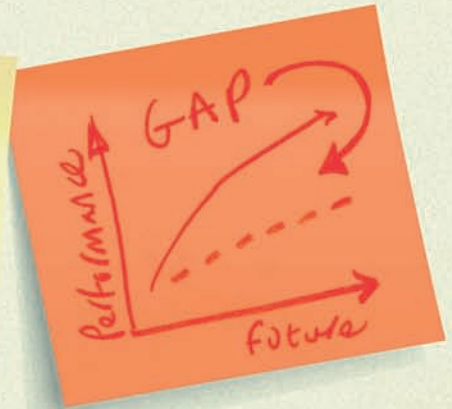


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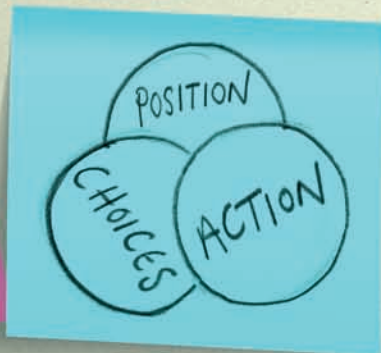


KEY
STRATEGIC
ISSUES



EXPLORING STRATEGY

DIVERSIFY
OR
FOCUS?



WHAT'S THE
PLAN?

GERRY JOHNSON, RICHARD WHITTINGTON,
KEVAN SCHOLES, DUNCAN ANGWIN, PATRICK REGNÉR

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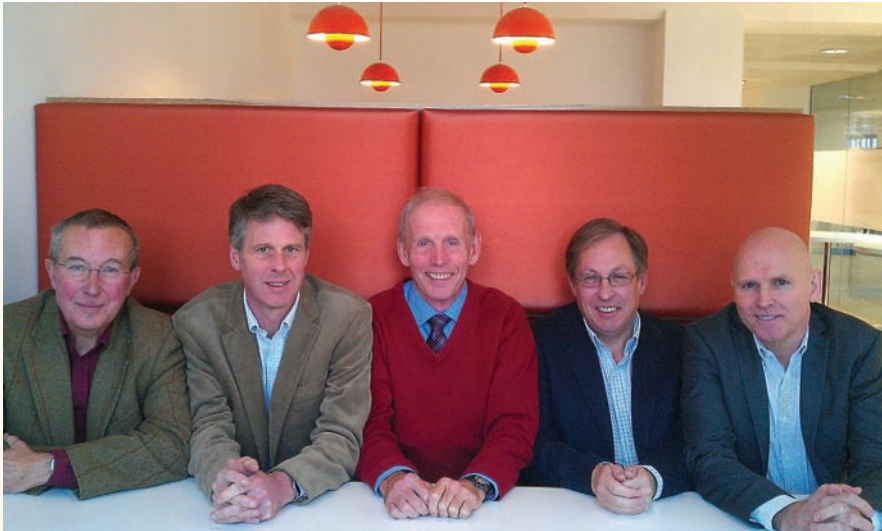
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PREFACE

As a newly enlarged team of authors, we are delighted to offer this tenth edition of *Exploring Strategy*. With sales of previous editions now over one million, we believe we have a well-trying product. Yet the strategy field is constantly changing. For this edition, therefore, we have thoroughly refreshed each chapter, with new concepts, new cases and new examples throughout. Here we would like to highlight five particular changes, while recalling some of the classic features of the book.

The tenth edition's principal changes are:

- **An increased focus on ownership:** reflecting the growing importance of family, entrepreneurial and state-owned businesses around the world, this edition addresses the implications of different ownership models for strategy.
- **A new treatment of performance:** given that business is so diverse today, this edition also introduces a substantial discussion of how to assess the success of strategies.
- **An enhanced analysis of the non-market aspects of the environment:** with politics and regulations so important to business nowadays, we now give more space to analysing these complex but vital elements of the environment.
- **More discussion of entrepreneurial strategies:** with so many undergraduate and graduate students interested in entrepreneurial careers, we have extended our discussion of entrepreneurship, with more focus on actual strategies.
- **Recognition of the need for organisational ambidexterity:** in a world in which both efficiency and innovation are so important, we stress now the need to exploit current capabilities with one hand, while exploring for new capabilities with the other.

At the same time, *Exploring Strategy* retains its longstanding commitment to a comprehensive and real-world view of strategy. In particular, this entails a deep concern for:

- **Process:** we believe that the human processes of strategy, not only the economics of particular strategies, are central to achieving long-term organisational success. Throughout the book, we underline the importance of human processes, but in particular we devote Part III to processes of strategy formation, implementation and change.
- **Practice:** we conclude the book with a chapter on the practice of strategy (Chapter 15), focused on the practicalities of managing strategy. Throughout the book, we introduce concepts and techniques through practical illustrations and applications, rather than abstract descriptions.

The **Strategy Experience** simulation gives students a chance to apply the frameworks of the book to a dynamic, realistic simulation of strategy in the advertising industry.

Many people have helped us with the development of this new edition. Steve Pyle has taken leadership in coordinating the case collection. We have consulted carefully with our Advisory Board, made up of experienced adopters of the book. Many other adopters of the book provide more informal advice and suggestions – many of whom we have had the pleasure of meeting at our annual teachers' workshops. This kind of feedback is invaluable and we hope you will keep the comments flowing. Also, our students and clients at Lancaster University, Oxford University, Oxford Brookes, Stockholm School of Economics, Sheffield Hallam and the many other places where we teach are a constant source of ideas and stimulus. We also gain from our links across the world, particularly in Ireland, the Netherlands, Denmark, Sweden, France, Canada, Australia, New Zealand, Hong Kong, Singapore and the USA. Many contribute directly by providing case studies and illustrations and these are acknowledged in the text.

Finally, we thank those organisations that have been generous enough to be written up as case studies. We hope that those using the book will respect the wishes of the case study organisations and *not* contact them directly for further information.

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EXPLORING STRATEGY

This tenth edition of *Exploring Strategy* builds on the established strengths of this best-selling textbook. A range of in-text features and supplementary features have been developed to enable you and your students to gain maximum added value from the teaching and learning of strategy.

- **Outstanding pedagogical features.** Each chapter has clear learning outcomes, practical questions associated with real-life illustrations and examples which students can easily apply to what they have learnt.
- **Flexibility of use.** You can choose to use either the Text and Cases version of the book, or – if you don't use longer cases (or have your own) – the Text-only version. The provision of Key Debates, Commentaries and Strategy 'Lenses' allow you to dig deeper into the tensions and complexity of strategy.

