ONE
A taster of the gurus

Introduction

Strategy is a much used, but much misunderstood, concept in management. In this introductory chapter we therefore begin by using the gurus to answer the question 'What is strategy?' We then look at what the main gurus say on managing the external environment. Our next port of call is the notion of competitive advantage – what is this and why is this important? This is followed by a section on strategic decision-making.

Another important area is implementation and change management. Many good strategies fail because they are badly implemented and not because they are not robust. In the final phase the monitoring of the strategy needs to be considered, through learning and control.

What is strategy?

Strategy can be defined in a number of ways. The 'design school' strategy theorists, who consider strategy to be a part of a well formed, logical planning process (Ansoff, 1965, Porter 1980, 1985) might define 'strategy' as:

> "Moving from where you are to where you want to be in the future – through sustainable competitive advantage."

Strategy can also be defined much more fluidly, perhaps even as 'emergent' strategy. Strategy in this mode is defined by Mintzberg (1994) as:

> "A pattern in a series of decisions or actions."

According to Mintzberg, strategy thus may not be something which is within a formal plan, but is more likely to be discovered intuitively. This can be achieved by reflecting on what has actually already happened, or what is currently happening, or what is about to happen.

Whilst these conceptual definitions are useful (to a point) much of strategic management is hidden behind theoretical language. To demystify the concept let us now look to an unusual source.

> A further definition of strategy (which is perhaps more off-the-wall is that drawn from Blackadder (the Television comedy) which is in turn derived from everyday usage). Quite simply, strategy is 'The Cunning Plan.'

A 'cunning plan' is something which has some, or even all of the characteristics of the following:

- Where there is a major constraint, there is some non-obvious way of getting around it
- Where there is a stretching objective, there is a way of getting there in a way which secures maximum advantage, or at minimum cost, or in minimum time
- Is likely to involve looking at the problem or opportunity from a novel and perhaps surprising perspective

- Is fundamentally simple at bottom
- May well incorporate solutions from unrelated areas of experience (e.g. from other industries)

(For more on the ‘cunning plan’, see the section on ‘Blackadder’ as a guru in Chapter 3.)

From the not so cunning plan to the ‘cunning plan’

For example, when writing this book I visited the British Grand Prix at Silverstone. My son James and I were running late for the Saturday qualifiers. We shot out of our car (without checking our exact location). On our return later that day we came out of what looked like the same exit (but it wasn’t). As we had entered our car park from a different angle we could not locate our car – indeed, we were actually looking in the wrong place in a sea of cars.

After fifteen minutes, and getting increasingly desperate, we looked for assistance from one of the stewards, who suggested a not-so-cunning plan:

“You can’t find your car?”, he said.

“No”, I responded.

“What kind of car was it?”, he asked.

“It’s an Audi A4, dark red”, I said.

“What was its registration number?”, he then asked.

“N151 SPE”, was my response.

Pausing for a moment to reflect, he then said, “Maybe if you walked around you could see if you could spot it.”

We rolled our eyes and resumed our long search…. Finally we realised we had come out of a different exit and we found the car. On the journey home, as an amusing piece of in-car entertainment, I got us both to *brainstorm* more cunning plans for how we might have found it. These included:

ELEVEN CUNNING WAYS FOR FINDING OUR CAR

1. Borrowing a very large ladder from Octogan, who run the Grand Prix.
2. Climbing up the mobile phone ariel (adjacent to the car park (with a radioactive – proof suit)).
3. Going on the Big Wheel adjacent to the car park.
4. Asking to take over from one of the cameramen who track the Grand Prix with telescopic cameras mounted on incredibly tall platforms.
5. Climbing on the roof of one of the more central cars – without damaging it.
6. Chartering a helicopter (at £1000 an hour).
7. Parachuting down on the car park (a bit dangerous, though).
8. Waiting until all the cars had gone (perhaps not-so-cunning-this one).
9. Calling in the SAS to home in on our car with laser sights.
10. Contacting the Pentagon to obtain high resolution/magnified pictures of the car park (either by Blackbird spy-plane or by spy-satellite).
11. Bribing the steward £200 to call in his entire team to help us find it (the best one – very simple).

