FUNDAMENTALS OF STRATEGY

THIRD EDITION

WHAT'S THE PLAN?

FORCES? PUSH RESIST

DIVERSIFY OR FOCUS?

Performance GAP Future
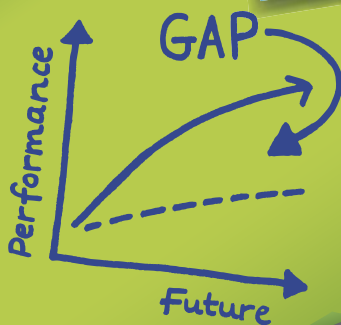
KEY STRATEGIC ISSUES

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

PEARSON

WELCOME TO FUNDAMENTALS OF STRATEGY

Strategy is a crucial subject. It's about the overall direction of all kinds of organisations, from multinationals to entrepreneurial start-ups, from charities to government agencies, and many more. Strategy raises the big questions about these organisations – how they grow, how they innovate and how they change. As a manager of today or of tomorrow, you will be involved in shaping, implementing or communicating these strategies.

Our aim in writing *Fundamentals of Strategy* is to give you a clear understanding of the fundamental issues and techniques of strategy, and to help you get a great final result in your course. Here's how you might make the most of the text:

- Focus your time and attention on the fundamental areas of strategy in just **10 carefully selected chapters**.
- Read the **illustrations** and the **case examples** to clarify your understanding of how the concepts of strategy translate into an easily recognisable, real-world context.
- Follow up on the **recommended key readings** at the end of each chapter. They're specially selected as accessible and valuable sources that will enhance your learning and give you an extra edge in your course work.

Fundamentals of Strategy is available with **MyStrategyLab**, and you can register at **www.mystrategylab.com**[*] to find essential student learning material including:

- A **personalised study plan** based on feedback that identifies your strengths and weaknesses, then recommends a tailored set of resources that will help to develop your understanding of strategy.
- **Video resources**, including author videos on key concepts and case studies that put a spotlight on strategy in practice.

Also available is:

- **The Strategy Experience Simulation**, which gives you practical hands-on experience of strategic decision-making in organisations. As a Director of the Board, you must deal with opportunities as they arise, and your decisions will affect the company's performance. Choose wisely!

We want *Fundamentals of Strategy* to give you what you need: a clear and concise view of the subject, an ambition to put that into practice, and – of course – success in your studies. We hope that you'll be just as intrigued by the key issues of strategy as we are!

So, read on and good luck!

Gerry Johnson
Richard Whittington
Kevan Scholes
Duncan Angwin
Patrick Regnér

*P.S. In order to log in to the website, you'll need to register with the access code included in the access card, or you can purchase access online at **www.mystrategylab.com**.

Gerry Johnson, BA, PhD, is Emeritus Professor of Strategic Management at Lancaster University School of Management. He has also taught at Strathclyde Business School, Cranfield School of Management, Manchester Business School and Aston University. He is the author of numerous books and his research has been published in many of the world's foremost management journals. He is also a partner in the consultancy partnership Strategy Explorers (see **www.strategyexplorers.com**), where he works on issues of strategy development and strategic change.

Richard Whittington, MA, MBA, PhD, is Professor of Strategic Management at the Saïd Business School, University of Oxford. He is author or co-author of nine books and is Associate Editor of the *Strategic Management Journal*. He has had full or visiting positions at the Harvard Business School, HEC Paris, Imperial College London, the University of Toulouse and the University of Warwick. He is a partner in Strategy Explorers and active in executive education and consulting. His current research focuses on strategy practice.

Kevan Scholes, MA, PhD, DMS, CIMgt, FRSA, is Principal Partner of Scholes Associates, specialising in strategic management. He is also Emeritus Professor of Strategic Management and formerly Director of the Sheffield Business School. He has extensive experience of teaching strategy internationally as well as working in the private and public sector. He is a Companion of The Chartered Management Institute.