The two versions are complemented by a concise version of the text, *Fundamentals of Strategy*, and instructors also have the option of further customising the text. Visit www.pearsoned.co.uk/CustomPublishing for more details.

- **Up-to-date materials.** As well as a new chapter on mergers, acquisitions and alliances, we have fully revised the other chapters, incorporating new research and updating references so that you can easily access the latest research.
- **Encouraging critical thinking.** As well as the Strategy Lenses, we encourage critical thinking by ending each chapter with a 'Key debate', introducing students to research evidence and theory on key issues of the chapter and encouraging them to take a view.

Our 'three-circles' model – depicting the overlapping issues of strategic position, strategic choices and strategy in action – also challenges a simple linear, sequential view of the strategy process.

- **Case and examples.** A wide range of Illustrations, Case examples and (in the Text and Cases version) longer Case studies are fresh and engage with student interests and day-to-day experience. The majority of these are entirely new to this edition; we have extensively revised the remainder. Finally, we draw these examples from all over the world and use examples from the public and voluntary sectors as well as the private.
- **Teaching and learning support.** You and your students can access a wealth of resources at www.mystrategylab.com, including the following:

For students

- **The Strategy Experience** simulation, which puts the students in the driving seat and allows them to experience the real world of strategic decision making.
- A personalised study plan that helps students focus their attention and efforts on the areas where they're needed the most.
- Flashcards and a multilingual glossary.

For instructors

- An Instructor's Manual which provides a comprehensive set of teaching support, including guidance on the use of case studies and assignments, and advice on how to plan a programme using the text.
- PowerPoint slides.
- A test-bank of assessment questions.
- Classic cases from previous editions of the book.


In addition to the website, a printed copy of the Instructor's Manual is also available.

- **Teachers' workshop.** We run an annual workshop to facilitate discussion of key challenges and solutions in the teaching of strategic management. Details of forthcoming workshops can be found at www.pearsoned.co.uk/events.

GUIDED TOUR

→ Setting the scene

The 'three-circles' navigational diagram shows where you are in the three-part structure that underpins the book.



3 STRATEGIC CAPABILITIES

Learning outcomes

After reading this chapter you should be able to:

- Identify strategic capabilities in terms of organisational resources and competences and how these relate to the strategies of organisations.
- Analyse how strategic capabilities might provide sustainable competitive advantage on the basis of their Value, Rarity, Inimitability and Organisational support (VRIO).
- Diagnose strategic capability by means of VRIO analysis, benchmarking, value chain analysis, activity mapping and SWOT analysis.
- Consider how managers can develop strategic capabilities for their organisations.

Key terms

- competences p. 70
- dynamic capabilities p. 71
- imitable capabilities p. 77
- organisational knowledge p. 80
- rare capabilities p. 77
- resources-based view p. 70
- resources p. 70
- strategic capabilities p. 71
- SWOT p. 91
- threshold capabilities p. 73
- value p. 76
- value chain p. 83
- value system p. 83
- VRIO p. 76

MyStrategyLab

MyStrategyLab is designed to help you make the most of your studies. Visit www.pearsoned.co.uk/mystrategylab to discover a wide range of resources, including:

- A personalised Study plan that will help you understand core concepts
- Audio and video clips that put the spotlight on strategy in the real world
- Online glossaries and flashcards that provide helpful reminders when you're looking for some quick revision.

Learning outcomes enable you to check that you have understood all the major areas by the end of the chapter.

Key terms are identified at the beginning of each chapter.

→ Strategy in the real world

ILLUSTRATION 1.2
Strategy statements

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

Samsung Electronics

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

Every day, our people bring this philosophy to life. Our leaders search for the brightest talent from around the world, and give them the resources they need to be the best at what they do. The result is that all of our products – from memory chips that help businesses store vital knowledge to mobile phones that connect people across continents – have the power to enrich lives. And that's what making a better global society is all about.

As stated in its new motto, Samsung Electronics' vision... is, "Improve the World, Create the Future". This new vision reflects Samsung Electronics' commitment to inspiring its communities by leveraging Samsung's three key strengths: "New Technology", "Innovative Products", and "Creative Solutions". As part of this vision, Samsung has mapped out a specific plan of reaching \$400 billion in revenue and becoming one of the world's top five brands by 2020. To this end, Samsung has also established three strategic approaches in its management: "Creativity", "Partnership", and "Talent".

As we build on our previous accomplishments, we look forward to exploring new horizons, including health, medicine, and biotechnology. Samsung is committed to being a creative leader in new markets and becoming a truly No. 1 business going forward.

Utrecht University, Strategic Plan 2012-16

The University's core mission is to educate young people, train new generations of researchers, produce academics who have both specialist knowledge and professional skills, conduct ground-breaking research, and address social issues and work towards solving them.

Education targets

- Utrecht University will manage to retain third place in the top six of (Dutch) general research universities with the highest number of Bachelor's programmes rated good/excellent.
- The percentage of (permanent) lecturers with a basic teaching qualification will grow from 20 per cent in 1999 via 60 per cent in 2010 to a projected total of 80 per cent in 2016.
- By 2016, the number of scheduled contact hours and other structural education-related hours in... full-time Bachelor's programmes will total 12-18 hours per week.
- The percentage of students enrolled in entrepreneurship courses will increase from 1 per cent in 2006, via 3 per cent in 2010 to a projected total of 5 per cent in 2016.

Strengths

A university-wide education... A broad range of instruments... and a broadly supported educational... and assessment of teaching... culture. The largest Summer School... in Europe, serving as a centre... for internationalisation... around the country.

Questions

- Construct short strategy statements covering the goals, scope and advantage of Samsung and the University of Utrecht. How much do the different private and public-sector contexts matter?
- Construct a strategic statement for your own organisation (university, sports club or employer). What implications might this statement have for your particular course or department?

Illustrations showcase the application of specific strategic issues in the real world so you can identify and relate theory to practice.

Case Example

Glastonbury: from hippy weekend to international festival

Steve Henderson, Leeds Metropolitan University

Following on from Woodstock in 1969, many have been inspired to create their own music festival. While some of these events have come and gone, the longevity and location of Fuji Rock Festival in Japan, Roskilde in Denmark, Coachella in the USA, Rock al Parque in Colombia illustrate the established international nature of this market (see Table 1). One of the longest established is Glastonbury Festival where, in 2013, the Rolling Stones were added to the long list of acts (from Paul McCartney to Oasis) that have appeared there. It started in 1970 when 1,500 hippy revellers paid £1 (£1.2, \$1.5) for their ticket and gathered on a farm near Glastonbury Tor to be pined with free milk and entertainment from a makeshift stage. Now Glastonbury is a major international festival that attracts over 150,000 attendees. Without any information about the performers, the 2013 festival tickets – priced at over £200 – sold out within a few hours.

