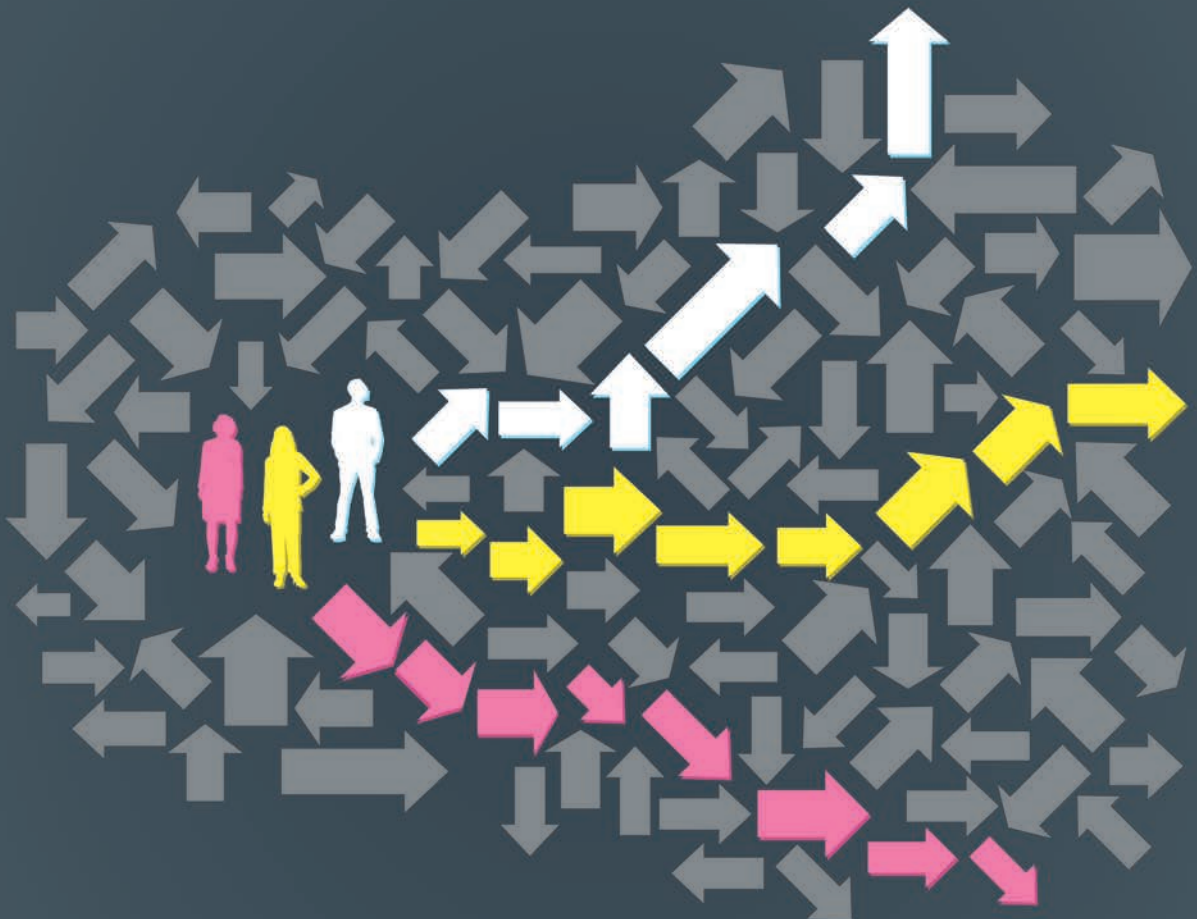# EXPLORING STRATEGY

TWELFTH EDITION

Richard Whittington • Patrick Regnér • Duncan Angwin

Gerry Johnson • Kevan Scholes

P Pearson

Welcome to Exploring Strategy

Strategy is a crucial subject. It's about the development, success and failure 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 or an entrepreneur, you will be involved in shaping, implementing or communicating these strategies.

