where a company's poor performance is rectified by the bringing in of a new management team with a proven track record that the 'City' approves of.

The conciliative approach operates more slowly appealing to the reasonableness of people in the organisation to work through their differences to achieve change. Change here is not an ideological shock wave through the organisation but the gentle rippling down of pragmatism. There is no need to undermine others, rather work with them so that change becomes a continuous process so 'everyday' that it becomes mundane or the norm within the organisation. The conciliative approach does not smash the old order it chips away at it so that we don't really notice when it left and the new order arrived.

If the aggressive approach sees a unitary power to be beaten and the conciliative approach sees a pluralistic situation to be managed then the dog eat dog corrosive approach perhaps sits somewhere in the middle. Political power lies at the heart of the corrosive approach but it is inherently pluralistic. The order to be replaced is not unitary but a complex web of coalitions and fiefdoms that can only be tackled by subterfuge. There are winners and losers here but we do not see them standing or prostrate in bloody uniforms as the haze of gunpowder subsides. The fighting here is unseen carried out by untrustworthy subversives, agents and double agents with secret deals, promises and blackmail. The power here is not polarised but dispersed and more evenly balanced such that guerrilla tactics are preferred to a mass meeting at dawn.

Finally the indoctrinative approach takes change out of the organisation and into the classroom. Ostensibly the approach seems enlightened as we educate people in the domain of change and culture in order to allow them to change themselves and their organisations. The drawback here, like much of education, is that the process is hierarchical and we find often a more subtle aggressive approach. Instead of telling people about the change and what they therefore have to do tomorrow, we can take them to change school where we give them the tools to be able to work out for themselves what they have to do the day after tomorrow.

Debra Meyerson (2001) develops the idea of a more bottom up (or beneath the radar) change approach that she terms the 'tempered radical'. These quiet revolutionaries lie at the opposite end of the spectrum to the 'heroic' leaders. Quiet revolutionaries often have specific change agendas that they persistently work at over long periods of time – leadership in slow motion perhaps. Meyerson (2001) sees the organisation changing in an iterative manner similar to the conciliatory approach outlined by Paul Bate (1994). Meyerson's (2001) outlines a spectrum of change agents or agency. Firstly, disruptive self-expression sees individuals making changes that disrupt the organisation's paradigm – for instance putting family before work by not working after 6:00 pm or making symbolic gestures in relation to sex or race that might unsettle the status quo.

Verbal jujitsu is the rhetorical art of turning an opponent's strength back on them. Meyerson (2001) cites the case of a gay manager, Tom Novak, who when in earshot of a comment from a male colleague along the lines of 'I don't mind gay people as long as they don't flaunt it…' responded by looking at the picture of the colleagues wife and child on his desk and suggested that he didn't mind heterosexuals as long as they didn't flaunt it.

Variable-term opportunism requires creativity and an eye for the main chance. In attempting to demonstrate that a corrosive culture of working is expending too much emotional energy and resource the grand gesture may fall flat on its face however, running your team, department or project in a more conciliatory manner may demonstrate to other managers in microcosm what a different approach might achieve. And if people can be won over gradually then the experiment may become the norm – and the signal will become the carrier wave.

Strategic Alliance building is much more dependant on teamwork than the other approaches. Examples of this are changing the culture by creating relationships within the organisation. Meyerson (2001) cites the case of Peter Grant a black manager who when he started in a bank was one of only a handful of non-white employees. Over his career (some eighteen positions in the bank) his private change strategy came to fruition. Every time he was engaged in the recruitment process if possible he gave an opportunity to a highly qualified woman or person from an ethnic minority. Once they were employed he shared his strategy with the new employee and asked in return that they did what they could to further his strategy. By the time Peter Grant retired the Bank had employed 3500 talented women and ethnic minority staff.

What develops is the issue of the grand plan against the actions of individuals. Clearly strategies can be developed at an organisational level (we might call corporate) but equally change and strategy are issues for if not all then most of the people in an organisation. Meyerson's (2001) 'tempered radicals' or 'quiet revolutionaries' do not reflect the traditional 'heroic' or high profile individual.

7.9 Summary

During the 20th century the focus on thinking about organisations (or at least the bulk of the writings) has been concerned with bureaucracy, structure and economics as the organising drivers of the organisation. This view of organisation is locked into management science and causes/allows us to consider the organisation as a thing rather than a process. When we apply this approach to culture, change and leadership we have great difficulty in developing useful organisational and managerial tools.

To understand culture we could leave the idea of the 'thing' temporarily and consider the idea that the world is not static or made up of static things but is made of change or process. So if we are to be involved with the creation or development of culture our concern might shift from 'the paradigm' itself (important though it is) to the transience of paradigmising or how/why activities, beliefs, views, models etc. become paradigmatic. Here we are not concerned with a 'thing' (e.g. culture) that might directly 'cause' a strategy but the coalescence of forces and processes from which culturing emerges.

The term 'management' evokes stasis in the nature of control of people and resources i.e. to put them and keep them 'where they should be'. We 'keep resources' and we 'hold on to staff'. Leadership may require us to let go rather than hold on. The process of change may require us to think in terms of leading rather than managing. Burns (1978) considered leadership as transactional and transformational. Transactional leadership though reflective on the needs and desires of individuals is essentially managerialist as it is concerned with rewards. Transformational leadership (Bass 1985; Tichy and Devanna 1986) is more redolent of the ability to create and live through chaos and change. Linstead and Grafton-Small (1992) suggest people in organisations are creative consumers of culture not passive bystanders – co-conspirators in the story perhaps. Grint (1998) in his 'subjunctivism' concept offers a similar process for the consideration of the leader in terms of leadership. Grint (1998) suggests that the followers are active in the process of leadership as well as leaders – leadership is a process embracing the lead.

Leadership is sometimes referred to as the management of meaning – the management of symbols and semiotics. This may be a useful thinking device but in reality leadership is not the same a management. Leaders are able (or tasked) to create chaos and/or complexity as well as live with it and this is opposed to the notion of management that seeks to control and attenuate chaos and complexity. Leaders operate with emotions rather than resources and step in and out of change and transience.

Organisational meaning is therefore, not so much managed as creatively evolving in the negotiated space between strategising and strategic action, theory and practice, gnosis and praxis, leading and following, teaching and learning….

We see that when exploring the difference between management and leadership that they have different currencies within the organisation. Management relates more to resources, control and change within the paradigm or steady state change. Where leadership relates more to culture, flux and transience or change between paradigms. Management maintains but leadership becomes.

We may need to take a more holistic view of leadership. The extreme dramatic (though often not so heroic) leadership of an Abraham Lincoln, Winston Churchill or Napoleon must be seen in context with the mass of infinite potential (Chia, 1999) of the organisation. Leadership can gnaw unobtrusively at changing the organisation rather performing open-heart surgery on it. We might learn from Debra Meyerson's (2001) quiet revolutionaries that small, long-term leaderships often impact on an organisation in a more fundamental way than short-term extreme leadership. We need to study the ostensibly lead as well as the leaders in the domain of 'leadership'.

