

A close-up photograph of a wooden toy, possibly a marble run or a similar educational tool. It features several light-colored wooden tracks and a central wooden base. Several colorful marbles in shades of red, green, yellow, and blue are scattered across the wooden surface. The background is a soft-focus wooden texture.

GRANT • JORDAN • WALSH

FOUNDATIONS *of* STRATEGY

CANADIAN EDITION

WILEY

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CANADIAN EDITION

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CANADIAN EDITION

ROBERT M. GRANT

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WILEY

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PREFACE

Robert Grant's *Contemporary Strategy Analysis* is one of the market-leading textbooks used in MBA and undergraduate courses around the world. During the continuing development of that text, now in its eighth edition, it became apparent that there was also considerable demand for a more accessible and concise version of the text. In response to this demand, a new textbook was developed called *Foundations of Strategy*. Now adapted for the Canadian market, *Foundations of Strategy Canadian Edition* maintains the accessible writing style, clear approach, and sound theoretical depth of *Contemporary Strategy Analysis*, while more effectively addressing the needs of both undergraduate students and master's students who require a more concise treatment of the subject.

As those with an interest recognize, the way in which business and management education is delivered continues to evolve over time. Strategy modules remain a key part of business and management programs, but are now delivered in a wide variety of formats to a diverse range of students using a variety of technologies. Strategy educators frequently find themselves having to deliver strategy modules in relatively short time frames to students with limited knowledge and experience of business and management practice. *Foundations of Strategy Canadian Edition* is designed to assist educators and students meet this challenge. Our aim has been to cover the key areas of strategy as concisely as possible without sacrificing intellectual rigour. To that end we have:

- * Made clear the learning objectives and provided summary tables against these objectives at the start and end of each chapter.
- * Organized the book in 10 chapters.
- * Provided a range of short cases that students can read and digest quickly and that can be used as an alternative to, or in conjunction with, longer cases.
- * Included working examples relating to the opening case of each chapter demonstrating how theory can be applied to practice in order to gain insight into strategic decision-making.
- * Highlighted key concepts in the margin.
- * Provided a glossary of key terms.

The Book's Organization

The challenge has been to find a way of balancing brevity and comprehension. We have endeavoured to do this by focusing on key topics but explaining them in sufficient depth for students to be stretched intellectually. To achieve this, we have provided:

- * a range of up-to-date examples relating to products and firms with which most students will be familiar in order to capture their interest and enthusiasm;
- * new sections on not-for-profit and public sector strategy to reflect the interests and experience of many students and staff;
- * suggestions for further reading at the end of each chapter.

About the Canadian Edition

The Canadian edition of *Foundations of Strategy* allows students to understand and apply the concepts of strategy from a Canadian perspective employing examples from Canadian industry. Using case studies and examples of globally recognized firms from Canada and around the world, students can better identify with the companies and the strategic issues they currently face as Canadian business strives to remain competitive and relevant in the global market. Furthermore, data on industries, government regulations, and other market conditions have been cited from Canada to show how strategic issues are playing out at home.

Foundations of Strategy Canadian edition discusses current and emerging concepts and approaches in the world of corporate strategy. Notable topics include: corporate and social responsibility and sustainability, innovation, industry evolution and strategic change, as well as not-for-profit and public sector strategy.

Online Teaching and Learning Resources

Visit www.wiley.com/go/grantcanada to access all of the teaching and learning materials that accompany this text.

Teaching materials include an **Instructor's Manual**, **Case Teaching notes**, a **Test Bank**, and **PowerPoint slides**. Resources for students include **Self-Test Quizzes** and **PowerPoint slides**.

The authors have chosen to partner with an online simulation built by Professor Kim Warren, London Business School. The **White Label Restaurant business game** gives students the opportunity to implement strategy within a “real world” situation, repeatedly and in differing circumstances. Set in an industry familiar to all, students can easily understand how the business works and engage in running it within a short period of time. The game comes with a short case description and teacher material including information on the business's positioning, tying it back to the standard strategy frameworks you may already have covered. The supporting slides set out solid underlying theory, which builds strongly on the resource-based view of the strategy.