Our primary aim with *Exploring Strategy* is to give you a comprehensive understanding of the issues and techniques of strategy. We can also help you get a great final result in your course. You can make the most of the text by:

- Exploring hot topics in cutting-edge issues such as business models, corporate governance, innovation, entrepreneurship and strategy practice.

- Engaging with our 'Thinking Differently' sections to access novel and distinctive perspectives on core themes in strategy

- Using the 'Strategy Lenses' to think critically and originally about key topics and to set you on your way to better grades in your assignments and exams.

- Pursuing some of the recommended 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.

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

So, read on and good luck!

Richard Whittington
Patrick Regnér
Duncan Angwin
Gerry Johnson
Kevan Scholes
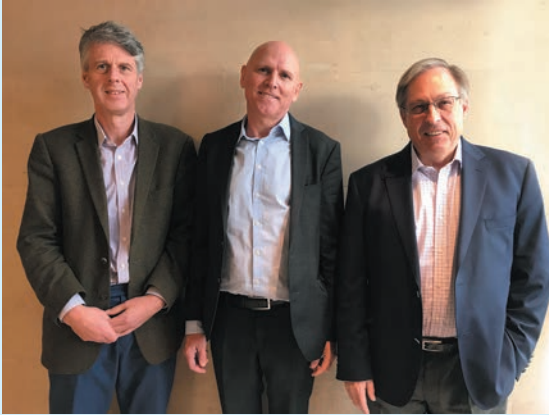
Richard Whittington MA, MBA, PhD is Professor of Strategic Management at the Saïd Business School and Millman Fellow at New College, University of Oxford. He is an Associate Editor of the *Strategic Management Journal* and author of ten books, including *Opening Strategy: Professional Strategists and Practice Change, 1960 to Today* (2019). 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 active in executive education and consulting internationally.

Patrick Regnér, BSc, MSc, PhD, is Professor of Strategic Management at Stockholm School of Economics. He has published in leading journals like *Strategic Management Journal, Journal of International Business, Human Relations,* etc. and serves on several editorial boards including *Academy of Management Review, Journal of Management Studies* and *Strategic Organization.* He has extensive teaching experience on all academic levels at several international institutions. He does executive teaching and consulting with organisations active worldwide and is senior advisor at strategy advisory firm Value Formation. His current research focuses on strategy and institutions.

Duncan Angwin, MA, MPhil, MBA, PhD is the Dean of Nottingham University Business School. He was previously the Sir Roland Smith Professor of Strategic Management and Head of Department for Entrepreneurship and Strategy at Lancaster University. He has authored twelve books, over forty refereed articles in journals such as *Academy of Management Learning & Education, California Management Review, Journal of World Business, MIT Sloan Management Review, and Organization Studies* and is on the editorial boards of several journals, including *Journal of Management Studies.* He teaches strategy to executives internationally. He has won in excess of €10m in research grants and currently focuses on international M&A and strategy practices. See **http://www.duncanangwin.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 foremost management research journals in the world. He also works with senior management teams on issues of strategy development and strategic change.

Kevan Scholes MA, PhD, DMS, CIMgt, FRSA is Principal Partner of Scholes Associates – specialising in strategic management. He is also Emiritus Professor of Strategic Management and formerly Director of the Sheffield Business School, UK. He has extensive experience of teaching strategy to undergraduate and postgraduate students inside and outside the UK, as well as of management development work in private and public sector organisations. He has been an advisor on management development to a number of national bodies and is a Companion of The Chartered Management Institute.