In those early days, the vision was developed by local farmer, Michael Eavis, whose passion for music and social principles led to a weekend of music as a means of raising funds for good causes. It was a social mission rooted in the hippy counter-culture of the 1960s, and events such as the Woodstock Festival. Today, the Glastonbury Festival attendee funds that those early days

of hippy idealism are a long way off. The scale of the organisation demands strong management to support the achievement of the festival's social aims.

At first, the statutory requirements for an event held on private land were minimal. Javal policemen looked over hedges while recreational drugs were sold from tables near the festival entrance as if this was just a slightly unusual village fete. Needless to say, the festival began to attract the attention of a number of different groups, especially as legislation around the running of events tightened. Eavis struggled with local

Table 1 International music festivals

Festival	Country	Started	Estimated capacity ¹	2013 pricing
Woodstock	USA	1969	400,000	Free/Free
Glastonbury	UK	1970	130,000	£205 (weekend)
Reading/Leeds Festival	UK	1971/1999	162,000	£197.50 (weekend)
Roskilde	Denmark	1971	103,000	£195 (three days)
Rock am Ring/Rock im Park	Germany	1982/1993	150,000	€150 (weekend)
Rock al Parque	Colombia	1995	88,000	Free
Benicassim	Spain	1995	95,000	€150 (four days)
V Festival – Watson Park/Hyalands Park	UK	1996	160,000	£185 (weekend)
Fuji Rock	Japan	1997	More than 100,000	€205 (three days)
Coachella	USA	1999	75,000	€220 (three days)
Peace & Love	Sweden	1999	22,000	€170 (two days)

¹ Based on daily capacity
² Existed from 1961 as a Jazz Festival

The Case example at the end of each chapter allows exploration of topics covered in the chapter.

→ Critical thinking and further study

60 CHAPTER 2 THE ENVIRONMENT

KEY DEBATE
How much does industry matter?
A good start in strategy must be to choose a profitable industry to compete in. But does simply being in the right industry matter more than having the right kinds of skills and resources?

This chapter has focused on the role of the environment in strategy making, with particular regard to industries. But the importance of industries in determining organisational performance has been challenged in recent years. This has led to a debate about whether strategy making should be externally orientated, starting with the environment, or internally orientated, starting with the organisation's own skills and resources (the focus of Chapter 3). Managers favouring an external approach look primarily outside the organisation, for example building market share in their industries through mergers and acquisitions or aggressive marketing. Managers favouring an internal approach concentrate their attention inside the organisation, fostering the skills of their people or nurturing technologies, for example. Because managerial time is limited, there is a real trade-off to be made between external and internal approaches.

The chief advocate of the external approach is Michael Porter, Professor at Harvard Business School and founder of the Monitor Consulting Group. An influential proponent of this approach is Richard Rumelt, a student at Harvard Business School but now at University of California Los Angeles. Porter, Rumelt and others have done a series of empirical studies examining the relative importance of industries in explaining organisations' performance. Typically, these studies take a large sample of firms and compare the extent to which variance in profitability is due to firms or industries controlling for other effects such as cost. If firms within the same industry tend to bunch together in terms of profitability, it is industry that is accounting for the greater proportion of profitability; an external approach to strategy is supported. If firms within the same industry vary widely in terms of profitability, it is the specific skills and resources of the firms that matter most; an internal approach is most appropriate.

The two most important studies to test find that more of the variance in profitability is due to firms rather than industries – firms account for 47 per cent in Rumelt's study of manufacturing (see the figure). However, when Porter and McGahan included service industries as well as manufacturing, they found a larger industry effect (19 per cent).

Questions

- 1 Why might some industries have a larger influence on their members' profitability than others?
- 2 What other factors might account for business unit profitability?

Study	Other effects	Industry	Firm
Rumelt	46	7	47
Porter & McGahan	50	19	31

The implication from this work is that firm-specific factors generally influence profitability more than industry factors. Firms need to attend carefully to their own skills and resources. However, the greater industry effect found in Porter and McGahan's study of both manufacturing and services suggests that industry's importance varies strongly by industry. External influences can matter more in some industries than others.

Source: R.P. Rumelt, 'How much does industry matter?', *Strategic Management Journal*, vol. 12, no. 2 (1991), pp. 167-90; M.E. Porter and A.M. McGahan, 'How much does industry matter now?', *Strategic Management Journal*, vol. 18, Summer Special Issue (1997), pp. 51-76; M.E. Porter and A.M. McGahan, 'The emergence and sustainability of 'dominant profits'', *Strategic Organization*, vol. 1, no. 1 (2003), pp. 79-108.

The **Key debate** at the end of each chapter invites you to reflect on topical and contentious questions of strategy.

Work and Video assignments at the end of each chapter provide stimulating questions which encourage you to explore key concepts and applications.

22 CHAPTER 1 INTRODUCING STRATEGY

SUMMARY

- Strategy is the long-term direction of an organisation. A strategy statement should cover the goals of an organisation, the scope of the organisation's activities and the advantages or capabilities the organisation brings to these goals and activities.
- Corporate-level strategy is concerned with an organisation's overall scope; business-level strategy is concerned with how to compete; and operational strategy is concerned with how corporate- and business-level strategies are actually delivered.
- The Exploring Strategy Model has three major elements: understanding the *strategic position*, making *strategic choices* for the future and managing *strategy* in action.
- Strategy work is done by managers throughout an organisation, as well as specialist *strategic planners* and *strategy consultants*.
- Research on strategy context, content and process shows how the analytical perspectives of economics, sociology and psychology can all provide practical insights for approaching strategy issues.
- Although the fundamentals of strategy may be similar, strategy varies by organisational context, for example small business, multinational or public sector.
- Strategic issues are best seen from a variety of perspectives, as exemplified by the four *strategy lenses* of design, experience, variety and discourse.

VIDEO ASSIGNMENTS

Visit **MyStrategyLab** and watch the British Heart Foundation case study for Chapter 1.