7.10 Summary Points

1. In thinking about culture and change, strategic management may need to be suppressed in favour of strategic leadership.
2. To consider culture and change we need to think about the organisation as repeatable patterns of behaviour and being locked together in time rather than a collection of functional departments being held together by 'a plan.'
3. Culture is difficult to relate to because it doesn't 'exist' in the individual or the group but fluctuates between them sometimes in a deep subconscious way but sometimes in a shallow casual way.
4. Culture may be considered as the second-order in which our thinking, behaviour, decisions, plans etc. sit or the history of our collective thinking forgotten into our memory that validates or makes acceptable our actions.
5. Bate (and other researchers) see culture as strategy and that our organisation's culture is its main competitive resource (or weapon.)
6. Culture is difficult to analyse as analysis (our usual approach in business and management) by definition tends to be reductive and culture is integrative.
7. Meyerson and Martin show that culture can be the 'grand' strategy issue for an organisation but it can also be the strategy tool of the modest strategist.
8. Hofstede shows the possibility to make impacts on culture that may be fluctuations on a greater stronger deeper (core) culture that is difficult to change.
9. Johnson and Scholes show some of the issues surrounding an organisation's culture and the need to be weary and cognisant of the process of strategic drift.
10. Bate outlines strategies for change from aggressive to indoctrinative that offer a starting point for change and strategy implementation.

8 Public Sector Strategic Management

James Rowe

This chapter is attempting to outline some of the strategy ideas, models and practices in the public sector. The chapter reflects on the way the economics of technology drives private sector strategy whilst the economics of social change drives public sector strategy. Set against the often-presumed notion that the public sector should learn about strategy from the private sector, the chapter explores how the public sector develops its own strategy models.

8.1 Prologue

Ring and Perry (1985) citing the work of Wortman (1979) set the scene for this work in that Wortman (1979) suggests public sector strategic management research was virtually non-existent and that the public sector could benefit from the learning and knowledge of the private sector strategy experience (Ferlie et al., 1996; Hughes, 2003). Ring and Perry (1985) develop ideas that the two sectors have different contexts and so constraints such that we need to consider strategy as different in the two sectors. However, there is a prevailing sense that strategy and strategic management is something better developed in the private sector that the public sector ought really to learn from in order to improve its performance.

If we look to the history of strategic management we find mention of some of its luminaries to be Sun Tzu, Machiavelli and von Clausewitz. All three of these writers could be considered to be military and political theorists and were all, in effect, public servants.

The military roots of strategy make it a public sector activity more than private sector though we cannot ignore the overlap of the two. In the UK the air borne wing of the military is referred to as the Royal Air Force linking directly to the heart of the archaic British constitution. Thus, just because most of our literature is based on private sector research and practice we must not make the error of assuming it to have some kind of pre-eminence. We could put forward a similar case for strategy in small to medium enterprises as most literature is based on large private enterprises.

8.2 What is the Public Sector?

The public sector is in general made up of service and infrastructure based organisations such as health, education, electricity supply, road and rail and other transport etc. In the UK much of what was in the public domain became public due to the ‘nationalisation’ process of the mid 20th century, which brought most of the UK’s infrastructure (coal, electricity, gas, steel, shipbuilding etc.) into public ownership, though public sector management owed its origins to the much earlier Northcote-Trevelyan Report of 1854.

In the UK in the 1980s the process of 'privatisation' began, returning many of the previously nationalised industries to the private sector and this process has since been adopted by other European economies. It would be reasonable to generalise that originally nationalisation was a politically left wing concept and originally privatisation was a politically right wing concept.

Nationalisation brought a nation's wealth and infrastructure under the control of the nation (and not individuals) for the greater good of all and to maintain quality, security and stability of service. Privatisation put these services into the private sector, which was considered to be more adroit at improving efficiency, raising capital, customer focus and dealing with competition to realise continuous improvement.

An example that might shed some light on the difference in the two ideologies concerns the electricity supply system. If you had been asked to service a transformer in a substation in Edinburgh in the 1980s, the first thing you would notice as you entered the station was that there were two transformers in the substation – one in use the other on standby. The public sector philosophy of the engineer was that if you need a transformer; buy two just in case one breaks down, that way you'll never be at a loss. Clearly a private sector commercial manager might question the efficiency of this and it is hard to imagine a US electricity supplier contemplating such a policy.

In August 2003 the island of Manhattan was without electricity for several days. Though such a blackout would have been inconceivable in the UK some analysts (BBC News August 2003) were warning of its possibility, in the era of the new privatised electricity supply industry. Ironically on the 28th of August 2003 the electricity supply grid in London went down for 35 minutes due to a double fault amidst cries from the mayor of London that it was due in part to years of lack of private sector investment.

8.3 Trajectory Of The Public Sector

Figure 8.1 outlines a model to explain how, within given economic environments, political power can push and pull the public sector into different shapes, in the new public sector relationships are not static but shifting and complex.

In the UK the duopoly is often characterised as being between 'libertarianism and collectivism' where:

> "Libertarianism stresses four things: the basic importance of the individual; the limited role of government; the dangers of concentrating power; and the rule of law. Its antithesis, collectivism, stresses: the public good; social justice; and the idea of positive government." (Bevir, Rhodes and Weller, 2003:8)

These different political camps or traditions will tend to view public policy developments differently. Compulsory Performance Assessment (CPA) was introduced in 2002 as a framework for supporting local authorities to deliver improvements in services to local communities. A more accurate tool supporting Best Value legislation, the intention was to combine existing information on service performance together with an assessment of the local authorities' corporate ability to deliver improvements. The outcome was to reach an overall judgement on whether a local council was rated as excellent, good, fair, weak or poor.

Viewed by the left CPA was seen as empowering local communities and ensuring national standards. The right argued the frameworks were little more than meaningless league tables blurring the real issue of under funding in the provision of local services.

The political dynamics of Figure 8.1 are not limited to national politics as the European Community (e.g. the common agricultural policy) interacts with national politics and public sector policy. Conversely national politics can affect international politics as Montesquieu suggested, "Weak government at home usually results in strong foreign policy."