Duncan Angwin, MA, MPhil, MBA, PhD, is Professor of Strategy at Oxford Brookes University. He is author of six books and over 40 journal articles and serves on several editorial boards. He sits on the advisory board of the M&A research centre, Cass Business School, London and on the Academic Council of ENPC Paris. He is active internationally in executive education and consulting, His current research focuses on mergers and acquisitions, strategy practice and international management.

Patrick Regnér, BSc, MSc, PhD, is Professor of Strategic Management at Stockholm School of Economics. He has published numerous articles in leading academic journals in the US and Europe and he serves on several editorial boards. He has extensive experience of teaching strategy internationally on all academic levels. He is a Senior Advisor at a strategy advisory firm and conducts executive training and consulting with leading organisations worldwide. His research interests are in strategy creation and change and international management.

Follow the authors' latest comments on the strategy issues of this book at **https://twitter.com/ExploreStrategy**.

FUNDAMENTALS OF STRATEGY

THIRD EDITION

FORCES?

PUSH RE

GERRY JOHNSON
Lancaster University Management School

RICHARD WHITTINGTON
Saïd Business School, University of Oxford

KEVAN SCHOLES
Sheffield Business School

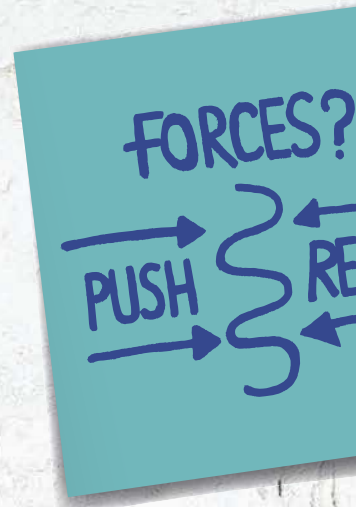### DUNCAN ANGWIN
Oxford Brookes University

PATRICK REGNÉR
Stockholm School of Economics

GAP

Future

FUNDAMENTALS OF STRATEGY ONLINE

A wide range of supporting resources are available at:

MyStrategyLab

Register to create your own personal account using the access code supplied with your copy of the book,[*] and access the following teaching and learning resources:

Resources for students

- **A dynamic eText** of the book that you can search, bookmark, annotate and highlight as you please
- **Self-assessment questions** that identify your strengths before recommending a personalised study plan that points you to the resources which can help you achieve a better grade
- **Author videos** explaining key concepts in the book
- **Video cases** that show managers talking about strategic issues in their own organisations
- **Revision flashcards** to help you prepare for your exams
- **A multi-lingual online glossary** to help explain key concepts
- Guidance on **how to analyse a case study**
- **Links** to relevant sites on the web so you can explore more about the organisations featured in the case studies
- **Classic cases** – over 30 case studies from previous editions of the book

Resources for instructors

- **Instructor's manual**, including extensive teaching notes for cases and suggested teaching plans
- **PowerPoint slides**, containing key information and figures from the book
- **Secure testbank**, containing over 600 questions

For more information, please contact your local Pearson Education sales representative or visit **www.mystrategylab.com**

*If you don't have an access code, you can still access the resources by purchasing access online. Visit **www.mystrategylab.com** for details. A sample selection of these resources is also available at **www.pearsoned.co.uk/fos2**

CONTENTS

5   BUSINESS STRATEGY   105

6   CORPORATE STRATEGY AND DIVERSIFICATION   129

7   INTERNATIONAL STRATEGY   156

8   INNOVATION AND ENTREPRENEURSHIP   182

ABOUT *FUNDAMENTALS OF STRATEGY*

Based on the tenth edition of the market-leading *Exploring Strategy*, this book concentrates on the fundamental issues and techniques of strategy. The book will particularly suit those on short courses in strategy focused on strategy analysis, or studying strategy as part of a wider degree, perhaps in the sciences or engineering. Students can be sure that they have the essential materials in this book, while knowing that they can easily go deeper into particular topics by referring to the complete *Exploring Strategy*. There they will find extended treatments of the issues covered here, as well as greater attention to issues of strategy development and change and the role of the strategist. *Exploring Strategy* also offers more cases and deeper exploration of issues through 'key debates', 'strategy lenses' and 'commentaries'. (A brief contents of *Exploring Strategy* can be found on pp. xiv and xv.'