The above example illustrates:

- The need for creative and innovative thinking in developing a strategy and not merely analysis.
- The equal need to be creative in challenging constraints and in acquiring and deploying resources – for competitive advantage.

- The imperative to make trade-offs between options – in coming to a strategic choice, and particularly to assess the implementation difficulty ahead.
- In essence, the best strategies often have the ingredient of SIMPLICITY.
- The importance of understanding the potential for opportunities which may not be self-evident in the external.

We now turn to environment, our final point above – understanding the external environment.

Understanding the external environment

A classic model of the strategy process (which we now work through is contained in Figure 1.

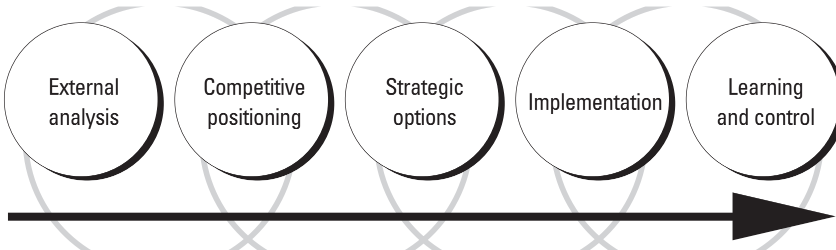

FIGURE 1: STRATEGY PROCESS

The external environment is (and has always been) a major preoccupation of strategy. Ansoff (1965) underlined the need for scanning the wider environment review. Many of the strategy consultants still (today) employ models which have roots in Ansoff.

Ansoff's 'environmental scanning breaks down into 'strong' signals (for example, the onset of a sudden recession) and 'weak' signals (for example, the slowing of growth on demand for letters post in the UK around the turn of the century) due at least in part to the explosion in the use of e-mail.

One of the most under spread models for environmental scanning is 'SWOT' analysis (Ansoff 1965). SWOT analysis (strengths, weaknesses and, more particularly, opportunities and threats analysis) can help to identify external changes with a direct or indirect impact on your business.

Whilst 'SWOT' is an extremely common strategic technique and perhaps the dominant one in most organisations it might be accused of being limited and even dangerous.

Its deficiencies include:

- Inefficiency (Professor Cliff Bowman of Cranfield School of Management jokingly calls this a 'Stupid Waste of Time).
- Subjectivity – especially of its 'strengths'.
- Incompleteness: especially of the 'threats' and also 'weaknesses' listed.
- Inadequate interpretation (what is its so-what?) For example, what is really important in it, and what strategic options does it suggest (Grundy 2003).

Environmental scanning can be done at a variety of levels. For instance, we can consider the PEST factors at large in the environment. At the most general level these begin with the 'PEST' factors (or the Political, Economic, Social and Technological factors) – see Figure 2.

Equally important are the factors driving growth (within the market itself) or 'growth drivers' (see Chapter 2), (see Figure 10). Next, within the market itself, are the five competitive forces (Porter 1980) (see Figure 3).

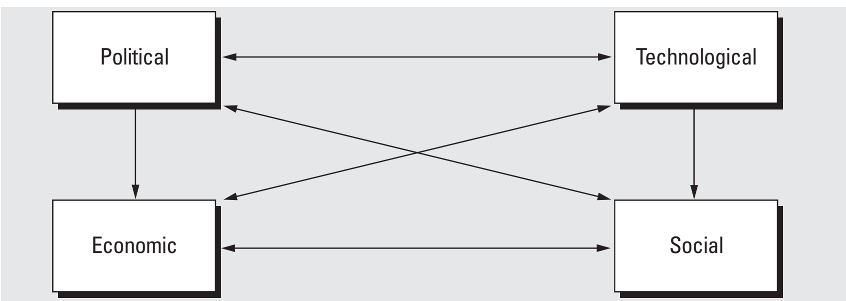

FIGURE 2: PEST FACTORS

After 'SWOT' analysis Porter's five forces is one of the most prominent techniques taught on MBA courses.