Cases in Strategic Management

Cases in Strategic Management is a collection of 18 cases written in a Harvard-type style that directly correlate to concepts presented in *Foundations of Strategy*. The text will be offered through Wiley Custom Select, which gives instructors the option to customize the case selection within the text or use each case as a stand-alone product.

Wiley Custom Select is a revolutionary custom system that allows you, the instructor, to “build” customized materials tailored to your course needs. In a simple 3-step process, you can create a textbook containing the content you want, in the order you want, and delivered in the print or digital format of your choice.

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Philip R. Walsh
December 2014

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CASE LIST

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2. Industry Analysis	The Mobile Phone Industry	Bank of Nova Scotia
3. Resources and Capabilities	Hyundai Motor Company	Harley-Davidson, Inc.
4. The Nature and Sources of Competitive Advantage	Target Canada	Maple Leaf Sports and Entertainment
5. Industry Evolution and Strategic Change	The Evolution of Personal Computers	Cirque du Soleil
6. Technology-Based Industries and the Management of Innovation	Tesla Motors: Introducing the World's First Fully Electric Sports Car	Nespresso
7. Corporate Strategy	Building an Empire	Diversification at Disney
8. Realizing Strategy	BP and the Deepwater Horizon Oil Spill	Agrium, Inc.
9. Global Strategies and the Multinational Corporation	IKEA's International Strategy	Goldcorp
10. Corporate Responsibility	The Chevron Way	Steam Whistle: The Good Beer Folks



THE CONCEPT OF STRATEGY

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INTRODUCTION AND OBJECTIVES

Strategy is about success. This chapter explains what strategy is and why it is important to individuals and organizations in achieving their goals. We will distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter is to introduce the notion of strategy, to make you aware of some of the key debates in strategy, and to present the basic framework for strategy analysis that underlies this book.

By the time you have completed this chapter, you will:

- * Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations.
- * Be aware of the origins of strategy and how views on strategy have changed over time.
- * Be familiar with some of the key questions and terminology in strategy.
- * Understand the debates that surround corporate values, sustainability, and social responsibility.
- * Gain familiarity with the challenges of strategy making in not-for-profit organizations.
- * Comprehend the basic approach to strategy that underlies this book.

THE ROLE OF STRATEGY IN SUCCESS

There are four common factors that stand out when addressing characteristics of a strategy that are conducive to success (see Figure 1.1).

- 1 *Goals that are simple, consistent, and long term.* A strategy requires a single-minded commitment to a clearly recognized goal that can be pursued steadfastly over a substantial period of time.
- 2 *Profound understanding of the competitive environment.* A strategy requires a deep and insightful appreciation of the context in which an organization is operating.