- 1 Refer to section 1.2.3 and Illustration 1.2 as a guide and use the video to help you write a strategy statement for the British Heart Foundation. Why is such a statement useful to the BHF?
- 2 Show how the Exploring Strategy Model (Figure 1.3) can be used to map key strategic management issues for the BHF. Identify the key challenges facing the BHF.

WORK ASSIGNMENTS

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

- 1.1 Drawing on Illustration 1.2 as a guide, write a strategy statement for an organisation of your choice (e.g. the GlaxoSmithKline chapter case, or your university), drawing on strategy materials in the organisation's annual report or website.
- 1.2 Using the Exploring Strategy Model of Figure 1.3, map key issues relating to strategic position, strategic choices and strategy into action for the Lego case*, GlaxoSmithKline, or an organisation with which you are familiar (e.g. your university).
- 1.3 Go to the website of one of the major strategy consultants such as Bain, the Boston Consulting Group or McKinsey & Co. (see reference 5 below). What does the website tell you about the nature of strategy consulting work? Would you enjoy that work?
- 1.4 Using Figure 1.3 as a guide, show how the elements of strategic management differ in:
 - (a) A small or family business (e.g. Adams, Feed Henry*, Laza* or Hotel du Vin*).
 - (b) A large multinational business (e.g. Vodafone*, SABMiller*, Unilever*).
 - (c) A non-profit organisation (e.g. AIDS Alliance*, GMB* or Queensland Rail*).

Commentaries at the end of each part of the book present a view of strategy through four 'lenses' to help you see strategic issues in different ways.

COMMENTARY ON PART II

The central concern of Part II has been the strategic choices available to organisations, including business strategy, e.g. diversification, internationalisation, innovation, acquisitions and alliances. Although the chapter provides various rationales and evidence for these strategic choices, this book recognises that the decisions between these are often not wholly objective and rational. Indeed, the four contrasting 'Strategy Lenses' (introduced in the Commentary at the end of Part II) each propose very different expectations about strategic decisions. This Commentary explores the same four lenses to the issues raised in Part II, focused on strategic choices. The four lenses raise questions about how to generate the options for strategic choice, assumptions about other organisations, and what is likely to matter in the success of various options.

Design lens

The design lens places high value on extensive information search and analysis for generating strategic options. Logical, optimal choices are important. The design lens therefore recommends you to:

- Consider all options: strategy choices should be made between a large initial range, with techniques such as the Ansoff growth matrix (section 7.2) used to generate options.
- Ensure fit between choice and purpose: preferred options should be checked carefully for consistency with the purposes, goals and objectives of the organisation (Chapter 4).
- Maximise returns: the optimal choice is one that maximises the returns on investment, whether that is investment of capital or effort (Chapter 11).

Experience lens

In this view, strategy develops incrementally based on the past history and culture of the organisation and its members. So the set of strategic options to choose from is unlikely to be comprehensive and cultural factors can generate behaviours different from might be expected on a simplistically rational point of view. You should therefore:

- Challenge standard responses: for example, just because a particular diversification option (Chapter 7) or international entry mode (Chapter 8) has always worked before, does not mean that the same should be done again.
- Respect cultural differences: in integrating acquisitions (Chapter 10), cooperating with alliance partners (Chapter 10) or going international (Chapter 8), the experience lens suggests it is very important to take account of the other organisation's history and culture, as well as more objective factors.
- Adjust competitor analysis: if experience shapes strategy, simple analysis of competitor interaction, as sometimes in game theory (Chapter 6), may need to be adjusted in order to avoid exaggerating the likely speed of competitors' moves or making excessive assumptions about the rationality of their responses.

Variety lens

The emphasis here is on the variety and spontaneity of strategic options and their possible origins in the organisational periphery. The variety lens is orientated towards innovation. Thus the variety lens encourages you to:

- Look beyond top management: from a variety lens point of view, the strategies generated by top management are liable to be limited, so you should look more broadly for ideas about strategic options, for instance by using 'open innovation' or 'market pull' approaches (section 9.2).
- Learn from acquisitions and partners: if the top has no monopoly of wisdom, exploring acquired units or alliance partners (Chapter 10) for underappreciated initiatives or capabilities might uncover new strategic options going far beyond what was planned in the original acquisition or alliance.
- Expect surprises: in an environment liable to spontaneous innovation, you should be sensitive to the potential for sudden 'disruptive innovations' and consider holding a strong portfolio of 'real options' (section 9.4).

Discourse lens

According to this lens, the strategic options that rise to the surface will typically be shaped by the legitimate discourse of the organisation and the underlying self-interest of various managers. The discourse lens recognises the power of language. So you should:

- Watch your language: attend to discursive framing of your strategic options, recognising the emotional resonance of labels such as 'star' and 'dog', or 'heartland' and 'alien', in portfolio analyses for instance (Chapter 7) and the different meanings such labels might have in various national cultures (Chapter 9).
- Disturb others' language: strategic options that draw heavily on apparently legitimate or fashionable discourses such as synergy (Chapter 7), innovation and entrepreneurship (Chapter 9) or partnership and ecosystems (Chapter 10) should be probed particularly critically for shaky reasoning or self-interested motives.
- Look out for managerial interests: the discourse with which strategic options are framed may hide managerial self-interest, especially in regard to strategies such as unrelated diversification (Chapter 7) or aggressive acquisitions (Chapter 10) that often perform badly for shareholders.

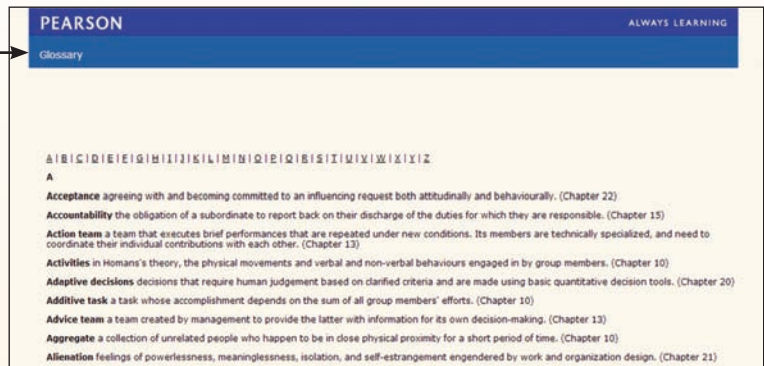
STRATEGIC CHOICES

This Commentary therefore reconsiders some of the issues of Part II in the light of the four strategy lenses. Note that:

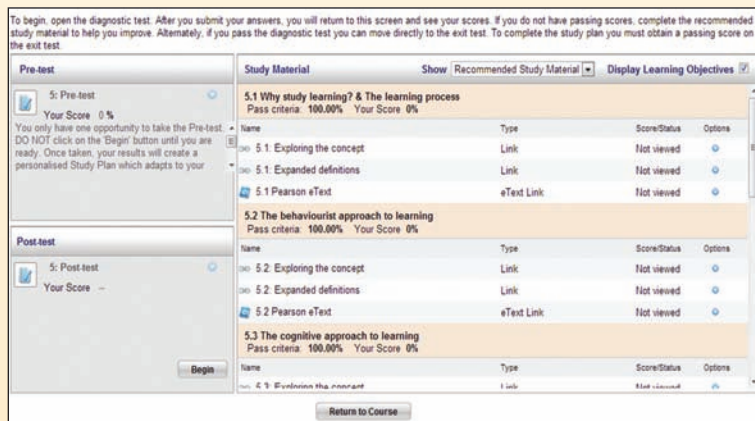
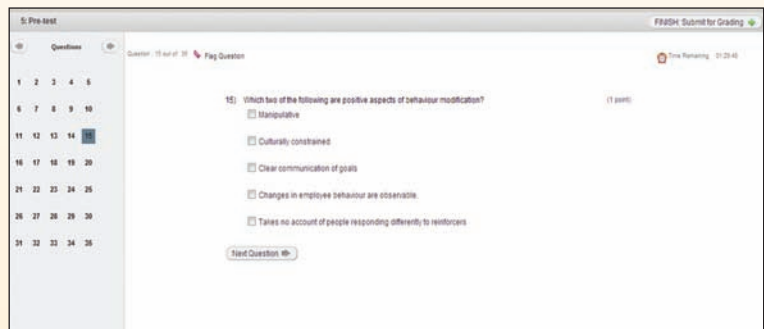
- There is no suggestion here that any one of these lenses is better than the others. It is usually beneficial to explore strategic options using more than one lens, in order to get more than one point of view.
- For a deeper understanding of this Commentary, you might want to review the Part I Commentary, following Chapter 5, which provides a fuller introduction of the four lenses, plus an illustrative case.

→ Check your understanding with **MyStrategyLab**

All key terms are included in the **Glossary**, found in **MyStrategyLab**. (The Glossary is also translated into Chinese, Dutch, French, Norwegian and Swedish.) You can also test your understanding of these key terms using **Flashcards**.



Need a little extra help? **Self-assessment tests** will help you to identify the areas where you need to improve . . .



. . . and the **Personalised study plan** will direct you to the specific resources that can help you achieve a better grade.



Video cases give you a glimpse at real people in real organisation.



The Strategy Experience simulation included in **MyStrategyLab** puts you in the position of a strategic decision-maker. You are the Director of the Board at WRSX Group, a global advertising and marketing communications business.

Phase 1: Strategic Position

Welcome to Phase 1: Strategic Position

WRSX

This first phase of the simulation is all about understanding the strategic position of the WRSX Group. This means the factors that have to be taken into account at the outset of strategy development. There are two basic views here: one stresses the external factors in the organisation's strategic position. The other emphasises the internal factors.

Juliette Waldon, WRSX Group's Executive Chair

Explanation of your tasks in Phase 1: Strategic Position

Resources: Download and evaluate the information

Your Phase 1: Strategic Position resources include the following.

Current External Environment – Overview

Listen to an overview of the WRSX Group's external environment, prepared by a senior business analyst, by clicking the icon. You can download the transcript by clicking the link below.

Current External Environment – Business Analyst's Detailed Report

Andy Carnellley, Business Analyst

Guidance: A word from your mentor

To get an explanation of the Phase 1 purpose from your mentor, please view the video.

To download a transcript [click here](#)

Assessment: Test and apply your knowledge

To check your understanding of the key issues in this phase of the simulation, click the back arrow at the top left of this screen to find the following activities within MyStrategyLab:

Self-assessment questions - 20 questions which give you instant feedback on your understanding of the strategic position of the WRSX Group.

Written assignment: Strategic analysis - write a detailed analysis of the strategic position of the WRSX Group, using one of two easy formats: a 'three responses' form which you submit online, or a 'Word template', version which you can then upload online. Your instructor will need to grade this activity.

Resources: Download and evaluate the information

Your Phase 1: Strategic Position resources include the following.

Current External Environment – Overview

Listen to an overview of the WRSX Group's external environment, prepared by a senior business analyst, by clicking the icon. You can download the transcript by clicking the link below.

Current External Environment – Business Analyst's Detailed Report

Andy Carnellley, Business Analyst

To download a report [click here](#)

With the help of your learning resources – and the models and frameworks from the text which will help you analyse the uncertain and complex world that the organisation you are running finds itself in – you should complete your analysis of the WRSX strategic position.

Multimedia resources and briefing documents help you to build an understanding of the WRSX Group's strategic position, as well as the choices that are available to the organisation.

Board Meeting Three Executive Summaries of Agenda Items

WRSX

Global Advertising & Marketing Communications

Current External Environment – Overview

Listen to a report on the external environment for the period prepared by a senior business analyst by clicking the icon. You can download the detailed report by clicking the link in the learning resources section on this page.

External Environment report for this Board Meeting

To download a transcript [click here](#)

Executive Summary Agenda Items

Board Meeting Three Executive Summary Agenda Item: One

WRSX

From: Leena Chhabra, Chief Financial Officer, The Board Directors

Outsourcing central services

As Chief Financial Officer part of my brief is to cut costs. My proposal is to outsource the HR function to a specialist supplier of HR services. The major HR functions that could be outsourced would be:

Agenda Item Summaries:

Here are the six Agenda Item Executive Summaries for this Board Meeting. To view, please scroll down and click the business headings. Select the four you want to include in your Board Meeting by clicking the buttons on the right and clicking the "Submit Agenda Item" button.

- 1. Outsourcing central services - Leena Chhabra, Chief Financial Officer
- 2. Launching Cine FX in London and New York - Jane Lee Drifon, Managing Director, Cine FX Paris
- 3. Market opportunity Asian SMEs - Kunal L.L. Marketing Manager, The Tube, WRSX Group, Singapore

Company Performance & Results

This is where you review and print off your results for each Board Meeting in Phase 2, see feedback and keep track of the decisions you have made each Board Meeting.

SHARE PRICE

Your Share Price is currently: **€2.67 (EUR 3.21)**

Share Price Trend

You can see your Share Price trend after each Board Meeting.