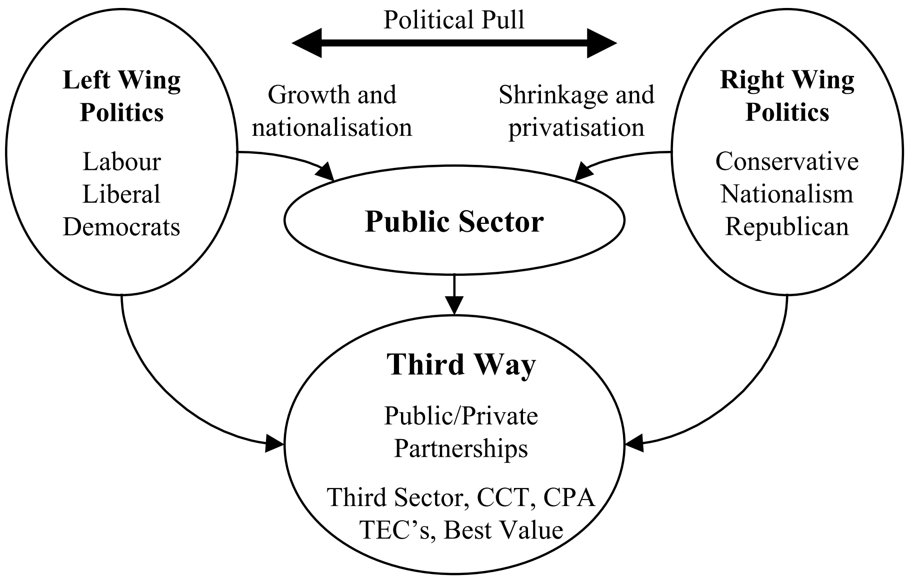

Figure 8.1: Public/Private Sector Interactions

Left wing politics tends to want infrastructure under its control (for the greater good) right wing politics prefers the efficiencies of the market and choice. Left wing politics affects right wing politics and vice versa. The Conservative ex-prime minister Margaret Thatcher famously said that her greatest achievement in politics was New Labour. The suggestion being that she changed her own political party (and its agenda) so much that she took the whole political scene (including the opposition parties) with her. These interactions have moved the public sector into a new more complex situation – a half-way house or an alternative emergent new shape of public/private partnerships or third sector organisations that take from both models such as grant maintained schools or even foundation trust hospitals.

The simple model in Figure 8.1 is useful and allows us to consider how time and change conspire to complicate matters. For instance the once left wing anti-war, pro-peace, dope smoking hippie movement of the '60s has now grown up, gone into business and become quite rich. This group of people care about social and political issues but they also value their freedom, personal responsibility and right to choose. Potentially then the radical reforms of the Regan administration in the USA and Thatcher administration in the UK were voted in by ex-hippies. Following on from these administrations we see the election of the Clinton administration in the USA and the Blair administration in the UK as reactions to right wing radicalism. However both took care to include the 'right to choose' and 'value for money' rhetoric of the previous administrations that had proclaimed competition and free market economics as a panacea for public sector ills.

Backoff et al. (1993) evaluate the challenge of strategic management in local government in terms of internal and external environments and Smyth (1998) in a comparison of UK and US health provision examined the impact of competition in the public sector. The introduction of competition was a private sector idea thrust into the public sector to increase the efficiency and responsiveness of public services. Smyth (1998) concludes that competition can be useful if the nature of the service and local conditions are taken into account but that adopting competition wholesale:

> "…at best fails to optimise the benefits of competition and at worst creates several disadvantages for governments, purchasers, providers, consumers and citizens." (Smyth, 1998:236)

Largely because competition works best in a market of many purchasers and many suppliers a situation that rarely exists in the public sector.

To understand strategy in the public sector it might be useful to reconsider some of the first principles and the content of public sector management.

8.4 Public Sector Management

From the middle of the 20th century the public sector in many western economies developed in a relatively protected environment. Firstly budgets and targets were set and the industries carried out their function within budget or not. The targets and budgets were reviewed (usually annually) and adjusted as necessary. This description is very simple and covers over a complex and often politically fraught process. What emerge are two sets of people, elected executives (who design the strategy – set budgets and targets) and professional public servants (who carry out the functions).

Ostensibly the elected executive having the resource would appear to control the strategy of the public sector whilst the public servants would be concerned with implementation. This divide is reflected in the education of public sector professionals; whilst in the private sector managers would do academic courses with 'management' in the title public sector managers would do courses with 'administration' in the title. Here perhaps is the root of the perception that strategy was non-existent or played down in the public sector as governments decided on strategy whilst the public servants 'simply' administered them.

Towards the end of the 20th century, economic, demographic and political changes (particularly a shift to the political right) created a different agenda in the public sector. In the private sector the mission statement and the strategic objective allow organisations to be more focussed in times of tight resource. Conversely, the new times of tight resource in the 1970s onward may have caused the migration of strategic thinking from the private sector to the public sector and the increase of management over administration. This migration can be considered in terms of a general social movement towards managerialism so the Government manages the economy rather than leads the country.

Margaret Thatcher's notions of 'prudence' and 'good housekeeping' through to Grey's (1999) argument that 'we are all managers now' has perhaps created an environment more accepting of 'management' generally. Clearly the scenario is complicated by ideological concerns and buying into US models of public spending i.e. the contraction of the State and the responsibility of the individual over the responsibility of the State. The then UK Prime Minister Mrs Thatcher's comment that there 'was no such thing as society' was emblematic of this change in the prevailing political perspective.

The pre-eminence of the individual was not just in terms of responsibility; hand in hand went the notion of the right to choose. With choice usually being generated through competition – thus we move from having public services available to us – to becoming consumers such that health care and education providers were to be no different to General Motors selling cars or Tesco selling groceries. These notions translated into a particular set of circumstances for public sector services; that of having to improve service levels and choice whilst at the same time improving efficiencies driven by budget reductions – all of which introduces complexity, instability and ambiguity.

Instability and ambiguity were introduced into local government in the 1980s due to the introduction of Compulsory Competitive Tendering (CCT) by the Conservative Thatcher government. CCT was designed to abate what Thatcher saw as profligate and inefficient local government services exemplified by the restrictive practices of the public sector workforce. Local government was forced legally by CCT to put out to tender all forms of public works. To begin with 'blue collar' services e.g. housing and road/street maintenance, refuse collection etc. then 'white collar' services e.g. administration, legal and audit services. We see perhaps the centralisation of local government where local administration of central government directives became the increasing new role of local 'government'.

Post CCT Sir Robin Butler (1996) suggested that the three main themes of reform in the public sector in the previous twenty years were:

- The creation of public sector agencies with specified targets, greater delegation of power and more accountability to CEO's.
- Greater competition through untying the supply chain, market testing, purchaser/provider split and delegated budgeting.
- Changes in the management structure of the Civil Service. (Butler, 1996)

Butler (1996) explores these developments and similar ones in the USA and New Zealand (all at the time left of centre governed) as evolving from:

- The conflict between the demand for lower taxes (initiated by right of centre governments) in conjunction with new and improving public services;
- The escalation in the concept of the customer (e.g. rather than student or patient) and their individual requirements;
- Growing distrust in hierarchies and command structures and a desire to make decisions much closer to the point of delivery;
- Use of IT and communication technology to delayer and speed up the bureaucratic process.

Many of these issues lead us to a more private sector sensibility when thinking about the evolution of the public sector. Dunleavy and Hood (1993) consider NPM (new public management) as the term that encapsulates downsizing and outsourcing of services (Hood, 1995) as well as the drive to bring the reporting and management techniques of the private sector into the public sector. Management guru and doyen of competitive strategy Michael Porter, has been employed by a number of governments to advise them on how to be more competitive.