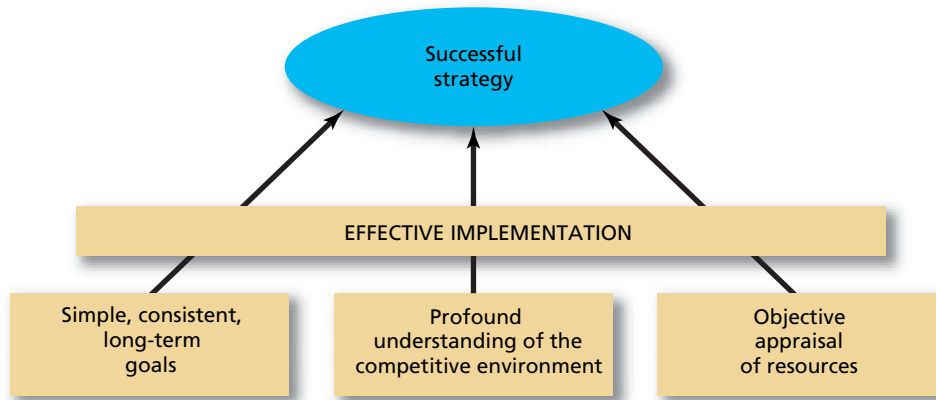


Figure 1.1 Common elements in successful strategies

- 3 *Objective appraisal of resources.* A strategy should be effective in exploiting internal strengths, while protecting areas of weakness.
- 4 *Effective implementation.* Without effective implementation, the best-laid strategies are of little use. Critical to the success of all strategies is effective leadership in terms of capacity to reach decisions, energy in implementing them, and an ability to foster loyalty and commitment among subordinates. Successful strategy is illustrated by the emergence of organizations that allow for the effective marshalling of resources and capabilities and quick responses to changes in the competitive environment.

These observations about the role of strategy in success can be made in relation to most fields of human endeavour. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome of a purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on the basic four elements almost always play an influential role.

Look at the “high achievers” in any competitive area. Whether we review the world’s political leaders, the CEOs of the Fortune 500 companies, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively—typically by combining the four strategic factors mentioned above. They are goal focused; their career goals have taken primacy over the multitude of life’s other goals—friendship, love, leisure, knowledge, spiritual fulfillment—that the majority of us spend most of our lives juggling and reconciling. They know the environments within which they play and tend to be fast learners in terms of understanding the keys to advancement. They know themselves in terms of both strengths and weaknesses. And they implement their career strategies with commitment, consistency, and determination. As the late Peter Drucker observed: “we must learn how to be the CEO of our own careers.”¹

Without effective implementation, the best-laid strategies are of little use.

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There is a downside, however. Focusing on a single goal may lead to outstanding success, but may be matched by dismal failure in other areas of life.

▶ Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Jean Paul Getty in business, Richard Nixon and

Joseph Stalin in politics, Marilyn Monroe and Elvis Presley in entertainment, Joe Louis and O. J. Simpson in sport, and Bobby Fischer in chess. Fulfillment in our personal lives is likely to require broad-based lifetime strategies.²

A BRIEF HISTORY OF STRATEGY

Origins

Enterprises need business strategies for much the same reasons that armies need military strategies: to give direction and purpose, to deploy resources in the most effective manner, and to coordinate the decisions made by different individuals. Many of the concepts and theories of business strategy have their antecedents in military strategy. The term “*strategy*” derives from the Greek word *strategia*, meaning “generalship.” However, the concept of strategy did not originate with the Greeks. Sun Tzu’s classic *The Art of War*, written in about 500 BC, is regarded as the first treatise on strategy.³



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Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics.

Strategy is the overall plan for deploying resources to establish a favourable position; a *tactic* is a scheme for a specific action. Whereas tactics are concerned with the manoeuvres necessary to win battles, strategy is concerned with winning the war. Strategic decisions, whether in military or business spheres, share three common characteristics:

- They are important.
- They involve a significant commitment of resources.
- They are not easily reversible.

The Evolution of Business Strategy

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory.

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory. During the 1950s and 1960s, senior executives were experiencing increasing difficulty in coordinating decisions and maintaining control in companies that were growing in size and complexity. Financial budgeting, in the form of annual financial planning and investment appraisal, provided

short-term control and project selection but did little to guide the long-term development of the firm. **Corporate planning** (also known as *long-term planning*) was developed during the late 1950s to serve this purpose. Macroeconomic forecasts provided the foundation for the new corporate planning. The typical format was a five-year corporate planning document that set goals and objectives, forecast key economic trends (including market demand, market share, revenue, costs, and margins), established priorities for different products and business areas of the firm, and allocated capital expenditures. The diffusion of corporate planning was accelerated by a flood of articles and books addressing this new science.⁴ The new techniques of corporate planning proved particularly useful for developing and guiding the diversification strategies that many large companies were pursuing during the 1960s. By the mid-1960s, most large U.S. and European companies had set up corporate planning departments.