EXPLORING STRATEGY

TWELFTH EDITION

Richard Whittington
Saïd Business School, University of Oxford

Patrick Regnér
Stockholm School of Economics

Duncan Angwin
Nottingham University Business School

Gerry Johnson
Lancaster University Management School

Kevan Scholes
Sheffield Business School

With the assistance of
Jason Evans
Clive Kerridge

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global business news, insightful opinion and expert analysis of business, finance and politics. With over
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Preface

We are delighted to offer this twelfth edition of *Exploring Strategy.* With sales of previous editions now well over one million worldwide, we believe we have a tried and tested product. Yet the strategy field is constantly changing. For this edition, therefore, we have thoroughly refreshed all chapters, with new concepts, new cases and new examples throughout. Here we would like to highlight three principal changes, while recalling some of the classic features of the book.

As well as more detailed changes, the twelfth edition has the following principal changes:

- **a stronger focus on technology strategy:** reflecting today's culture of rapid technological change, we have developed the discussion of business models and ecosystems, with concepts such as multisided platforms and peer-to-peer models.

- **an updated approach to corporate strategy**: with radical changes to the nature of the corporation, this edition enhances its treatment of divestment as well as acquisitions and mergers

- **a revised approach to strategy evaluation**: we focus our discussion of the evaluation of strategic options on practical techniques, adding for instance DuPont pyramid analysis

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 16), focused on the practicalities of managing strategy. Throughout the book, we introduce concepts and techniques through practical illustrations and applications, rather than abstract descriptions.

Many people have helped us with the development of this new edition. Jason Evans and Clive Kerridge have led in coordinating the case collection. We have consulted carefully with reviewers and our Advisory Board, made up of experienced lecturers, many of whom are 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, 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 Austria, Ireland, the Netherlands, Denmark, Sweden, France, Canada, China, Australia, New Zealand, Hong Kong, Malaysia, Morocco, 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.

Richard Whittington (richard.whittington@sbs.ox.ac.uk)
Patrick Regnér (patrick.regner@hhs.se)
Duncan Angwin (Duncan.Angwin@nottingham.ac.uk)
Gerry Johnson (gerry.johnson@lancaster.ac.uk)
Kevan Scholes (KScholes@scholes.u-net.com)
March 2019

Reviewers

We would like to thank the following academics who reviewed for this edition of *Exploring Strategy* or the first release of *Exploring Strategy Revel*:

Keith Seed	University of Hertfordshire
Dr Mohammad Roohanifar	Manchester Metropolitan University
James Roberts	University of Leeds
Kenneth Wiltshire	The University of Queensland
Peter Barton	Liverpool John Moores University
Nnaemeka Madumere	Coventry University
Jens Schmidt	Aalto University
Dr Andrew Wild	University of Nottingham
Dr Humphrey Bourne	University of Bristol
Mohammad Bakhtiar Rana	Aalborg University
Jonathan Fanning	University of York
Sheena Davies	University of Portsmouth
Dr. Petya Koleva	Coventry University
Dr. Keith Halcro	Glasgow Caledonian University

Exploring Strategy features

This twelfth 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 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. Speak to your local Pearson Sales Representative if you would like to explore customization options.

- **Up-to-date materials.** we have fully revised all chapters, incorporating new research and updating references so that you can easily access the latest research.
- **Encouraging innovative and critical thinking.** The Strategy Lenses and commentaries are designed to encourage critical thinking, while each chapter ends with a 'Thinking Differently' section, introducing students new and distinctive approaches to key issues of the chapter.
- **Our 'three circles' framework** – 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. Many of these are entirely new to this edition; others have been extensively revised. 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 detailed in the *Exploring Strategy* Online section that follows this.
- **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: https://heuk.pearson.com/events.html

Exploring Strategy Online

A wide range of supporting resources are available at: www.pearsoned.co.uk/ exploringstrategy.

Resources for students

- **Multiple choice questions** that test your understanding of key content
- **Key concept audio summaries** that you can download or listen to online
- **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** 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** containing key information and figures from the book
- **Classic cases** from previous editions of the book

Digital Courseware

Revel is an interactive learning environment designed for how you want to teach — and how your students want to learn. Cleverly combining reading material with interactive videos, quizzes and writing activities, it enriches the learning experience and boosts student performance.