NPM is strongly associated with the seminal and influential 'march of history' language of Osborne and Gaebler (1992). Dunleavy and Hood (1993) see this in terms of going 'down grid' which means reducing the impact of rules and procedures in the exercise of power in favour of the discretionary power of individuals (usually the managers). And going 'down group' which means making the public sector less distinctive from the private sector. Dunleavy and Hood (1993) go on to outline the possible futures of the new public sector that develop on from the slide of going 'down group and grid' to highlight other potential consequences of the commercialisation of the public sector. These four futures are useful in that they outline the environments within which strategy might have to operate.

The movement from the Public Bureaucracy State with its distinctiveness and core competency to the Minimal Purchasing State of letting contracts and the incursion of private sector organisations to provide public services is probably the most expected locus of development. The state's role is 'steering rather than rowing' as Osborne and Gaebler (1992) put it. Here the increase in competition and opening of markets creates a globally competitive public sector where citizens of the UK may have their water supplied by a French company, gall stones removed in Germany and letters delivered by a Dutch firm.

Dunleavy and Hood (1993) outline four different possibilities.

1. Gridlock Model
2. Public Bureaucracy State
3. Minimal Purchasing State
4. Headless Chicken Model

In the Headless Chicken model public services are over managed at the level of individual service providers whilst at the same time under managed overall due to a lack of guidance. Some similarities develop in diversity and innovation but differences in pay scales etc. may prevent migration between the private sector and public sector to fully integrate management processes.

In the Gridlock model the distinction between public sector and private sector is blurred as private sector organisations deliver many services. However, the public sector rules and procedures are maintained due to the strength of the regulatory bodies and the fear of litigation. The US health care system is an example of this process where fear of litigation limits practitioners in their delivery of service.

8.5 Environment of Public Sector Strategy

In consideration of the history of public sector development, Joubert (1988) suggests that the public sector was traditionally concerned with budgetary inputs and manpower constraints rather than outputs such as service levels and quality. This may have acted as a barrier to embracing strategic management. Sluggishness in the take up of a strategy process left a space often filled by spurious initiatives or production/operation policies that were internally coherent (such as having two transformers) but conflicted at a strategic level. Developing on, we need to further consider how strategy works in the public sector.

Strategy formulators tend to be elected individually or collectively to devise strategies based on declared ideology and a set of specified aims and objectives (often referred to as a manifesto). Once elected the formulators engage in internal and external scanning often using public servants (the strategy implementers) to carry out the reporting. After taking advice the formulators devise a strategy that is handed to the professional implementers to put into practice. In the public sector of most western economies it is illegal to be both the formulator and implementer of a strategy due to issues that centre on conflict of interest. Thus strategy development is more likely to evolve from operational levels as the continuity of management lies in the implementers and it is they who often provide the advice to the formulators.

The demarcation between the autonomy of the professional and the role of management control has been a key driver in government public sector (reform) policy since the 1980s – the UK National Health Service being an example of this (Ferlie et al., 1996). We might find here the roots of the conflict between the 'high ideals' of public service and the negative drag of public sector bureaucracy, in combination with the diverse public sector organisational purposes that dogs the realisation of public sector strategic objectives. Further the formulation and implementation of strategy is much more open to scrutiny in the public sector and much more bound by clear – must be adhered to – rules and procedures.

Failure to comply with these rules could have grave consequences for the public sector organisation and its managers. Given the rule bound nature of the public sector we can see that development of strategy has built in time delays (compounded by the size of the organisation) that make reaction to crises or rapid change quite difficult. Martin (1997) suggests:

> "The turbulence of the external environment stemming from political, economic, technological and social developments, has led to a reappraisal by many researchers and practitioners of the rationale for and role of sub-national government and brought a range of new opportunities and problems which have precipitated a radical restructuring of the internal organisation of many British local authorities and dramatic changes in the roles and responsibilities of both officers and elected members (politicians)." (Martin, 1997:534)

As one local government strategist put it 'if it takes us six months to decide who we will buy our printer paper off – how can you expect us to change the culture of the organisation in nine weeks?' this was shortly after the local council had announced a budget deficit of some three million pounds.

Ring and Perry (1985) outline examples of factors particular to public sector strategy development.

The context factors in part replace what private sector organisations might see as their environment. The system the public sector organisation sits in is not the competitive industry structure of Michael Porter's industrial economics but a political and ideological one. The fixed structural constraints of the organisation are the reference points within which strategy processes are carried out. The structure follows strategy maxim is problematic here in that organisational restructuring though clearly possible is much more complex and resource greedy, this combined with organisational and political inertia causes enormous difficulty for public sector change agents.

Procedural constraints differ in that they are not imposed as such but are a natural consequence of context, purpose and structural constraints. Policy ambiguity will arise from the pluralistic nature and diverse interests of the public sector as well as political stealth. In taxation for instance where covert rather than overt taxation occurs and the related rhetoric reality gap – claiming popularist policies whilst in reality doing something quite different. The naturally pluralistic nature of the public sector combined with the artificial time constraints of government and internal formal procedures will make coalitions both necessary and transient. An urgently required coalition today might be rendered unnecessary tomorrow (or even detrimental to the new desired coalitions) if policy changes are introduced.

The organisation structure is unilaterally divided in two but more than this the diverseness of the constituency creates vagueness over organisational objectives. This pluralism makes it difficult to achieve isolated individual objectives but at the same time scope to claim partial successes in the aggregated outcomes, however maintaining flexibility could be interpreted as reluctance to commit. Given the plurality of the public sector there exists a need or opportunity to form political and economic coalitions that again will compromise the achievement of individual objectives. The difficulty in managing coalitions in the public sector is likened to herding cats complicated by the ambiguity of the purpose of a pluralistic organisation and the wielding of influence rather than authority.

Ring and Perry (1985) cite George Romney's exacerbated satire on public sector management that "Being Governor of Michigan…is like being quarterback of a team chosen by your opponents."[15] The issue of being in control of your staff (choosing them) and your resources that might be taken for granted in the private sector is not so clear-cut in the public sector – it doesn't matter who you vote for the government always gets in.

In the private sector the purpose of the organisation may be clearer, in that profit, growth and market share tend to emerge as key goals (in theory if not in actuality) in the public sector the acquisition of power may act as a form of equivalent objective.

Ring and Perry (1985) put forward five propositions that they see as particular to public sector strategy, the propositions are:

- Policy directives tend to be more ill-defined for public than for private organisations
- The relative openness of decision making creates greater constraints for public sector executives and managers that their private sector counterparts
- Public sector policymakers are generally subject to more direct and sustained influence from a greater number of interest groups than are executives or managers in the private sector
- Public sector management must cope with time constraints that are more artificial that those that confront private sector management
- Policy legitimating coalitions are less stable in the public sector and are more prone to disintegrate during policy implementation (Ring and Perry, 1985)

The degree of openness in the public sector creates a culture of scrutiny that can often make strategy development impossible. Dealing with a statement/question from a TV interviewer a famous British philosopher outlines the problem:

Presenter:	'In your earlier work you suggested that the… However in your latest book you seem to be suggesting quite the opposite. How do you account for this?'
Philosopher:	'When I find I've made a mistake I usually change my mind. What do you normally do?'