During the 1970s and early 1980s, confidence in corporate planning and infatuation with scientific approaches to management were severely shaken. Not only did diversification fail to deliver the anticipated synergies, but the oil shocks of 1974 and 1979 ushered in a new era of macroeconomic instability, combined with increased international competition from resurgent Japanese, European, and Southeast Asian firms. Faced with a more turbulent business environment, firms could no longer plan their investments, new product introductions, and personnel requirements three to five years ahead, simply because they couldn't forecast that far into the future.

The result was a shift in emphasis from planning to strategy making, where the focus was less on the detailed management of companies' growth paths and more on positioning the company in markets and in relation to competitors in order to maximize the potential for profit. This transition from corporate planning to what became termed **strategic management** was associated with increasing focus on competition as the central characteristic of the business environment and competitive advantage as the primary goal of strategy.

The emphasis on strategic management also directed attention to business performance. During the late 1970s and into the 1980s, attention focused on sources of profit within the industry environment. Michael Porter of Harvard Business School pioneered the application of industrial organization economics to analyzing industry profitability.⁵ Other studies focused on how profits were distributed between the different firms in an industry, in particular the impact of market share and experience upon costs and profits.⁶

During the 1990s, the focus of strategy analysis shifted from the sources of profit in the external environment to the sources of profit within the firm. Increasingly the resources and capabilities of the firm became regarded as the main source of competitive advantage and the primary basis for formulating strategy.⁷ This emphasis on what has been called the **resource-based view** of the firm represented a substantial shift in thinking about strategy. Rather than firms pursuing similar strategies, as in seeking attractive markets and favourable competitive positions, emphasis on internal resources and capabilities has encouraged firms to identify how they are different from their competitors and design strategies that exploit these differences. Michael Porter's answer to the question "What is strategy?" emphasized that: *Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.*⁸

During the first decade of the twenty-first century, the principles and practice of strategy have been moulded by the uniquely challenging circumstances of a new era. Technology has become a particularly potent force.⁹ The beginning of the decade saw the bursting of the TMT (technology, media, telecommunications) bubble and the realization that the "new knowledge economy" and Internet-based business models did not require

a rewriting of the principles of strategy. Nevertheless, technology continues to reshape industries: digital technologies are associated with standards wars,¹⁰ the emergence of “winner-take-all” markets,¹¹ and the potential for strategic innovation as firms seek the “blue oceans” of uncontested market space.¹²

In the face of continuous change and relentless competition, strategy becomes less about building positions of sustained competitive advantage and more about developing the responsiveness and flexibility to create successive temporary advantages.

In the face of continuous change and relentless competition, strategy becomes less about building positions of sustained competitive advantage and more about developing the responsiveness and flexibility to create successive temporary advantages. Reconfiguring resources and capabilities to achieve such responsiveness typically requires firms to collaborate within networks of strategic alliances, to reduce hierarchical decision-making, and to develop high-performance workforces that are capable of exercising discretion in a responsible fashion. In this context, strategy ceases to be the exclusive domain of the top management team but is something that is shaped by, and shapes, the whole membership of the organization. It is not surprising, therefore, that attention in recent years has been drawn to exploring the processes and practices of everyday organizational life that produce strategic outcomes.

The continuing challenges of the twenty-first century, including the recession of 2008 and 2009, are encouraging new thinking about the purpose of business. Disillusion with “shareholder value capitalism” has been accompanied by renewed interest in corporate social responsibility, ethics, sustainability of the natural environment, and the role of social legitimacy in long-term corporate success.

Figure 1.2 summarizes the main developments in strategic management over the past 60 years.