We have launched *Exploring Strategy* in Revel, which offers interactive media, including videos and writing activities, within the narrative content to reinforce key concepts and encourage exploration and application of a complex and diverse subject area. It caters to today's modern strategy students, who need a hands-on, applied and current exploration to the subject.

Unlike any existing resource, Revel for Strategy allows lecturers to bring strategy to life and drive engagement across large classes, increasing students' understanding of the key concepts, encouraging them to reflect on their actions, build confidence, and helping them to evaluate the impact of their decisions.

MyStrategyExperience is an engaging and rigorous simulation designed to bring together the theory and practice of strategy-making in the realistic environment of a dynamic organisation and industry. The simulation puts students on the board of directors in a global advertising agency and allows them to make a strategic analysis of the business, put together a business plan and then make a number of challenging decisions on the future strategy of the company.

As students set and implement strategy, they will see the impact of their decisions on financial and non-financial measures of performance within the simulated company. Your students will need to balance strategic opportunities with inherent risk thus gaining knowledge and insights relevant to their strategic studies.

The simulation draws on the content of *Exploring Strategy* and the two can be used to complement each other on a strategy course.

For more information about Revel or MyStrategyExperience, contact your local Pearson Sales Representative or visit https://www.pearson.com/uk/educators/higher-education-educators/products-and-services/course-resources-and-content.html

Chapter 1
Introducing strategy

Key terms

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 *functional* strategies.
- Identify key issues for an organisation's strategy using the *Exploring Strategy* Framework.
- Understand different people's roles in *strategy work.*
- Appreciate the importance of different *organisational contexts, academic disciplines* and *theoretical lenses* to practical strategy analysis.

1.1 Introduction

The Chief Executive Officer (CEO) of a medium-sized family business knew they had a problem. New aggressive competition in their main European markets was threatening their performance just as demand was softening. To help him address this major problem the CEO invited in a consultancy firm to assess whether this was the right time for his business to find new international markets for growth or to invest more in product innovation to stimulate demand. Claudia, the junior consultant in the team, heard the consulting partner explain how they would carry out a systematic analysis of the company's situation to understand its success, assess the challenges posed by the competition and shifting markets and identify broader opportunities and threats from the wider environment. It would be her task to assemble key data and conduct analysis to generate future possible options for the business. These would help inform the CEO's decision about how his business could improve its competitive position. The consulting firm would assist with implementation if needed.

The problem presented by the CEO to the consultants is one of strategy. It is concerned with key issues for the future of the organisation. For instance, how should the company compete in the future with aggressive new entrants? What growth options are there for the company? If further internationalisation is a good strategy, what would be the optimal method to achieve this outcome and what might be the resourcing implications? All of these strategy questions are vital to the future survival of the organisation.

Strategy questions naturally concern entrepreneurs and senior managers at the top of their organisations. But these questions matter more widely. Outside of the organisation, stakeholders such as investors, including banks, venture capitalists and analysts, influence the strategy. Inside the organisation, middle managers also have to understand the strategic direction, both to know how to get top management support for their initiatives and to explain it 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 like Claudia, as a strategy consultant or as an in-house strategic planner, often key roles for fast-track young managers.

Figure 1.1 Strategy: its definition, purpose, analysis and work
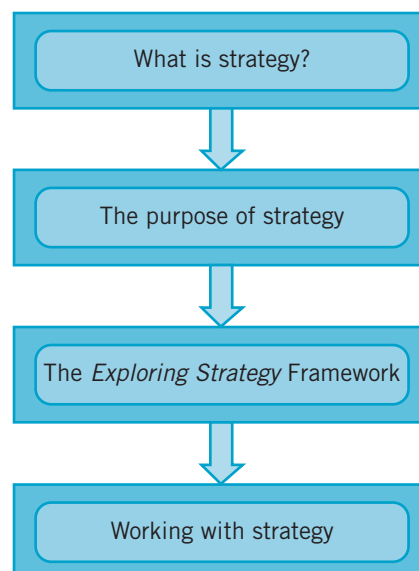
This book is relevant to any kind of organisation responsible for its own direction into the future. Thus the book refers to large private sector multinationals and small entrepreneurial start-ups; to family businesses, both large and small; to public-sector organisations such as schools and hospitals; and to not-for-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.