Even in the way the presenter's question is asked there is an inherent glee in spotting a fatal flaw due to a change of mind – an inconsistency. The question is not a question at all but a demand for consistency and an apology for this most heinous crime of changing your mind. This then is a problem for a public sector strategist – you can change your mind in the privacy of the General Motors boardroom but not in the Houses of Parliament. The sin of inconsistency will be punished not as a natural consequence of development but as a sign of poor judgement. The openness further complicates strategy development in that strategies are telegraphed such that strategies are easier to undermine or counter. This scrutiny might hint again at the social drivers of strategy.

In the private sector there is a desire to get the whole organisation 'on board' with the strategy to ensure its implementation and success such that the strategy message has to be clear. In the public sector the message is often deliberately unclear.

Whilst the importance of the shareholder perspective over the stakeholder perspective is a concern in the private and public sectors, there is a greater degree of choice for the private sector manager that the public sector manager simply doesn't have. Within the public sector there are a myriad of competing groups that given the degree of openness in the sector are able to prosecute their objectives even if ostensibly their power is limited. We see this in opposition parties in government and special interest groups, anti-war groups and the common agricultural policy of the European Community is an example of a stakeholder group subverting the wishes of many governments.

The time scales of the private sector's strategic development and implementation are often dictated by the imperatives of the market, usually keeping up with it or staying ahead of it and occasionally just behind it. The private sector accepts or at least respects the inevitability of the market. The public sector operates within the time constraints of the tenure of the strategy formulators and the duration of the political processes themselves. The public sector in this sense is attempting to operate in its own time by slowing the pace of the environment to fit with its own processes. This attempt to control the market rather than be controlled by it in a time of globalisation and increasing complexity of the economic environment is a further factor in the privatisation of the public sector. This has brought about a sort of public-private sector or a private-public sector.

The education systems and infrastructure systems of telecommunications, transport and amenities are released into the market economy diminishing the public sector. At the same time the increasing control of regulatory bodies permeating all of these ex-public bodies and some of the private ones, ironically increases the size of the public sector – steering the donkey rather than pulling the cart. This can be seen with the introduction of Compulsory Performance Assessment (CPA) in 2002.

There is the further dimension of the global public sector developing the original interest in public sector organisations; that of securing and stabilising key processes and resources for the public good. This can be seen with US involvement in Middle Eastern politics to stabilise and protect world oil production.

8.6 Reflection on Public/Private Sector Differences

Boyne (2002) based on a review of 34 empirical studies suggests that there is no clear evidence that private and public management are fundamentally dissimilar. Boyne's (2002) work suggests there is evidence that the public sector is more bureaucratic, its managers are less materialistic and have weaker organisational commitment to their organisation than those of the private sector. However, on issues such as environmental complexity, competition, organisational objectives, environmental stability and degree of autonomy there was little evidence of substantial difference. Boyne (2002) is careful however not to argue that there are no differences between public and private organisations.

In general terms we might draw a distinction between private sector strategy driven by the economics of new technology and public sector strategy driven by the economics of social change. A simple (and trite) example might be – did the introduction of robots and JIT production technology bring down the cost of motorcars in the UK and so restructure the industry. Or was the changing demographic (increase in working mothers, Thatcherism, expansion of the middle class etc.) requiring more motorcars at a cheaper price such that technologies had to be sought? These differences filter through the strategy process causing differences in perceived objectives and strategic approaches – supply chain management, outsourcing etc.

If we backtrack slightly further to the industrial revolution when Britain became 'Great' rather than France – France was referred to as the 'Great' nation at this time. We find that technological developments such as the invention of the steam engine and the factory loom clearly impacted upon national and organisational strategies but we might also consider the impact of social democracy. The UK had a greater degree of social democracy than France and in the UK the Quaker movement that was instrumental in the transference of technology and ideas of social change (and justice) during the industrialisation of the UK had an even greater degree of democracy.

We see the impact of democracy throughout history at a strategic level. Both the Greek and Roman civilisations had a greater degree of democracy than the civilisations they ruled over. In a specific case the Elizabethan English Navy made up of individual 'entrepreneurs' had a greater degree of democratic management than the hierarchical autocratic Spanish Armada – the English Expedition's greater numbers and leading edge technology could not prevail over the English privateers.

These double-headed arguments can be observed in the interpretation of history that sees World War One not caused by the death of a distant relative of German and British monarchs but as just part of a mood of unrest and change around Europe. Felt in the Balkans in terms of the desire for political emancipation and in Britain for universal suffrage. Or that Henry Ford was not the man who fulfilled F. W. Taylor's dreams of mass production but a farming man who knew his people, the changes they were facing and their need for cheap transport. Levitt (1960) suggested this when he observed that Ford did not design and make a cheap car through mass production but found out what his customers (society) wanted and could afford then found the only way to make it was through mass production. In this sense Ford was not a guru of production (technology) but a guru of marketing (society/consumption) – sensitive not just to the science of manufacturing but also the aspirations of the people. As Levitt (1960) posits:

> "In a sense Ford was both the most brilliant and the most senseless marketer in American history. He was senseless because he refused to give the customer anything but a black car. He was brilliant because he fashioned a production system designed to fit market needs. We habitually celebrate him for the wrong reasons, his production genius. His real genius was marketing. We think he was able to cut his selling price and therefore sell millions of $500 cars because his invention of the assembly line had reduced the costs. Actually he invested the assembly line because he had concluded that at $500 he could sell millions of cars. Mass production was the result not the cause of his low prices." (Levitt, 1960:32)

We might also consider the movement of UK call centres (particularly in the financial sector) to the Indian sub-continent as driven by cost cutting exercises and facilitated by technology developments as well as associated cost reductions in the technology itself. However, we could equally point to the widening of participation in the UK education system creating higher aspirations within the UK workforce creating a shortage of people who are willing to work in call centres; at the same time reducing the employee pool of people competent to do so.

We see then the duel interpretation of strategy as technology change and strategy as social change underpinning or undermining any interpretation of strategy between or within the public and private sectors.

Notwithstanding factors outlined in Figure 1 we see the ebb and flow of societal concerns driving public sector strategy, Bentley and Wilsden (2003) observe:

> "It is clear that the pendulum is swinging back towards a concern for public services…this is why public service reform needs to embrace a much wider conception of what the public wants." (Bentley and Wilsden, 2003)

Bentley and Wilsden (2003) highlight the public concern for and commitment (in relation to sacrifices in financial and freedom terms) to better public services but with greater 'public value'. These concerns will ultimately drive public sector strategy to a greater extent than any technological development.