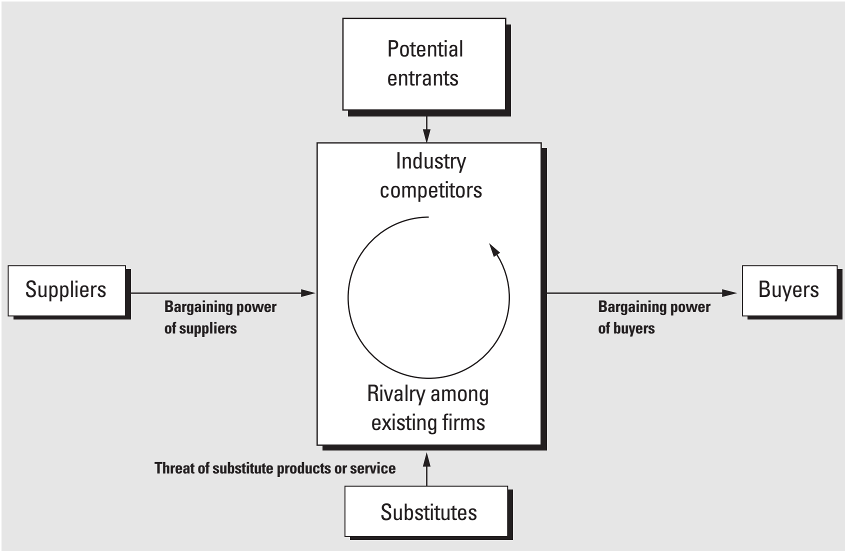

FIGURE 3: PORTER'S FIVE FORCES

It would be remiss to omit mention of futures and scenarios in considering the external environment. A 'scenario' is defined as being:

> "A picture or story-line of the future which is internally consistent and insightful."

We'll now look at a typical scenario of an industry.

A scenario for the football premiership – 2002/3

Following Manchester United's disappointing season in 2001/2002, Sir Alex Ferguson agrees the sale of the Argentinean Veron for £25 million and buys Rio Ferdinand Colefence) for £29 million. Its captain, Roy Keane, keen to make amends for his dropping out 'of Ireland's World Cup Challenge, resumes his assertive role at the heart of Manchester United. Its nearest contender, Arsenal, weakened by injuries to its world-class players and due to tiredness drop to number three position. This leaves Manchester United to romp home to yet another double, and come a near-second in the European Champions Cup final.

Scenarios draw from a number of our earlier environmental analysis techniques in their development. In particular they will require thinking about:

- PEST analysis: to explore changes in the wider industry context, and their knock on effect.
- The growth drivers: to consider shifts in those factors driving growth, – in terms of new ones coming in, old ones becoming less influential, or even turning into brakes on growth.
- Porters five forces: to explore changes in the structure and dynamics of the industry (for example from low to high rivalry, from low bargaining power of the buyers to medium bargaining power).
- The industry mind-set: the industry mind-set is defined (Grundy 1994, 2003) as being:

  'The set of perceptions, assumptions and expectations in the industry which determine how key players add value and compete with one another'

  This concept is also implicit in Hamel and Prahalad (1994) who argue that Porter's forces should not be seen as 'givens' but as open to innovation, challenge and to disruptive competitive behaviour. This concept helps us to understand Porter's five forces from a psychological viewpoint – indeed it has been suggested (Grundy 2002) that this could be a competitive force missed by Michael Porter).

According to HSBC's Head of Strategy Development Mike Guest:

> *"I think there is something missing here in Porter's five forces, we also need to think about the industry mind-set."*
>
> *"In our industry it is probably the most important competitive force."*

In learning about futures more generally, there is nothing better to read than Hamel and Prahalad (1994). In sharp contrast to the majority of the literature on scenarios (what tends to be highly (and unnecessarily) technical and remote) Hamel and Prahalad's thinking is a breath of fresh air. Perhaps for a change we find gurus who are really in touch with the practical issues which managers face, for example:

> *'How do I think differently about my industry?'*
>
> and
>
> *'How do I avoid accepting my current competitive advantage as a 'given'?'*

For in many markets both market attractiveness and competitive position *are not givens*, but they are asking for someone to change the rules of the game.