In this chapter you will begin with examining the main definitions of strategy, build your understanding of strategy's purpose, be introduced to the *Exploring Strategy* Framework for analysing an organisation's strategy and increase your awareness of working, as students and managers, with strategy in different contexts (see Figure 1.1). But first, why is the book entitled *Exploring Strategy*?

1.1.1 Why '*Exploring Strategy*'?

There are a large number of strategy textbooks available on the market so it is important to realise why readers choose *Exploring Strategy.* As strategists we believe that one of strategy's distinctive features is that it draws upon many other perspectives, including economics, finance, marketing, operational management, organisational behaviour, psychology to name a few. However many strategy textbooks adopt a single disciplinary focus, such as an economics perspective, for instance, that ignores other critical issues, such as the work of strategists, the influence of organisational politics, history and culture. Others focus much more on the behavioural side of strategy and largely overlook the importance of finance and economics. *Exploring Strategy* is distinctive in emphasising a comprehensive view of strategy, and this will enable you to explore the insights of many disciplinary perspectives including both the economics of strategy and the people side of managing strategy in practice.

A further reason for the word 'Exploring' in the title is rooted in the practical world of strategy work. Our focus on the practice and practicalities of strategy reveals that there are rarely obvious answers. Indeed, many strategy problems are highly complex and managers should beware of over-simplified 'solutions'. Therefore in strategy it is important both to recognise the real scope of problems and to explore several options. Through exploration you will widen your awareness of practical issues relevant to strategy, recognise the difficulties of interconnectedness, and probe each option carefully before making informed choices. We therefore believe that major strengths of *Exploring Strategy,* its comprehensiveness and focus upon practice, will help reduce your risk of myopia to enable you to produce well-informed, grounded solutions to complex strategic problems.

We also believe that 'Exploring' in the title is appropriate as this is a research-led book, drawing upon world-class research and including the latest thinking on key strategic topics. These feature throughout *Exploring Strategy* and particularly pioneering work is found in the 'Thinking differently' sections at the ends of chapters. The 'Strategy lens' sections at the end of the main parts of the book also introduce novel and distinctive themes. These will ensure that you are at the cutting edge of strategy.

Exploring Strategy also explores a wide range of organisational and geographic contexts. Through a diverse and substantial selection of illustrations and case studies, we include large multinationals as well as medium-sized and entrepreneurial start-up firms. We give weight not only to 'for-profit' companies but also family businesses that may also be not-for-profit, public sector and other not-for-profit organisations. We examine these not only in developed economies in the West but also in a wide range of emerging markets and developing countries. This broad base of organisations and contexts will give you a wider knowledge base than is common in other strategy texts.

1.2 What is strategy?[1]

The origins of the word strategy have been traced back to the city of Athens in the sixth century BC where it was developed to name a new military and political leadership position. It combined the words *stratos,* which meant 'army spread out over the ground', and *agein,* meaning 'to lead'.[2] To this practical consideration of managing and directing a large complex force, the importance of strategy was highlighted by the Chinese military philosopher Sun Tzu, who defined strategy as 'the great work of the organization. In situations of life or death, it is the Tao of survival or extinction' (Tao is a Chinese word that indicates 'path', 'way', 'route' and even 'principle'). Since that time there have been many new definitions of the word strategy, particularly by the military, but in the 1960s Alfred Chandler, strategy's founding theorist, brought strategy formally into a business context.[3] Since then, definitions of strategy have continued to refine our understanding of the term and several prominent ones are examined below. However, for this book our initial basic definition of strategy, which we shall elaborate upon at the end of the chapter, is as follows: **strategy is the long-term direction of an organisation.** Thus, for example, the long-term direction of Amazon is from book retailing to internet services in general. For Disney, it 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 1.2 shows the strategy definitions of several leading strategy theorists: Alfred Chandler and Michael Porter, both from the Harvard Business School, Peter Drucker from Claremont University, California and Henry Mintzberg, from McGill University, Canada. Each points to important 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. Drucker suggests that it is a theory about how a firm will win.[4] Mintzberg, however, takes the view