Start Position (Period 0)	Board Meeting One (Period 1)	Board Meeting Two (Period 2)	Board Meeting Three (Period 3)	Board Meeting Four (Period 4)	Board Meeting Five (Period 5)	Board Meeting Six (Period 6)
€2.35	€2.45	€2.67				
EUR 3.74	EUR 3.54	EUR 3.21				

Note: £ / Euro exchange rate is fixed at £1 = Euro 1.2

Financial Performance

Your financial performance is shown in terms of an Income Statement.

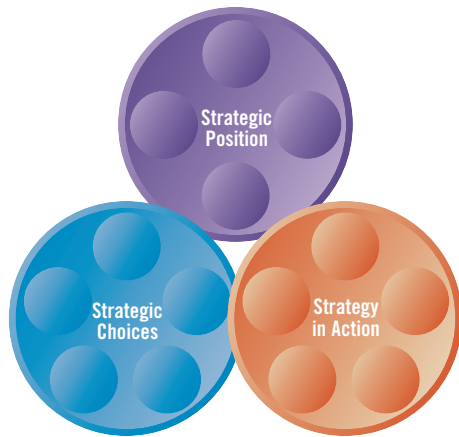
INCOME STATEMENT for Period 1

	Start Position (Period 1)	Start Position (Period 1)	Board Meeting (Period 2)	Board Meeting (Period 2)
	€m	€m	€m	€m
Revenue	288.4	258.1	215.6	258.8
Direct costs	(10.2)	(12.2)	(10.4)	(12.5)
Gross profit	198.2	232.8	205.2	246.3

You apply your knowledge in the boardroom, where you are faced with a number of scenarios. Here you must make tough decisions that will shape the company's future.

Success will depend on how well you understand and can apply the concepts that are covered in *Exploring Strategy*. Choose wisely!

EXPLORING STRATEGY



1

INTRODUCING STRATEGY

Learning outcomes

After reading this chapter you should be able to:

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

Key terms

business-level strategy p. 7
 corporate-level strategy p. 7
Exploring Strategy Model p. 10
 operational strategies p. 7
 strategic choices p. 12
 strategic position p. 11
 strategy p. 3
 strategy in action p. 13
 strategy lenses p. 20
 strategy statements p. 8
 three-horizons framework p. 4

MyStrategyLab

MyStrategyLab is designed to help you make the most of your studies. Visit www.pearsoned.co.uk/mystrategylab to discover a wide range of resources, including:

- A personalised **Study plan** that will help you understand core concepts
- **Audio and video clips** that put the spotlight on strategy in the real world
- **Online glossaries and flashcards** that provide helpful reminders when you're looking for some quick revision.

1.1 INTRODUCTION

Strategy is about key issues for the future of organisations. For example, how should Apple, primarily a devices company, compete in the computer and tablet market with Google, primarily a search company? Should universities concentrate their resources on research excellence or teaching quality or try to combine both? How should a small video games producer relate to dominant console providers such as Microsoft and Sony? What should an arts group do to secure revenues in the face of declining government subsidies?

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

This book takes a broad approach to strategy, looking at both the economics of strategy and the people side of managing strategy in practice. It is a book about 'Exploring', because the real world of strategy rarely offers obvious answers. In strategy, it is typically important to explore several options, probing each one carefully before making choices. The book is also relevant to any kind of organisation responsible for its own direction into the future. Thus the book refers to large private-sector multinationals and small entrepreneurial start-ups; to public-sector organisations such as schools and hospitals; and to not-for-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.

1.2 WHAT IS STRATEGY?¹

In this book, **strategy is the long-term direction of an organisation**. Thus the long-term direction of Amazon is from book retailing to internet services in general. The long-term direction of Disney is from cartoons to diversified entertainment. This section examines the practical implication of this definition of strategy; distinguishes between different levels of strategy; and explains how to summarise an organisation's strategy in a 'strategy statement'.

1.2.1 Defining strategy

Defining strategy as the long-term direction of an organisation implies a more comprehensive view than some influential definitions. Figure 1.1 shows the strategy definitions of three leading strategy theorists: Alfred Chandler and Michael Porter, both from the Harvard Business School, and Henry Mintzberg, from McGill University, Canada. Each points to important but distinct elements of strategy. Chandler emphasises a logical flow from the determination of goals and objectives to the allocation of resources. Porter focuses on deliberate choices, difference and competition. On the other hand, Mintzberg uses the word 'pattern' to allow for the fact that strategies do not always follow a deliberately chosen and logical plan, but can emerge

Figure 1.1 Definitions of strategy



in more ad hoc ways. Sometimes strategies reflect a series of incremental decisions that only cohere into a recognisable pattern – or ‘strategy’ – after some time.

All of these strategy definitions incorporate important elements of strategy. However, this book’s definition of strategy as ‘the long-term direction of an organisation’ has two advantages. First, the long-term direction of an organisation can include both deliberate, logical strategy and more incremental, emergent patterns of strategy. Second, long-term direction can include both strategies that emphasise difference and competition, and strategies that recognise the roles of cooperation and even imitation.

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

- *The long term.* Strategies are typically measured over years, for some organisations a decade or more. The importance of a long-term perspective on strategy is emphasised by the ‘three-horizons’ framework in Figure 1.2 (below). The **three-horizons framework** suggests organisations should think of themselves as comprising three types of business or activity, defined by their ‘horizons’ in terms of years. *Horizon 1* businesses are basically the current core activities. In the case of Vice Media, *Horizon 1* includes the original *Vice* magazine. *Horizon 1* businesses need defending and extending but the expectation is that in the long term they will likely be flat or declining in terms of profits (or whatever else the organisation values). *Horizon 2* businesses are emerging activities that should provide new sources of profit. For *Vice*, that might include the new China business. Finally, there are *Horizon 3* possibilities, for which nothing is sure. These are typically risky research and development



ILLUSTRATION 1.1

Vice pays

Beginning in 1994 as a government subsidised free 'zine' in Montreal, Vice Media now pursues an ambitious strategy of diversification and globalisation.

Vice Media is a global business, with a declared ambition to be the largest online media company in the world. But at its heart is still the original print magazine, *Vice*, specialising in fashion, music, life-style and current affairs. With a good deal of nudity, satire and violence, the magazine is regarded as edgy by some, puerile by others. An early spin-off book, *The Vice Guide to Sex, Drugs and Rock and Roll*, gives an idea of its market position. *Vice* magazine is paid for by advertising and distributed free via style-conscious clothing retailers.