For example, in the mid-1990s the author performed a Porter's five forces of the strategy consulting industry. This suggested that:

- The bargaining power of the buyers in the market was 'low' to 'medium'.
- The entry barriers were high (brand is very important – as well as competence and experience.
- Rivalry was low between consulting firms.
- Supplier power was medium/high (to hire someone to be competent in strategy consulting was very expensive due to scarcity of analysis and process skills).
- The threat of substitutes was high (see below).

Focusing on the final force, 'substitutes', I realised that this was a negative force (companies either wanted to do it themselves) or they were so frightened of being 'ripped off' by the strategy consulting firms that they would either try to do it themselves, or maybe even not do it at all (properly).

This gave me a rather important and profound set of insights, namely:

1. 'Substitutes' was the force I had to work on – and not the others.
2. The business I was in (being a strategy consultant) could be redefined as 'Avoiding Strategy Consultants' – so I train them to do it themselves.
3. If I was able to help major companies to avoid strategy consultants – with more value, at less cost and in less time, then I would have Porter's elusive 'sustainable competitive advantage'.
4. This would be easy for me and difficult for the big strategy firms because:
   a) they would need to shoot themselves in the foot to compete with me and
   b) they couldn't possibly compete with me because they sell in terms of teams and weeks (their mind-set), whilst I sold in terms of myself (and days).

Quick example

Another quick example of the use of scenarios and of futures was that of a major retailer who, in the mid/late 1990s was contemplating entering the homeshopping market. At that time they had limited market presence on that emerging market.

Their (independent) consultant said to them:

"I am not sure that competing from where we are now is going to be particularly helpful. Why don't we simply imagine the market in 2002?"

The team looked at their future homeshopping market – which seemed in (post-Internet) to be substantial and potentially profitable – and thus interesting. They said to their consultant: "This is a pretty big and attractive market given the PEST factors, the growth drivers, and the competitive forces."

Their consultant then said: "Well, where do *you* want to be in it?"

Their response was, "Well, given that we are Bestco, we want to be dominant in it."

"So that is your starting point", said their consultant (and the rest was history).

Understanding competitive advantage

Besides analysis of the external environment the next major thing we learn from the gurus is to analyse and evolve our competitive advantage.

'Competitive advantage' was defined by Kenichi Ohmae, head of strategy, McKinsey Co, Tokyo as being:

EITHER

"Delivering superior value advantage to your target customers relative to your competitors"

OR

"Delivering equivalent customer value to your target customers relative to your competitors but at lower cost"

Kenichi Ohmae's book 'The Mind of the Strategist' (1982) is short, brilliant in style, and succinct. It is an extremely lucid and relevant account of the basis of competitive strategy.

Somewhat more heavyweight is Porter's 'Competitive Advantage' (1985). The book was published during the last year of my MBA in 1985. It represented a major advance in thinking about strategy. Already, in 1980, Porter had put himself both globally and eternally on the map with his thoughtful and well researched book on 'Competitive Strategy'. This was centred on:

- His five competitive forces (see Figure 3) and
- Applying life-cycle analysis not just to products/markets, but to entire industries (and many of his insights are just as relevant today).

‘Competitive Strategy’ is superbly structured taking the reader through the evolution of markets, and examining how the five competitive forces change over the industry life-cycle.

‘Competitive Advantage’ (of 1985 vintage) was perhaps more of a breakthrough in jargon than one of intellectual advance. It was a superbly packaged book. Instead of thinking about SWOT analysis, we were now encouraged to think about securing an incremental competitive advantage, over and above that of our competitors.

The idea of ‘competitive advantage’ already existed implicitly in economics but, Porter’s brilliance here was to turn an essentially economic idea into one which was an every day, catchy, management notion. And this certainly caught on. Every business school in the world jumped on the (then) bandwagon of ‘competitive advantage’.