Figure 1.2 Definitions of strategy

'. . . 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 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 firm's theory about how to gain competitive advantages'
Peter Drucker

'a pattern in a stream of decisions'
Henry Mintzberg

'the long-term direction of an organisation'
Exploring 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*, November–December 1996, p. 60; P.F. Drucker, 'The theory of business', *Harvard Business Review*, September–October 1994, pp. 95–106; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

that strategy is less certain and 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.

There are two advantages to our opening definition of strategy. 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 Tesla Motors 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 shown in Figure 1.3. **The *three-horizons* framework suggests organisations should think of their businesses or activities in terms of different 'horizons', defined by time.** *Horizon 1* businesses are basically the current core activities. In the case of Tesla Motors, Horizon 1 includes the original Tesla Roadster car and subsequent models. Horizon 1 businesses need defending and extending but the expectation is that in the long term they risk becoming flat or declining in terms of profits (or whatever else the organisation values). *Horizon 2* businesses are emerging activities that should provide new future sources of profit. For Tesla, that might include the new mega-battery business. Finally, there are *Horizon 3* possibilities, which are more open and for which outcomes are even more uncertain. These are typically risky research and development projects, start-up ventures, test-market pilots or similar: at Tesla, these might be further solar electric initiatives, rockets and space transportation. For a fast-moving organisation like Tesla, *Horizon 3* might generate profits a few 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, as industries and types of firm can move at different rates, 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.

Figure 1.3 Three horizons for strategy

Horizon 3 > create viable options

Horizon 2 > build emerging businesses

Horizon 1 > extend and defend core business

Performance potential

Time (years)
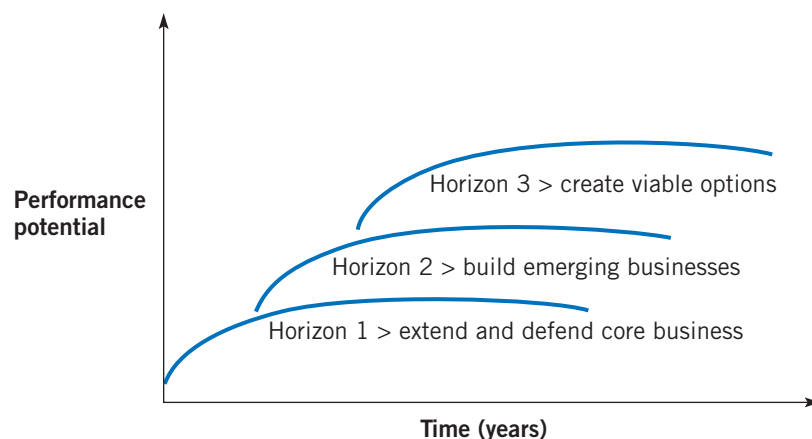
Source: Adapted from M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

Illustration 1.1 Tesla Motors: the future is electric!

Are there enough Teslas in the world?

Source: Jim West/Alamy Stock Photo

The Tesla Roadster is a staggeringly quick car with a difference. There's no wheel-spin, no traction control stutter, no driveline shutter. Stamp on the throttle and the driver gets 686 lbs of torque immediately, rocketing the car from 0–60 mph in 3.2 seconds and with negligible noise – the car is electric.