STRATEGY TODAY

Having looked at the origins of strategy and how views on strategy have changed over time, we are ready to start our exploration of strategy today. We do this by posing a series of basic questions. What is strategy? How might we describe strategy? How do we go about identifying strategies in practice? How is strategy made? What purpose and whose interests does strategy serve? Can the concepts and tools of strategy be applied to not-for-profit organizations? In providing preliminary answers to these questions, we introduce a number of key concepts and debates that we return to throughout this book. As you will see when you get further into the subject, strategy is a complex and contested field of study, so answers, which at first sight seem straightforward, can on deeper inspection raise further questions and force us to reflect on some things we might have previously taken for granted. For example, when we address the question of whose interests strategy serves, we find ourselves immediately propelled into considering whose interests strategy *should* serve. Before we get to that debate, we need to familiarize ourselves with some basic terminology and concepts and the obvious starting point is with the definition of the term “strategy” itself.

What Is Strategy?

In its broadest sense, **strategy** is the means by which individuals or organizations achieve their objectives. Figure 1.3 presents a number of definitions of the term strategy. Common to definitions of business strategy is the notion that strategy is focused on

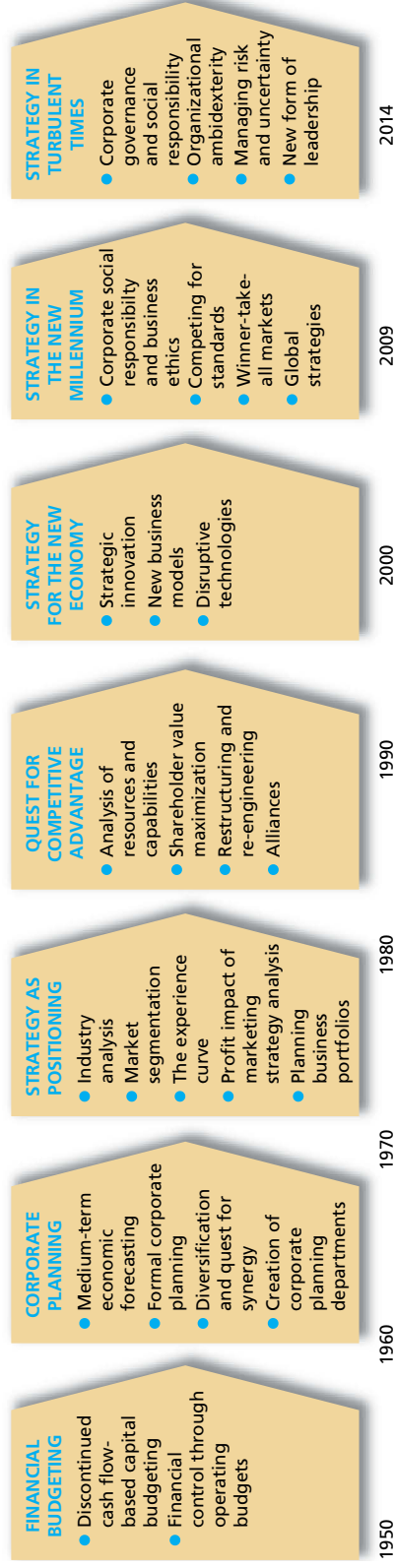


Figure 1.2 Evolution of strategic management: dominant themes

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- Strategy: a plan, method, or series of actions designed to achieve a specific goal or effect.
—*Wordsmyth Dictionary*
- The determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.
—Alfred Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962)
- Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.
—Kenneth Andrews, *The Concept of Corporate Strategy* (Homewood, IL: Irwin, 1971)

Figure 1.3 Some definitions of strategy

achieving certain *goals*; that the critical actions that make up a strategy involve *allocation of resources*; and that strategy implies some *consistency, integration, or cohesiveness*.

Yet, as we have seen, the conception of firm strategy has changed greatly over the past half century. As the business environment has become more unstable and unpredictable, so strategy has become less concerned with detailed plans and more concerned with the quest for success. This shift in emphasis from *strategy as plan* to *strategy as direction* does not imply any downgrading of the role of strategy. Certainly, in a turbulent environment, strategy must embrace flexibility and responsiveness. But it is precisely in these conditions that strategy becomes more rather than less important. In an environment of uncertainty and change, a clear sense of direction is essential to the pursuit of objectives. When the firm is buffeted by unforeseen threats and where new opportunities are constantly appearing, then strategy becomes a vital tool to navigate the firm through stormy seas.