Possibly the strategy world has never seen anything like this level of excitement since. Indeed since that time there have been a lot of confusions about Porters notion of ‘generic competitive advantages’. These were perhaps motivated in part by genuine mistrust of generic prescriptions but also, perhaps to be just a little tinge of academic rivalry.

Surprisingly, since 1985 Porter appears to have regarded his work on competitive strategy as more or less finished at least at the business/corporate strategy level) and has moved onto ‘better things’ (looking at countries as quasi strategic business units).

Many have critiqued his work, few have built from it. Whilst Porter brought together perhaps the first, truly comprehensive and detailed account of the analytical needs for developing a competitive strategy, it is a pity that so few have sought to refine his ideas further.

MBA students who have relied to so far only on secondary texts of Porter’s work (some examples are Johnson and Scholes (1989) or Grundy (1994, 2002)) would do well to avoid being lazy and to read Porter in the original.

Turning back now to Porter's more controversial, second work 'Competitive Advantage', the more novel areas of this book are:

- The suggestions that these are a number of 'generic' strategies (or ideal forces of strategy), including 'differentiation' (or high value-added strategy) 'costs leadership' (having the lowest costs) or 'focus' (competing on a narrower area).
- The prescription that if you do not make a strategic choice and if you try to pursue a number of different generic strategies simultaneously then you will lose focus within your strategy, and this will undermine your strategic success.

The key reasons why there is likely to be tension within an organisation pursuing differentiation *and* cost leadership styles of strategy simultaneously include:

- The customer might get confused with contradictory brand messages.
- Common processes may result in it being difficult to cope with the opposing demands of these polar, strategy styles.
- The organisational culture and mind-set is unlikely to be able to cope with the imperative to switch styles of competing, depending upon what product market is being serviced at that particular moment in time.

To get around this limitation companies might try to 'have it both ways' nevertheless, for example by:

- Offering superior value for money – with the trade off being that there is a more limited product offering, thus gaining economies of scale over a smaller volume (Marks and Spencers clothing strategy 1990-1997).
- Creating a back office for commodity-type activities, whilst attempting to differentiate through the brand, the core product, and through sales process (this was the UK bank, Abbey National's strategy). However, this strategy can prove difficult to sustain where the customers are affected by quality problems in obtaining routine servicing from the back office.

- Having decentralised business units who do not need to get confused by conflicting mind-sets. (For example, British Airways set up the budget airline 'Go' to compete with EasyJet in the late 1990s. But this proved hard to sustain – both because of competitive conditions and the difficulties of reporting to a corporate parent with a different mind-set. Go was then bought out and subsequently EasyJet bid to become its new corporate parent company in 2002.)

Looking back at Porter's book on 'Competitive Advantage' – which was, and is still now – a very helpful concept – one cannot help feeling that its battle-cry might (inadvertently) have sometimes led to an inappropriate mind-set. For although companies pursue competitive advantage they are often motivated to excel in some areas, this is frequently done to the detriment of others. In many ways an even more pertinent concept is that of:

Avoiding competitive disadvantage

…for so many companies fail to grow a sustainable competitive advantage not because they are not able to differentiate or achieve low cost positions, but because they undermine the effective delivery of customer value.

Short case study – Einstein Finance

'Einstein Finance' was a new and innovative financial services provider which aimed to give extra value for money to the customer by excellent deposit rates, innovative style accounts, and customer service by bright call centre staff. It invested heavily in television and other advertising, its name suggesting that it was a really clever place to put ones money.

One of its customers invested one hundred pounds with Einstein Finance. He was intending to invest a further £60,000 following a property sale.

Unfortunately on his first telephone enquiry it took twenty minutes to get an answer.

This went as follows:

"Thank you for your patience, we value your call, please listen to this pleasant music to prevent you from getting bored…", said the electronic voice.

"Einstein Finance", the (human) teleoperator then said (eventually).