Returning to sectorial differences and in more specific terms Ring and Perry (1985) suggest the careful separation of the formulation of strategy and its implementation. This is to maintain separate power bases in the management process thus ensuring a safety mechanism to prevent abuse of powers. The formulators are usually elected whilst the implementers are often a more permanent professional body. To a degree this issue opens up a problem with comparing public and private sector strategy – that of perspective. Goldsmith (1997) almost laments the 'fact' that in the private sector managers who formulate strategy are allowed to get their hands dirty in its implementation. However, Whittington's (2001) notion of classical strategy based on Tayloristic machine metaphors and the separation of thinking and doing might see legislation that separates in the public sector replaced by the choice to separate in the private sector. Thus, similarities exist in practice, based on variations in ideology if we compare public sector strategy with the classical school of strategic thought and practice.

If the difference of degree of involvement is based on choice or legislation then ostensibly the private sector strategist has an advantage, in that choices can be more readily changed than legislation. In the public sector however, sometimes the formulators get to choose the implementers but this is not universally the case.

Some of the potential differences between public sector and private sector strategy are:

1. The private sector operates in the market economy. Can withdraw products or change products. Can target a specific market. Is motivated by seeking opportunities. Listens to the market. Is clearly responsible to the corporation and shareholders. Has its performance measured in terms of profit, growth and efficiency, price, quality and delivery. Is structured to promote efficiency. Has clear objectives (profit, market share and growth). Has shareholders as the main interest groups. Is under private scrutiny. With market driven timescales.
2. The public sector Operates in an environment of elected officials, boards, clients, voters etc. It cannot withdraw product/service but rations it e.g. organ transplants, care for the elderly. It must satisfy the whole market. Is motivated by the avoidance of threats, public service and professional ethos. Listens to a multiplicity of sources – citizens not just customers, filtered and non-uniform (e.g. regional differences). Minister/Civil Service responsibility is often unclear and negotiable. Performance indication is sometimes similar to the private sector (children vaccinated/month) but more often complicated e.g. abused children counselled/month offers little insight into the performance of a Social Service dept. as each case is so individual. Is structured to prevent the abuse of power. Has relatively unclear objectives. Has stakeholders are the main interest groups. Is under public scrutiny. With politically driven timescales. (Ring and Perry,1985; Lowndes and Skelcher, 1998; McNulty, 2003)

From this we can see that in general differences exist between public sector and private sector at a strategic level. Clearly we could make individual cases for similarities for example any private sector firm in the nuclear power industry will suffer the same if not a greater degree of scrutiny than a public sector body if the conditions are right – say if radioactive material has escaped from a container. However, on balance organisations in the public sector are more likely to have different experiences or exist in different contexts to private sector organisations.

As a potentially tangential swing we might recognise that other cultures and economies see the public/private relationship differently. We are aware in western economies that it is a good idea for private firms to have 'friends' or 'friendly' relationships with the government. However in Korea we see a different construct – that of the 'chaebol'. The chaebols (such as Samsung, Hyundai and Goldstar) were set up under Japanese colonial rule when Korea was to be a service economy to Japan in the way that Mexico is beginning to service the US. Chaebols are privately (usually family) owned (conglomerate) corporations but due to licensing and credit arrangements controlled by government. The chaebol is therefore a radical departure from what western governments might consider a public-private partnership.

In the UK, changing forms of government have grown to include networks and multi-organisational partnerships. Lowndes and Skelcher (1998) suggest that the resource restrictions on public services has driven the development of partnerships between government bodies, with private as well as not-for-profit (NFP) agencies in the voluntary sector.

A shift is seen from competition to collaboration that McNulty (2003) observes in the UK Health Service with the removal of demarcation and 'unnecessary boundaries' to create new organisational forms. Differentiation is a strategy for survival but it is also a strategy within the organisation for maintaining power – it is difficult to manage multiple specialisms that can resist management attempts to standardise practices or make processes transparent (McNulty, 2003). Breaking down barriers within the organisation brings increased efficiency and overall effectiveness when delivering complex or seamless services. And partnerships increase service and resource potential, offering 'collaborative advantage' rather than the competitive advantage of the private sector.

8.7 Something Borrowed

In order to reflect on what public sector strategy might gain from private sector strategy or strategy per se Nutt and Backoff (1993) evaluated what they considered to be the main approaches – Portfolio Analysis, Industry Analysis, Stakeholder Analysis, Interpretive Strategy, Harvard Model, Issue Management, Adaptive Strategy and Planning Systems.

Nutt and Backoff (1993) posit that different approaches to strategy will produce different strategies. Given the differences in the environments that public and private sector organisations exist in then some approaches will be inappropriate such as strategic processes geared towards profit or market share or strategies geared towards competition. Nutt and Backoff (1993) suggest that public sector strategic leaders should in fact 'avoid' private sector approaches to strategic development.

Nutt and Backoff (1993) suggest an approach that develops content and process pari passu in what they refer to as the "…dance of the what and the how…" (Nutt and Backoff, 1993:313), their approach suggests the implementation of strategy rests on:

1. Exploration/evaluation of the situation
2. Understanding history
3. Uncovering of issues
4. Identification of strategy
5. Assessment of feasibility

Nutt and Backoff (1993) take a situational approach to strategy by looking at histories. The logic of this activity stems from the idea that the further back you go to consider your current position the further you will be able to conceptualise in to the future. Discussing key events act as temporal markers in the process of recapturing or avoiding past events.

Winston Churchill's famous quote that 'Those who do not learn from history are destined to repeat its mistakes' is evoked here, though similarly those who are not locked into their history are free to choose a different future. If we understand our past, and from its principles, we can envisage our desired future then exploring the situation will help identify the likelihood of achieving this future. Nutt and Backoff (1993) suggest the use of SWOT analysis though they point out the different focus of the tool in the public sector such that:

> "In firms [private sector], the challenge for strategic management is to recognise threats in an ocean of opportunities. In public sector organisations, a way to identify opportunities in a turbulent sea of threats is needed." (Nutt and Backoff, 1993:316)

The strategic issue agenda results from the historical evaluation and situational analysis of trends, opportunities and threats, events and desired futures. Nutt and Backoff (1993) suggest the issues centre on four concerns that of human resource needs, innovation and change, maintenance of tradition and rationalising processes.

The issues arise out of tensions between these concerns. The framework acts to focus strategic thinking and help avoid the possibility of ignoring key issues. The framework suggests that strategic issues tend to evolve out of the fluctuations of being both pushed and pulled in particular directions due to the gravity of the primary concerns. For example being too proactive might lead to being out on a limb (and so vulnerable to attack) and too reactive will see the organisation fire fighting rather than managing in an organised efficient manner. In the public sector the notion of tensions is particularly significant in the light of multiple competing political, ethical and financial issues that surround strategy.

Strategies can be developed from the issue tension agenda in terms of developing strengths, overcoming weaknesses, taking advantage of opportunities and defending against threats. The issue tension-SWOT combination is likely to be more fruitful in the public sector as there is a need to be incremental in developing strategy in balancing opportunities and threats. Divesting, vertical (or horizontal) integration, mergers and acquisition and globalising are unlikely strategies for a public sector organisation. As are cost leadership and differentiation, as there is no real opportunity to segment a market for a public sector organisation – it would be unrealistic for the Fire Brigade to offer niche differentiated fire extinguishments.