The Tesla Roadster is the main product of Tesla Motors. Its charismatic chairman and main funder is PayPal cofounder, and SpaceX CEO, Elon Musk. Barely a decade old, Tesla Motors is already gigantic, $52bn market capitalisation, and adored. It's been called 'the world's most important automotive company' and the Tesla's Model S, 'the Most Loved Vehicle in America' – out-selling Mercedes S-class and BMW 7 series. And yet the last successful American car start-up was Ford, founded 111 years ago. How can Tesla Motors be so successful?

Tesla is the brain-child of three Silicon Valley engineers convinced by global warming arguments and looking for alternative fuel sources for cars. Co-founder Eberhard asked: 'How much of the energy that comes out of the ground makes your car go a mile?'[1] He observed 'hydrogen fuel cells are terrible – no more efficient than gas. Electric cars were superior to everything.'[1] He then discovered a bright yellow all-electric two-seater bullet car with zero emissions, 'tzero', built by AC propulsion. Inspired, Eberhard kept saying to potential recruits – 'try and touch the dashboard.'[1] He would then hit the accelerator – they couldn't! With Lamborghini-level acceleration, this demonstrated electric cars didn't have to be golf carts.

At the time industry logic said electric cars would never succeed, as GM had spent $1bn trying to develop one that was then scrapped and battery technology had not improved in a hundred years. However Eberhard realised lithium-ion batteries were different – improving 7 per cent p.a. So Tesla was positioned to ride the current of technological history.

The founders had no experience making cars, but realised car companies now outsourced everything, even styling. Manufacturing partners were ready to be connected; a 'fab-less' car company was possible.* Production began in 2008. The business plan described the Roadster as 'disruptive' technology** –

a high-end sports car with lower price and emissions than competitors – and a lower resource cost to the planet.

> ## Model S
>
> 0–60 mph < 2.5 seconds; 100mpg; world-class handling; Zero tailpipe emissions; +300 mile range; zero maintenance for 100,00 miles (other than tyres); 50 per cent price of the cheapest competitive sportscar.[1]

Tesla's strategy is 'to succeed in the high end of the market, where customers will pay a premium for a sports car without compromise, and then drive down market rapidly to higher unit volume and lower prices with each successive model. All free cash flow is ploughed back into R&D to drive down costs and bring follow on products to market as fast as possible. Roadster customers are actually paying for development of the low cost family car.'[2]

Tesla aims to provide zero emission electric power generation from their 'giga' battery factory in line with their overarching purpose to move from mine-and-burn hydrocarbons towards a sustainable solar electric economy.[2] Tesla Energy now sells batteries for home and business use and aims to offer an energy system for the world.

However, things continue to be problematic as Tesla battles Model 3 production and distribution difficulties and will need to make further large capital investments. Despite axing 7 per cent of its workforce in January 2019,[3] improving production output and price reductions to counter a federal tax credit cut, Elon Musk's previous outbursts, dismissing analysts' 'boring bonehead questions', an aborted attempt to take the company private and worries that his other business interests are distracting him, are causing analysts such as Goldman Sachs to predict that Tesla shares will fall 30 per cent in months with the rise of luxury marque competitor products. But when your mission is to save the earth, maybe Elon Musk's outspokenness is not surprising.[4]

Notes
* A car company without a factory.
** A phrase from Harvard professor Clayton Christensen.

Sources: (1) E. Musk, 'The Secret Tesla Motors Master Plan (just between you and me)', 2 August 2006; (2) D. Baer, 'The making of Tesla: invention, betrayal, and the birth of the Roadster', Business Insider, 11 November 2014; (3) Sainato, 'How do they expect to run without us', theguardian.com, 30 January 2019; (4) R. Water and P. Campbell, 'Tesla: Reality begins to collide with the Elon Musk's vision', Financial Times, 15 June 2018.