However, since the late 1990s, the company has steadily diversified into a number of businesses, including clothing retail, web video, a record label, book publishing, live events, an advertising agency, television and film production, and even a London pub. By 2012, Vice Media was operating in 34 countries around the world. Revenues were approaching \$200 m, with an estimated company value of around \$1 bn (€750 m; £600 m).

The magazine had been started as a government work-creation scheme by three friends with no publishing experience, Suroosh Alvi, Gavin McInnes and Shane Smith. The magazine had originally been *The Voice of Montreal*, a newspaper for the local community. It soon drifted from its mission, and the three founders each borrowed \$5,000 Canadian (€4,000; £3,000) to buy it out. It was said that the magazine got its title '*Vice*' because the *Village Voice* magazine of New York threatened to sue them over its name. True or not, *Vice* was a very good fit with the magazine's provocative content and style.

Outside investors were soon attracted to the magazine's strong connection with its youth audience. The first investor was the Normal Network, which in 1998 bought one quarter of the group for \$1 m (US), implying a total value of \$4 m. This injection of capital allowed *Vice* to move its base to New York and helped its diversification into clothing retail. When Normal Network went bust in 2000, another investor, Barrontech, stumped up more capital. In

2007, the media giant Viacom helped *Vice* into video. This partnership was said to have provoked the departure of co-founder Gavin McInnes, distrustful of corporate constraints on creative freedom. In 2011, a consortium of external investors that included the world's largest advertising agency, WPP, injected a sum rumoured at between \$50 and \$100 m. These new funds helped launch *Vice* in China and India. New ventures were also envisaged in gaming and sports.

Co-founder Suroosh Alvi explained to the *Financial Times* the advantages to advertising partners of Vice Media's wide range of businesses and territories: 'Diversification of our media and pushing quality content through it on a global level has played massively for us. It's created a deep engagement with our audience and made a compelling story for brand partners as well, who are signing up platform-wide and doing international buy-ins. It's a bit better than publishing a magazine in a single territory.'

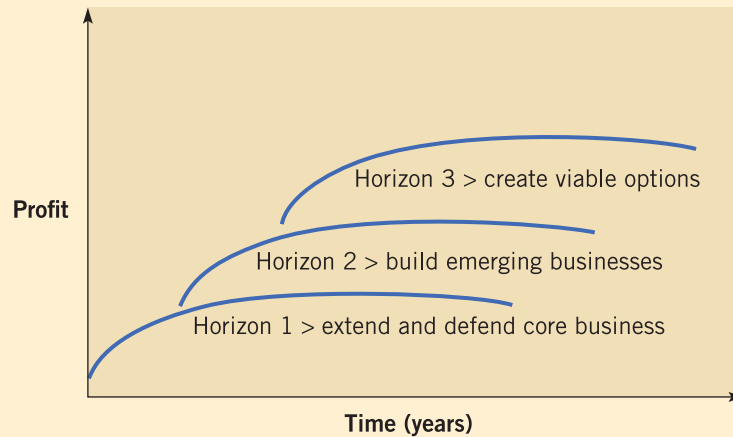
Vice's approach is informal, however. Another co-founder, Shane Smith, recalled the early days: 'We didn't have a business plan or any idea of what we were doing. We just loved magazines and loved making the magazine. And we didn't have anything else to do, so we kept doing it.' As for *Vice* today: 'It's a totally insane working environment. It's like an incestuous family. It's a weird culture and we love it. Keeping that culture is one of our big challenges going forward.'

Sources: National Post, 19 July 2000; Financial Times, 19 November 2009; Forbes, 1 January 2012.

Questions

- 1 How does Vice Media's strategy fit with the various strategy definitions of Alfred Chandler, Michael Porter and Henry Mintzberg (see Figure 1.1)?
- 2 What seems to account for Vice Media's success and is it sustainable?

Figure 1.2 Three horizons for strategy



Note: 'profit' on the vertical axis can be replaced by non-profit objectives; 'business' can refer to any set of activities; 'time' can refer to a varying number of years.

Source: M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

projects, start-up ventures, test-market pilots or similar: at Vice Media, these might be the gaming and sports initiatives. For a fast-moving organisation like Vice Media, *Horizon 3* might generate profits only a couple of years from the present time. In a pharmaceutical company, where the R&D and regulatory processes for a new drug take many years, *Horizon 3* might be a decade ahead. While timescales might differ, the basic point about the 'three-horizons' framework is that managers need to avoid focusing on the short-term issues of their existing activities. Strategy involves pushing out *Horizon 1* as far as possible, at the same time as looking to Horizons 2 and 3.

- *Strategic direction.* Over the years, strategies follow some kind of long-term direction or trajectory. The strategic direction of Vice Media is from the original print magazine to diversified youth media services. Sometimes a strategic direction only emerges as a coherent pattern over time. Typically, however, managers and entrepreneurs try to set the direction of their strategy according to long-term *objectives*. In private-sector businesses, the objective guiding strategic direction is usually maximising profits for shareholders. However, profits do not always set strategic direction. First, public-sector and charity organisations may set their strategic direction according to other objectives: for example, a sports club's objective may be to move up from one league to a higher one. Second, even in the private sector profit is not always the sole criterion for strategy. Thus family businesses may sometimes sacrifice the maximisation of profits for family objectives, for example passing down the management of the business to the next generation. The objectives behind strategic direction always need close scrutiny.
- *Organisation.* In this book, organisations are not treated as discrete, unified entities. Organisations involve complex relationships, both internally and externally. This is because organisations typically have many internal and external *stakeholders*, in other words people and groups that depend on the organisation and upon which the organisation itself depends. Internally, organisations are filled with people, typically with diverse, competing and more or less reasonable views of what should be done. At Vice Media, the three

co-founders had clashed over corporate partnerships, leading to the departure of Gavin McInness. In strategy, therefore, it is always important to look *inside* organisations and to consider the people involved and their different interests and views. Externally, organisations are surrounded by important relationships, for example with suppliers, customers, alliance partners, regulators and investors. For Vice Media, relationships with investors and advertisers were crucial. Strategy therefore is also crucially concerned with an organisation's external *boundaries*: in other words, questions about what to include within the organisation and how to manage important relationships with what is kept outside.