In an environment of uncertainty and change, a clear sense of direction is essential to the pursuit of objectives.

When discussing strategy, a distinction is commonly made between corporate strategy and business strategy.

- **Corporate strategy** defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, **vertical integration**, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments.
- **Business strategy** is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Therefore, this area of strategy is also referred to as *competitive strategy*.

The differences between corporate and business strategy are illustrated in Figure 1.4. This distinction may be expressed in even simpler terms. The basic question facing the firm is: “How do we make money?” The answer to this question corresponds to the two basic strategic choices we identified above: “Where to compete (i.e., in which industries and markets should we be)?” and “How should we compete?” The distinction between corporate strategy and business strategy corresponds to the organizational structure of most large companies. Corporate strategy is typically the responsibility of the top

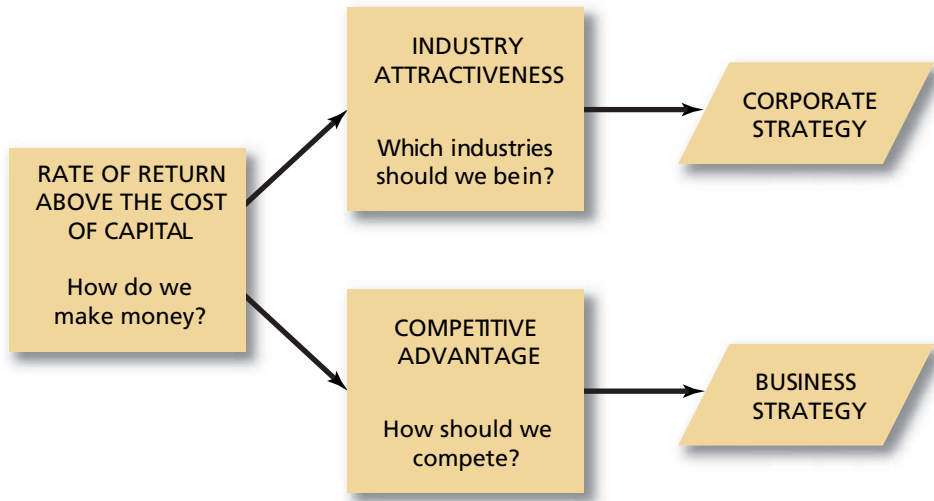


Figure 1.4 Corporate versus business strategy

management team and the corporate strategy staff. Business strategy is primarily the responsibility of divisional management.

As an integrated approach to firm strategy, this book deals with both business and corporate strategy. However, our primary emphasis will be on business strategy. This is because the critical requirement for a company's success is its ability to establish competitive advantage. Therefore, issues of business strategy precede those of corporate strategy. At the same time, these two dimensions of strategy are intertwined: the scope of a firm's business has implications for the sources of competitive advantage, and the nature of a firm's competitive advantage determines the range of businesses in which it can be successful.

How Do We Describe a Firm's Strategy?

These same two questions—"Where is the firm competing?" and "How is it competing?"—also provide the basis upon which we can describe the strategy that a firm is pursuing. The *where* question has multiple dimensions. It relates to the industry or industries in which the firm is located, the products it supplies, the customer groups it targets, the countries and localities in which it operates, and the vertical range of the activities it undertakes. These questions are illustrated in Figure 1.5.

However, strategy is not simply about competing for today; it is also concerned with competing for tomorrow. This dynamic concept of strategy involves establishing objectives for the future and determining how they will be achieved. Future objectives relate to the overall purpose of the firm (*mission*), what it seeks to become (*vision*), and specific performance targets.

How Do We Identify a Firm's Strategy?

Even if we know how to describe a firm's strategy, where do we look to find what strategy a firm is pursuing? Strategy is located in three places: in the heads of the chief