Teachers familiar with *Exploring Strategy* will find that the definitions, concepts and the content of *Fundamentals of Strategy* are entirely consistent, making it easy to teach courses using the different books in parallel.

Fundamentals of Strategy has ten chapters, with the emphasis on what *Exploring Strategy* terms the 'strategic position' and 'strategic choices' facing organisations. Under 'strategic position', *Fundamentals* introduces environmental analysis, strategic capability and strategic purpose (which includes a discussion of culture and strategy). Under 'strategic choices', the book addresses business-level strategy, corporate-level strategy, international strategy, strategy innovation and mergers and acquisitions. The final tenth chapter, 'Strategy in action', raises implementation issues such as organisational structure, management processes and strategic change. There is also an appendix providing the bases of strategy evaluation.

We believe that *Fundamentals of Strategy* brings the proven benefits of *Exploring Strategy* to the growing number of students on shorter courses. We hope that you will enjoy using it too.

A guide to getting the most from all the features and learning materials of *Fundamentals of Strategy* follows this preface.

Gerry Johnson
Richard Whittington
Kevan Scholes
Duncan Angwin
Patrick Regnér
April 2014

GETTING THE MOST FROM
FUNDAMENTALS OF STRATEGY

Fundamentals of Strategy builds on the established strengths of *Exploring Strategy,* proven over ten best-selling editions. A range of in-text features and supplementary resources have been developed to enable you and your students to gain maximum added value to the teaching and learning of strategy.

- **Outstanding pedagogical features**. Each chapter has clear learning outcomes, definitions of key concepts in the margins, practical questions associated with real-life Illustrations, and concise end-of-chapter case examples through which students can easily apply what they have learnt.

- **Up-to-date materials**. *Fundamentals of Strategy* is based on the latest 10th edition of *Exploring Strategy*. Our references are up to date, so that you can easily access the latest research. Cases and examples are fresh and engage with student interests and day-to-day experience.

- **Range of examples**. This edition maintains the wide range of examples used in the text, Illustrations and cases. We draw from all over the world, with no bias to North America, and use examples from the public and voluntary sectors as well as the private.

    Fundamentals of Strategy does not include any longer cases. If you wish to supplement the book with any of the case studies included in *Exploring Strategy*, please consult your local Pearson Education representative to find out what their Custom Publishing programme can do for you.

- **Attractive text layout and design**. We make careful use of colour and photography to improve clarity and ease of 'navigation' through the text. Reading the text should be an enjoyable and straightforward process.

- **Teaching and learning support.** If you are using *MyStrategyLab* you and your students can access a wealth of resources at **www.mystrategylab.com**, including the following:

    Resources for students

    - A dynamics eText
    - Self-assessment questions
    - Author video discussions
    - Video cases and author videos
    - Revision flashcards
    - A multi-lingual glossary
    - Links to relevant websites
    - Classic cases

Resources for lecturers

- Instructor's manual
- PowerPoint slides
- A testbank of assessment questions

This book is available with an access card for *MyStrategyLab*, but if your book did not come with an access card you can purchase access online at www.mystrategylab.com. There is also a companion website available at www.pearsoned.co.uk/fos2 which contains a sample selection of these materials.

- **Video resources** are available on line. These have been specially created for in-class use and contains briefings on key concepts by the authors, and material to support video assignments identified at the end of each chapter of *Fundamentals of Strategy*.

  1 Author videos include:
     Introducing Strategy, The Environment, Strategic Capabilities, Organization Culture, Competitive Strategy, Corporate Strategy, International Strategy, Innovation Strategy, Mergers, Acquisitions and Alliances, Strategic Change, Integration and Case Studies.
  2 Video case studies include:
     British Heart Foundation, Nationwide and Pearson, CISCO, South Western Ambulance Trust and Love Da Pop.