New markets and related or unrelated innovation (or diversification) are rare in the public sector unless new social developments occur (pre-school child care or hospice care for AIDS victims are perhaps examples). So the notion of issue tensions rather than more instrumental approaches are likely to offer more practical benefits to the public sector organisation.

In assessing feasibility the resource requirements and key stakeholder perspectives in relation to strategies under consideration need to be recognised. The perspectives of the users and providers of services as well as resource providers are clearly important to the feasibility of any strategy in the public sector. The supporters and blockers of the strategies under consideration are much more important in public sector than private sector organisations as overseeing bodies such as governmental commissions are able to intervene – the sites for nuclear power stations or other large scale projects can often go beyond the scope of the local decision makers.

Implementation is a balancing of the other five activities to organise resource allocation and stakeholder satisfaction in particular. Implementation of strategy ultimately involves change of some sort even if we are changing in an attempt to stay the same. Partly due to the changing ideologies of the formulators, economic changes and growth (as well as diminution) of the public sector over time, much of the research into public sector strategy has a fairly significant change dimension. We need to expand the implementation process to consider change and the processes within it.

8.8 Change

There is not a plethora of research done in the domain of public sector strategy; this lack of research during the late 1990s may be due to the rate at which New Labour sought to take apart CCT. And by reducing local accountability; further centralising political power e.g. seven of the twelve original Best Value principles were audit based rather than practice based despite a rhetoric promising that local communities would be in control. Dunleavy and Hood (1993) might offer an explanation for this when they outline the difference between the 'incubated' modes of reform where reform comes to fruition long after its introduction. And the 'acute' innovation pattern of reform that they suggest occurred in corporate planning in local government during the mid-1970s – here programmes peak early then break up. Dunleavy and Hood (1993) suggest:

> "In the acute pattern early evangelism produces general 'cloning'. Cloning is followed by disillusion as shock effects from the introduction of new and unfamiliar practices wear off, leading to the break-up of the blanket/follow-the-manual approach, often in response to a withdrawal of political support or the reassertion of other values." (Dunleavy and Hood, 1993:10)

This may partly explain the reduction in public sector strategy literature in favour of change and change management.

Nutt and Backoff (1993) investigate the change (through strategic leadership and management) dimension of strategy in the public sector and suggest that:

> "…private sector approaches to strategic leadership and strategic management must be re-thought before being applied in a public organisation." (Nutt and Backoff, 1993:300–1)

Not least is the concern for the potential tensions between political and organisational leadership and the possible ideological differences in relation to service, efficiency, social responsibility, duty, political survival etc. Nutt and Backoff (1993) address the issue of strategy in terms of the need to change (transform) the public sector given six driving forces in the public sector environment:

1. Downsizing – the public sector is perceived to be cumbersome and bureaucratic and therefore inefficient and too costly.
2. Fiscal Stress – in the 1990s onward most public services with perhaps some notable exceptions have experienced budgetary cut backs or no growth. Even in the case of exceptions such as health and education in the UK there have been strings attached in terms of productivity and structural change.
3. Entrepreneurship – privatisation, contracting out, compulsory competitive tendering (CCT) and Best Value provision have become normal practice in most public sector service organisations.
4. Economic Development – often sees government involved in partnerships to create jobs such as Nissan in the UK. Tax breaks and grants are often used as incentives though often governments find it difficult to get returns as firms may withdraw when the 'honeymoon' period is over.
5. Media Scrutiny – makes innovation and experimentation difficult in the public sector as failure (however minor) may well be blown out of proportion for the sake of political sport.
6. Civil Service – changes have tended to down grade positions in public service causing a drift into the private sector. In the UK the teaching profession, nursing, police, doctors and dentists have all seen government drives to meet human resource shortfalls. (Nutt and Backoff, 1993:304)

These along with other issues such as demographics have required the public sector to become more flexible and adaptive.

Nutt and Backoff (1993) suggest that strategic leadership rather than strategic management is more likely to facilitate transformation in the public sector, primarily because they see strategic management relating to strategy development but strategic leadership relating to implementation. This is perhaps evidenced by local government leadership initiatives[16]. Strategic leadership is a more visceral interactive process. Nutt and Backoff (1993) posit that the co-development of strategy with stakeholders will tend to be a more successful approach in the public sector than if left to strategic managers only. In the public sector however, strategic leaders not only have to implement a vision but also have to do so whilst being exposed politically, dealing with subordinates who may have different professional or political loyalties. They remain accountable to a panoply of groupings and activists and at the same time keep the low profile demanded by their political masters.

The co-creation of strategy involves innovation and the strategic management process outlined above in the understanding of history, exploring the situation, uncovering issues, identification of strategy and assessing the feasibility. Given the diversity of stakeholders in the public sector domain the strategic leader has primarily three choices:

1. Win over the opposition;
2. Neutralise the opposition by making them ineffective or acquiescent or;
3. Including the opposition to create a new strategy that accommodates the pluralism of the multiple perspectives.

In framing the vision for public consumption the leader needs to 'create a bigger strategic space' to enable the strategy to appear more agreeable to as many interested parties as possible. And/or 'switch filters and contexts' such that the way the strategy appears is filtered to coherently address the desires of particular interest groups. The blanket selling of ideas that typifies the private sector may not be subtle enough for the public sector.

The leader-follower distinction is not clear-cut in the public sector as leaders come and go whilst followers tend to stay. The nature of the public sector with professional status and requirements for independence will also undermine leader-follower power balances in favour of the followers. Blurring the leader follower distinctions then is a sensible strategy given the power balances in the relationship, this can be done by 'giving away information' to involve followers in the change process and then 'empowering' them to become active and responsible for change. An example of this is the establishment of Boards of Governors to Foundation Trust Hospitals, responsible for policy whilst remaining free from the ties of the Department of Health.

Pushing the action forward relies on the leaders 'positioning themselves in a stream of action' built on the 'positive energy' of empowered followers that perceive any threat as an opportunity. Leaders carefully network the changes and the followers to maximise their effect whilst 'clearing paths' to remove potential obstacles to the change.

Withane (1997) suggests that public sector strategic understanding has suffered firstly, from being limited to political and economic variables at the expense of organisational variables. And secondly in common with Backoff, Wechsler and Chew (1993), from the use of cross-sectional research at the expense of longitudinal research that investigates strategy as it changes over time.

Withane (1997) suggests that an understanding of how public sector and private sector organisations develop strategy over time can be gained from the lifecycle model of the organisation and the adaptation of the organisation in terms of its growth, structure and relationship with the environment. Withane (1997) develops a model for shifting strategies that attempts to accommodate strategic development within a changing organisation and environment in terms of movement through the stages of the organisational lifecycle. The model polarises organisation structure as flexible or rigid and the strategy focus as internal or external.

Withane's (1997) research suggested that at different stages in a public sector organisation's lifecycle (infancy, adolescence, adulthood, old and revival) different strategies were preferred. Due to the organisation's lack of legitimacy and political power to be aggressive or efficient during infancy to adulthood most public sector organisations preferred defensive, growth and analytical strategies.