"Thank you for answering at last, but I have now passed the ultimate intelligence test and wish to withdraw all my money forthwith", said the author.

Strategic options and decision-making

One of the central notions of strategy is 'choice' (Porter 1985). This means choice of positioning and also effective allocation of resources (Grant 1991). Choice means being able to apply decision criteria in a multitude of strategic settings, including deliberate and emergent strategies.

The criteria for strategic decision-making are dispersed throughout many strategy books, with tests of 'sustainability', 'feasibility' or 'fit' often being used. To cut through this mist of often very general criteria, it is proposed to the reader that Figure 4 below is very much worth a try.

Options / Criteria	Option 1	Option 2	Option 3	Option 4
Strategic attractiveness				
Financial attractiveness*				
Implementation difficulty				
Uncertainty and risk				
Acceptability (to stakeholders)				

* *Benefits less costs – net cash flows relative to investment*

FIGURE 4: STRATEGIC OPTION GRID, GRUNDY 2003

Besides looking to the academic gurus we should also look at who are leading the way in terms of applying strategic analysis tools in dealing with ambiguous, uncertain and even intractable decisions. A number of major companies have now used/are adopting this technique, for example:

- Diageo
- Ford
- HSBC
- Microsoft
- Nokia
- Standard Life
- Tesco

The five criteria on the strategic option grid can be scored using:

✓✓✓ very attractive

✓✓ moderately attractive

✓ less attractive

These scores are then added up at the bottom to see what is (prima facie) the most attractive option.

Note that if something is 'very difficult' it is scored as a one tick and not a three – likewise with 'high uncertainty and risk'.

These scores are only as good as 'the cunning plan' – implying a high degree of creativity rather than merely analysis. Once the scores have a preliminary estimate, you should then check them out with bottom-up techniques (as follows), and with carefully selected data analysis:

Strategic attractiveness	PEST factors, Porter's five forces, growth drivers (Grundy/Ohmaes/Porter's competitive advantage)
Financial attractiveness	Value and cost drivers (see shareholder value theory later in the book)
Implementation difficulty	Force field analysis (Lewin)

Uncertainty and risk	Key assumptions (Mitroff)
Stakeholder acceptability	Stakeholder positionings (Piercy)

Whilst the gurus describe strategic decision-making as being typically emergent, (Mintzberg 1994) messy (Braybrooke and Lindblom (1963) and incremental (Quinn 1980), using the strategic option grid gives at least some clarity to senior managers in future direction. In practice strategy tends to move through different states of degree of form and logic, as we will see in the section in Chapter 3 on Grundy – 'The Strategy Mix' (Figure 11).

Effectively, the Strategic Option Grid (Grundy 2002) therefore brings together (in practical terms) the disparate insights of a variety of gurus.

Implementation

Whilst the design school (Ansoff, Porter, Hamel and Prahalad) tend to focus on deliberate external strategy, process theorists tend to focus on emergent strategy and on organisational factors. It is this rare to find rounded accounts of implementation in the strategy literature (except perhaps for Johnson and Scholes, 1987).

As the book develops we will see the need to draw from the more behavioural work of theorists like Peters (1982), Kanter (1983) and Pascale (1990), some analytical techniques, notably:

- Force field analysis (Lewin 1935).
- Stakeholder analysis (Piercy 1989).

These are essential techniques to anticipate, and to avoid, implementation difficulty.

Learning and control

The literature on learning and control is quite patchy – apart from the Balanced Score-Card (Kaplan and Norton, 1991) and the emphasis on the learning organisation (Senge 1990). One of the major limitations on organisations in this area is not so much process mechanisms, but an absence of strategic leadership (contrast later on our Champney's case, Chapter 4, with Marks and Spencers, Chapter 5.

Conclusion

Whilst strategic theory is well developed in terms of external analysis there are far less well developed frameworks of strategy implementation, learning and control. The organisational literature (as would find) tends either not to be too helpful as it just accepts what is – however bad, or it is dominated by prescriptive gurus like Peters. This gives pointers for new avenues of strategy and guru development for the future.