You can order and find out more about these resources from your local Pearson Education representative (**www.pearsoned.co.uk/replocator**).

- **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/strategyworkshop**.

- **Complementary textbooks**. *Exploring Strategy* provides deeper and more extensive coverage of the theory and practice of strategy. A brief table of contents from the tenth edition is listed below:

  1 Introducing strategy

  Part I THE STRATEGIC POSITION

  2 The environment
  3 Strategic capabilities
  4 Strategic purpose
  5 Culture and strategy
     Commentary The strategy lenses

  Part II STRATEGIC CHOICES

  6 Business strategy
  7 Corporate strategy and diversification
  8 International strategy
  9 Innovation and entrepreneurship
  10 Mergers, acquisitions and alliances
     Commentary on Part II Strategic choices

GUIDED TOUR

Setting the scene

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

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.

Key terms

business-level strategy p. 6
corporate-level strategy p. 6
Exploring Strategy Model p. 9
operational strategies p. 7
strategic choices p. 11

strategic position p. 10
strategy p. 2
strategy statements p. 7
three-horizons framework p. 3

'Strategy in the real world

ILLUSTRATION 5.1   easyCouncils: a not so easy low-cost strategy

The London Borough of Barnet has chosen a budget airline model for its services, on the lines of easyJet.

In 2008–9, with pressures on budgets increasing, Conservative-Party-controlled councils in the United Kingdom were looking to save costs by adopting the low-cost model pioneered by airlines such as Ryanair and easyJet. Barnet, a borough council in North London with a population of over 300,000, is one of the pioneers.

The Conservative borough council was led at the time by a former PwC management consultant, Mike Freer. In a context of falling central government subsidies, and wanting to save local taxes, the council was looking to cut costs by £15 m (~€16.5 m;~$22.5 m) a year. In 2008, the council launched a consultation process on radical reform called 'Future Shape'. In 2009, it declared its intention to adopt a budget airline model, which council officials dubbed 'easyCouncil'.

Mike Freer gave some examples. Just as budget airlines allow passengers to pay extra for priority boarding, in future householders will be able to pay extra to jump the queue in order to get faster responses on planning applications for new buildings or house extensions. Similarly, as airline passengers can choose whether to have a meal or not (and pay accordingly), users of adult social care will be allowed to choose their own options. Freer explained to the Guardian:

'In the past we would do things for our residents rather than letting them choose for themselves. We would tell them they need one hour help shopping, or one hour cleaning, meals-on-wheels, and they would get it, like it or not. Instead, we will assess what level of personal care they need, place a value on it and give them the budget. If they say, "Frankly, I'd like a weekend in Eastbourne [a holiday resort]", they can have it.'

Opposition Labour leader Alison Moore warned in the Guardian:

'There is a real danger of problems in the local community and that vulnerable people will lose out. People who are dependent on care services may find that they aren't there at the same quality as before.'

None the less, the new low-cost strategy was launched in 2009. Unfortunately, the costs of retraining staff, building an in-house delivery team, hiring consultants and closing facilities were higher than originally projected. The council estimated it spent £1.5 m on delivering the first year of the reform programme. On the other hand, savings were slower to come through than expected, with a series of strikes by council workers resisting job cuts and the transfer of many employees to private-sector subcontractors. Savings in the first year were just £1.4 m, less than half of what had been projected. Alison Moore, leader of the Opposition, commented: 'Barnet claim that easyCouncil is all about a relentless drive for efficiency, so it is absurd that in the first year, they've spent more money than they've saved.' By this time, Mike Freer had moved on to become a Member of Parliament. However, Lynne Hillan, the new council leader, said it was too soon to judge. Big savings would come soon: 'The programme took longer to establish than planned because we took the decision to develop an in-house team of officers. I've no doubt this will give us the most efficient process and the greatest long-term savings.'

Sources: Guardian, 27 August 2009; Guardian, 26 October 2010; The Economist, 22 September 2012.

Questions

1 What are the advantages and disadvantages of this approach to low-cost council services?
2 In what sense do borough councils 'compete'?