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

1.2.2 Levels of strategy

Inside an organisation, strategies can exist at three main levels. Again they can be illustrated by reference to Vice Media (Illustration 1.1):

- **Corporate-level strategy** is concerned with the overall scope of an organisation and how value is added to the constituent businesses of the organisational whole. Corporate-level strategy issues include geographical scope, diversity of products or services, acquisitions of new businesses, and how resources are allocated between the different elements of the organisation. For Vice Media, diversifying from the original magazine into retail, publishing and video are corporate-level strategies. Being clear about corporate-level strategy is important: determining the range of businesses to include is the basis of other strategic decisions, such as acquisitions and alliances.
- **Business-level strategy** is about how the individual businesses should compete in their particular markets (for this reason, business-level strategy is often called 'competitive strategy'). These individual businesses might be standalone businesses, for instance entrepreneurial start-ups, or 'business units' within a larger corporation (as the magazine is within Vice Media). Business-level strategy typically concerns issues such as innovation, appropriate scale and response to competitors' moves. In the public sector, the equivalent of business-level strategy is decisions about how units (such as individual hospitals or schools) should provide best-value services. Where the businesses are units within a larger organisation, business-level strategies should clearly fit with corporate-level strategy.
- **Operational strategies** are concerned with how the components of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. For example, Vice Media had to keep raising external finance to fund its rapid growth: its operational strategy is partly geared to meeting investment needs. In most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. Operational decisions need therefore to be closely linked to business-level strategy. They are vital to successful strategy implementation.

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

1.2.3 Strategy statements

David Collis and Michael Rukstad² at the Harvard Business School argue that all entrepreneurs and managers should be able to summarise their organisation's strategy with a 'strategy statement'. **Strategy statements should have three main themes: the fundamental goals (mission, vision or objectives) that the organisation seeks; the scope or domain of the organisation's activities; and the particular advantages or capabilities it has to deliver all of these.** These various contributing elements of a strategy statement are explained as follows, with examples in Illustration 1.2:

- *Mission.* This relates to goals, and refers to the overriding purpose of the organisation. It is sometimes described in terms of the apparently simple but challenging question: '*what business are we in?*'. The mission statement helps keep managers focused on what is central to their strategy.
- *Vision.* This too relates to goals, and refers to the desired future state of the organisation. It is an aspiration which can help mobilise the energy and passion of organisational members. The vision statement, therefore, should answer the question: '*what do we want to achieve?*'.
- *Objectives.* These are more precise and ideally quantifiable statements of the organisation's goals over some period of time. Objectives might refer to profitability or market share targets for a private company, or to examination results in a school. Objectives introduce discipline to strategy. The question here is: '*what do we have to achieve in the coming period?*'.
- *Scope.* An organisation's scope or domain refers to three dimensions: customers or clients; geographical location; and extent of internal activities ('vertical integration'). For a university, scope questions are twofold: first, which academic departments to have (a business school, an engineering department and so on); second, which activities to do internally themselves (vertically integrate) and which to externalise to subcontractors (e.g. whether to manage campus restaurants in-house or to subcontract them).
- *Advantage.* This part of a strategy statement describes how the organisation will achieve the objectives it has set for itself in its chosen domain. In competitive environments, this refers to the *competitive* advantage: for example, how a particular company or sports club will achieve goals in the face of competition from other companies or clubs. In order to achieve a particular goal, the organisation needs to be better than others seeking the same goal. In the public sector, advantage might refer simply to the organisation's capability in general. But even public-sector organisations frequently need to show that their capabilities are not only adequate, but superior to other rival departments or perhaps to private-sector contractors.

Collis and Rukstad suggest that strategy statements covering goals, scope and advantage should be no more than 35 words long. Brevity keeps such statements focused on the essentials and makes them easy to remember and communicate. Thus for Vice Media, a strategy statement might be: 'to build the world's largest online media group, focused on youth and with competitive advantages in terms of the diversity and international range of our businesses and the strength of our relationships with key partners'. The strategy statement of American financial advisory firm Edward Jones is more specific: 'to grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to conservative individual investors through a national network of one-financial adviser offices'. Of course, such strategy statements



ILLUSTRATION 1.2

Strategy statements

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

Samsung Electronics

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

Every day, our people bring this philosophy to life. Our leaders search for the brightest talent from around the world, and give them the resources they need to be the best at what they do. The result is that all of our products – from memory chips that help businesses store vital knowledge to mobile phones that connect people across continents – have the power to enrich lives. And that's what making a better global society is all about.

As stated in its new motto, Samsung Electronics' vision . . . is, 'Inspire the World, Create the Future'. This new vision reflects Samsung Electronics' commitment to inspiring its communities by leveraging Samsung's three key strengths: 'New Technology', 'Innovative Products', and 'Creative Solutions'. As part of this vision, Samsung has mapped out a specific plan of reaching \$400 billion in revenue and becoming one of the world's top five brands by 2020. To this end, Samsung has also established three strategic approaches in its management: 'Creativity', 'Partnership', and 'Talent'.

As we build on our previous accomplishments, we look forward to exploring new territories, including health, medicine, and biotechnology. Samsung is committed to being a creative leader in new markets and becoming a truly No. 1 business going forward.

Utrecht University, Strategic Plan 2012–16

The University's core mission is to: educate young people; train new generations of researchers; produce academics who have both specialist knowledge and professional skills; conduct groundbreaking research; and address social issues and work towards solving them.

Education targets

- Utrecht University will manage to retain third place in the top six of [Dutch] general research universities with the highest number of Bachelor's programmes rated good/excellent.
- The percentage of (permanent) lecturers with a basic teaching qualification will grow from 20 per cent in 1999 via 60 per cent in 2010 to a projected total of 80 per cent in 2016.
- By 2016, the number of scheduled contact hours and other structural education-related hours in . . . full-time Bachelor's programmes will total 12–18 hours per week.
- The percentage of students enrolled in entrepreneurship courses will increase from 1 per cent in 2006, via 3 per cent in 2010 to a projected total of 5 per cent in 2016.

Strengths

A university-wide education model and a broadly supported educational culture.	A broad range of instruments for the professionalisation and assessment of teaching staff.
Innovative educational developments that are adopted by institutions around the country.	The largest Summer School in Europe, serving as a centre for internationalisation.

Sources: Edited extracts from www.samsung.com and the University of Utrecht Strategic Plan, 2012–16, www.uu.nl.

Questions

- 1 Construct short strategy statements covering the goals, scope and advantage of Samsung and the University of Utrecht. How much do the different private- and public-sector contexts matter?
- 2 Construct a strategy statement for your own organisation (university, sports club or employer). What implications might this statement have for your particular course or department?