Leaders during these stages tend to keep a low profile watching the environment for threats and opportunities. The stakeholders and external consumer or public groups tend not to take too much interest in the early stages of the lifecycle, as strategies are unclear as are measures of performance. During the adult stage public sector organisations tend to become more aggressive as they have evolved through the process of regulation and have extended their scope of responsibility.

During the adult stage rigid structures and delegation have been developed that order the organisation and facilitate the use of analytical approaches. During the old and revival stage the public sector organisation has in a sense become an ‘institution’ – extremely formalised, differentiated and risk averse. In this latter stage the public sector organisation may face opposition from consumer groups or private sector organisations, as it is a much better defined target. Relating to the issue tensions of Nutt and Backoff (1993) another of Withane’s (1997) conclusions is that strategy emerges from the ‘simultaneous influence of strategic, organisational and environmental variables’ rather than any one in isolation.

8.9 Summary

We focus on differences between public sector and private sector strategy but the privatisation of much of the public sector service economy has brought with it a publicisation of much of the private sector (new and old). This idea contributes to what Bozeman (1993) referred to as ‘publicness puzzle’ of deciding what a public sector body is or what it does. The introduction of ethical trading and the ethical dimension of business in general as well as the increased role of the Ombudsman and other regulatory bodies has in certain industries, particularly those concerned with infrastructure, seen the public/private demarcation eroded.

We see local government in the UK selling land off at favourable rates (cheap) to private contractors in order to build housing such that local (public sector) councils are not customers of private sector building firms (by buying their houses). But in effect the providers of profit through reduced land costs, whilst at the same time strengthening building regulations to maintain greater quality control. Thus the private-public relationship has become one of managing intangible rather than physical resources. Similarly Boyne (2002) suggests that:

> “…a private firm that complies with state policies (e.g. on health and safety regulations, or on equal opportunities legislation) can be viewed as more public than a government agency that ignores the wishes of its political masters.” (Boyne, 2002:99)

Clearly the public sector can learn from the private sector as the private sector once learned (and still learns) from the public sector. This however, should not be seen as some kind of nostrum or Holy Grail as UK management can learn from US management and western management can learn from eastern management and vice versa. As Boyne (2002) points out, there:

> "…is a final ironic twist in the tale: there is no established body of knowledge on successful management strategies in the private sector that can be easily drawn upon by public agencies." (Boyne, 2002:118)

We mustn't confuse learning useful stuff with absolute truths that must be adhered to. The strategic management of the public sector in its dealing with pluralism, uncertainty, political malaise and partnerships and networking (Brinkerhoff, 1999, Lowndes, 1997) has much to offer the private sector strategy knowledge base. And the emergence and incrementalism of the public sector relates to Whittington's (2001) processualism such that large private sector organisations might equally draw from public sector as well as private sector experience. Particularly when dealing with complex situations with powerful constraining forces and a pressing need for change and transformation in strategy. Here we might see something the private sector can learn form the public sector in that investigating public sector strategy reveals a difference in the locus of thinking.

In the 1980s there was a growth in the interest of strategy (and strategic management) in the public sector, Ring and Perry (1985) being an excellent example of this. In the 1990s the public sector redirected its thinking to change management and leadership with Nutt and Backoff (1993) being an excellent example of this development. The reality of public sector strategy implementation is the management of change in periods of risk and uncertainty – in the public sector leadership is the new management – and private sector strategy might learn form this.

Ring and Perry (1985) suggest that measuring public sector against private sector practice is unfair given the differences that tend to exist between the sectors. They go on to suggest that strategy in the public sector tends to be emergent rather than deliberate and cite the five propositions (listed above) as the general explanation of this. In accommodating pluralism, what Ring and Perry (1985:283) refer to as 'Bridging Competing Worlds' we see possibly the most stark difference between public sector and private sector. In that the public sector strategist must balance or accommodate the ideological imperatives of the democratically elected rulers whilst at the same time satisfying the demand for efficiency. In the private sector the satisfaction of the demand for efficiency would almost always be in line with the desires of the shareholders.

8.10 Summary Points

- There is a feeling in strategy thinking (and management thinking in general) that the public sector should learn from the private sector.
- Left wing and right-wing politics in western economies are beginning to blur together such that the desire to nationalise and privatise industry is much less of a party political issue.
- The public sector has become more 'managed and managerial' than 'administered and served'.
- The public sector has tended to drift away from strategic management towards strategic leadership and change as a preferred focus for the development of organisations and their services (products).
- Public sector strategists are usually legally barred from strategy implementation.
- Stakeholder/shareholder debates are not optional in the public sector – the stakeholder cannot be ignored as they may vote you out.
- Public sector strategy is (obviously) more open to public scrutiny and so is coloured by what is acceptable thus becoming more conservative.
- Strategy tools may not have the same degree of applicability in public sector strategy as they do in private sector strategy.
- Whilst the public sector can learn about strategy from the private sector the private sector can learn about change from the public sector, as enforced change is something the public sector deals with continuously.
- Technology change is seen as driving private sector strategy where social change is seen as driving public sector strategy.

9 Endnotes

1. Reference to Sun Tzu's 'The Art Of War' and Nicolò Machiavelli's 'The Prince' offer an interesting insight into the origins of strategic thought and are both extremely readable.
2. positivism: a strong form of empiricism, *esp* as established in the philosophical system of Auguste Comte, that rejects metaphysics and theology as seeking knowledge beyond the scope of experience, and holds that experimental investigations and observation are the only sources of substantial knowledge. CED.
3. Organisms whose form has been affected by their environment.
4. Note how the model of the text has changed from being largely third person past tense to a monologue delivered as though author and reader were in each others presence.
5. Note the use of 'in' here we think of things as being in 10's or in 20's or in inches or in miles. This indicates our thinking of doing some calculation inside a system – a meta-system of inches or miles.
6. What is your company's mission statement? If you are a student, what is your college or university's mission statement? Does your tutor know what it is?
7. Williamson (1970) gives a comprehensive analysis of the impact of organisation structure on the behaviour of the firm.
8. Read this paragraph again and replace the words in italics with 'increase(ing) profit'. Are the designer, marketer and accountant talking the same language?
9. See Mintzberg, Ahlstrand and Lampel (1998), for a broader analysis of the multiple schools theory.
10. The famous Cornsweet Illusion (in question) is a black dot in the middle of a circular grey cloud that fades progressively from the middle to the outer periphery of the cloud. Importantly there is no sudden stop to the cloud or boundary line. When you stare at the central dot the grey cloud seems to gradually disappear.
11. Inertia from inert or dead.
12. Isomorphism might be translated here as 'one shape'.
13. See Guest (1992) for a critical reflection on the In Search Of Excellence phenomenon.
14. Let's just say eating could be involved.
15. First cited in Meyer, H.B., (1964), Businessman In A Political Jungle, Fortune, April, pp. 133–135, 187–195.
16. See the Leadership Development Commission's (LDC) report – An Emerging Strategy For Leadership Development In Local Government at www.IDeA.gov.uk/