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

CASE EXAMPLE   **Rovio Entertainment: Disney of the smart phone age?**
Daryl Chapman, Metropolia Business School
Richard Whittington, Saïd Business School

Introduction

Rovio Entertainment Ltd is most famous for its Angry Birds smart-phone game, in which colourful birds are catapulted at egg-stealing pigs. The company is based in Finland, and its management team consist of Mikael Hed, Chief Executive Officer, Niklas Hed, Head of Research and Development, and Peter Vesterbacka, Chief Marketing Officer and self-proclaimed 'Mighty Eagle'. Angry Birds became a top-selling app on Apple's App Store in 2010, the start of a stream of business ventures including broadcast media, merchandising, publishing, retail stores and playgrounds. With about 500 employees at the end of 2012, Peter Vesterbacka told Wired magazine that Rovio could follow the world's largest entertainment company: 'We definitely look to Disney as a model.'

Source: Peter Parks/AFP/Getty Images.

The team

Rovio was founded in 2003 by Niklas Hed and two classmates at Helsinki University of Technology after they won a game-development competition sponsored by Nokia and Hewlett Packard. The company initially did well in work-for-hire jobs, developing games for Electronic Arts, Nokia and Real Networks. Niklas's cousin Mikael Hed, with an MBA from Tulane University in the USA, soon joined. Mikael's father, Kaj Hed, had been a successful software entrepreneur, selling an earlier business for $150 m (£100 m, €110 m). Kaj Hed invested one million euros and became company chairman: Kaj still owns 70 per cent of the equity. Peter Vesterbacka only joined full time in 2010, as Angry Birds began to take off. However, Vesterbacka, a business developer from Hewlett Packard active in the Finnish start-up scene for many years, had been encouraging Rovio and helping from the sidelines since 2003.

Although Rovio had been successful at creating games and selling them to established third-party companies, the company's ambition was to create a major game success of its own. Niklas Hed thought it would take about 15 tries to create a world-beater, but Angry Birds turned out to be Rovio's 52nd attempt. Meanwhile, there were clashes over strategy. In 2005 Mikael Hed left the company after a row with his father, Kaj, whom he accused of being over-controlling. By 2008, Rovio had had to slash employment from 50 to just 12. But in 2009, Mikael came back, making peace with his father and sensing an opportunity with the new Apple iPhone and its App Store. The combination of the striking Angry Birds characters with the success of the Apple iPhone finally created a winning formula.

Rovio used Chillingo, a well-connected British games publisher, to negotiate a deal with Apple and push Angry Birds into world markets. In February 2010, Chillingo persuaded Apple to feature Angry Birds as the game of the week on the Apple App Store's front page; Angry Birds shot to No. 1 in the United Kingdom; five months later, it was top of the US charts as well. Chillingo was bought by Electronic Arts during 2010, and Rovio declared that it would no longer use any publishing intermediaries. In October, 2010, Rovio launched the free Android Angry Birds, winning two million downloads in three days. By 2011, Angry Birds and its various branded spin-offs had earned €50 m, on the back of a game which originally cost only €100,000 to develop.

In March 2011 Mikael Hed was cautiously excited, telling Wired magazine: 'I know how fragile the gaming industry is; I'm super-paranoid. But I feel at the moment that we are walking. We should be running.'

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

'Checking your understanding

Chapter summaries recap and reinforce the key points to take away from the chapter.

Key terms are identified at the beginning of each chapter.

Video cases enable you to engage with and learn from the experience of senior managers responsible for determining and implementing 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.

Key terms

business-level strategy p. 6

corporate-level strategy p. 6

Exploring Strategy Model p. 9

operational strategies p. 7

strategic choices p. 11

strategic position p. 10

strategy p. 2

strategy statements p. 7

three-horizons framework p. 3

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 much more widely. Middle managers have to understand the strategic direction of their organisations, both to know how to get top management support for their initiatives and to explain organisational strategy to their staff. 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. Investors too need to understand strategy if they are to evaluate the viability of the businesses they invest in. Bankers need to understand the strategies of the businesses they lend to.

This book addresses the fundamental strategic issues important to managers, employees, consultants, investors and bankers. It takes a broad approach to strategy, looking at both the economics of strategy and the people side of managing strategy in practice. *Fundamentals of Strategy* is relevant to any kind of organisation responsible for its own direction into the future. Thus the book refers to large private-sector multinationals and small entrepreneurial start-ups; to 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

'the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals'

Alfred D. Chandler

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

Michael Porter

'a pattern in a stream of decisions'

Henry Mintzberg

'the long-term direction of an organisation'

Exploring Strategy

Figure 1.1 Definitions of strategy

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, What is Strategy?, *Harvard Business Review*, 1996, November–December, p. 60; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

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 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

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, lifestyle 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 McInness, 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?
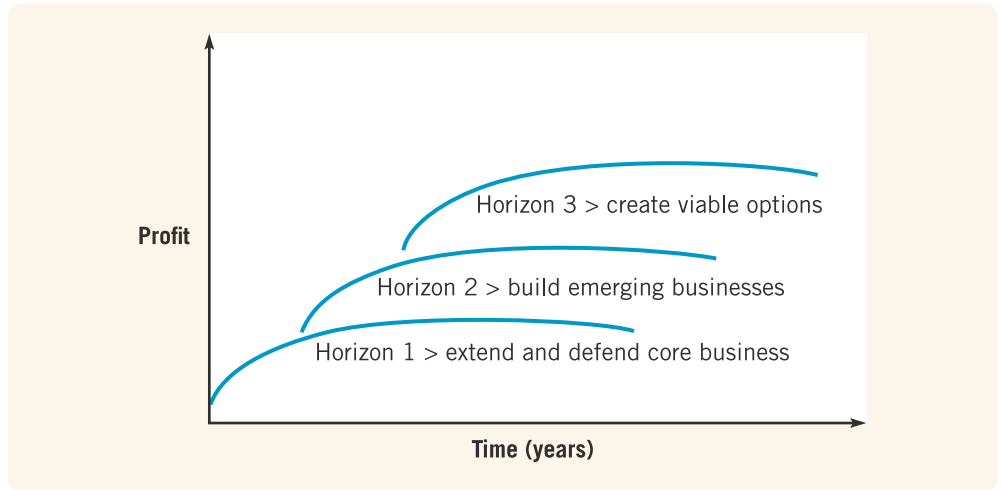
Figure 1.2 Three horizons for strategy

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.

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 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 Rukstad[2] 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.** Goals are discussed further in Chapter 4, but meanwhile these three strategy statement themes 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

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 bn 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.
- Innovative educational developments that are adopted by institutions around the country.
- A broad range of instruments for the professionalisation and assessment of teaching staff.
- 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?

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 are not always fulfilled. Circumstances may change in unexpected ways. In the meantime, however, they can provide a useful guide both to managers in their decision making and to employees and others who need to understand the direction in which the organisation is going. The ability to give a clear strategy statement is a good test of managerial competence in an organisation.

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

1.3 THE *EXPLORING STRATEGY* MODEL

This book draws on a three-part model of strategy that emphasises the interconnected nature of strategic issues. The **Exploring Strategy Model** includes understanding *the strategic position* of an organisation; assessing *strategic choices* for the future; and managing *strategy in action*. Figure 1.3 shows these elements and defines the broad coverage of this book. However, this book concentrates on the fundamental strategic issues involved in strategic position and strategic choices, treating strategy in action more briefly (our related book *Exploring Strategy* explores this third set of issues in detail). The following sections of this chapter introduce the strategic issues that arise under each of these elements of the *Exploring Strategy* Model.

Figure 1.3 could show the model's three elements in a linear sequence – first understanding the strategic position, then making strategic choices and finally turning strategy into action. Indeed, this logical sequence is implicit in the definition of strategy given by Alfred Chandler (Figure 1.1) and many other textbooks on strategy. However, as Henry Mintzberg recognises,