Questions

1 How does Tesla Motor's strategy fit with the various strategy definitions in Figure 1.2?

2 What seems to account for Tesla's success and current difficulties?

- *Strategic direction.* Over the years, strategies follow some kind of long-term direction or trajectory. The strategic direction of Tesla Motors is from the original electric car to a diversified set of solar power offerings. 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 many 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 Tesla, co-founder and original CEO Eberhard was fired by new Chairman Elon Musk. 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 Tesla, relationships with investors and advertisers are crucial. Strategy, therefore, is also vitally 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 The purpose of strategy: mission, vision, values and objectives

What is a strategy for? Harvard University's Cynthia Montgomery[5] argues that the core of a strategist's job is defining and expressing a clear and motivating purpose for the organisation. Even for private-sector organisations this is generally more than simple profit-maximisation as long-term prosperity and employee motivation usually require expressions of purpose that go beyond just profits. According to Montgomery, the stated purpose of the organisation should address two related questions: *how* does the organisation make a difference; and *for whom* does the organisation make that difference? If the stakeholders of an organisation can relate to such a purpose it can be highly motivating. Indeed, research by Jim Collins and Jerry Porras suggests that the long-run success of many US corporations – such as Disney, General Electric or 3M – can be attributed (at least in part) to the clear guidance and motivation offered by such statements of purpose.[6]

There are four ways in which organisations typically define their purpose:

- A **mission statement aims to provide employees and stakeholders with clarity about what the organisation is fundamentally there to do.** This is often expressed in the

apparently simple but challenging question: 'What business are we in?' Two linked questions that can clarify an organisation's 'business' are: 'What would be lost if the organisation did not exist?'; and 'How do we make a difference?' Though they do not use the term 'mission statement', Collins and Porras[7] suggest that understanding the fundamental mission can be done by starting with a descriptive statement of what the organisation actually does, then repeatedly delving deeper into the organisation's purpose by asking 'why do we do this?' They use the example of managers in a gravel and asphalt company arriving at the conclusion that its mission is to make people's lives better by improving the quality of built structures. At the University of Utrecht the mission includes educating students, training the next generation of researchers and addressing social issues.

- A **vision statement is concerned with the future the organisation seeks to create.** The vision typically expresses an aspiration that will enthuse, gain commitment and stretch performance. So here the question is: 'What do we want to achieve?' Porras and Collins suggest managers can identify this by asking: 'If we were sitting here in twenty years what do we want to have created or achieved?' They cite the example of Henry Ford's original vision in the very early days of automobile production that the ownership of a car should be within the reach of everyone. For the Swedish music site Spotify, the vision is to become 'the Operating System of music', a universal platform for listening just as Microsoft is for office software.

- **Statements of corporate values communicate the underlying and enduring core 'principles' that guide an organisation's strategy and define the way that the organisation should operate.** For example, Alphabet (previously Google), famously includes in its values 'you can be serious without a suit', 'fast is better than slow' and 'don't be evil'. It is important that these values are enduring, so a question to ask is: 'Would these values change with circumstances?' And if the answer is 'yes' then they are not 'core' and not 'enduring'. An example is the importance of leading-edge research in some universities. Whatever the constraints on funding, such universities hold to the enduring centrality of research. On the other hand, as Alphabet has grown and diversified, some critics wonder whether the company still abides by its principle of 'don't be evil' (see Chapter 13 end case).

- **Objectives are statements of specific outcomes that are to be achieved.** These are often expressed in precise financial terms, for instance, the level of sales, profits or share valuation in one, two or three years' time.[8] Organisations may also have quantifiable market-based objectives, such as market share, customer service, repeat business and so on. Sometimes objectives focus on the basis of competitive advantage: for example, low-cost airlines such as RyanAir set objectives on turnaround time for their aircraft because this is at the core of their distinctive low-cost advantage. Increasingly organisations are also setting objectives referred to as 'the triple bottom line', by which is meant not only economic objectives such as those above, but also environmental and social objectives to do with their corporate responsibility to wider society (see Section 5.4).

Although visions, missions and values may be liable to become bland and too wide-ranging,[9] they can offer more enduring sources of direction and motivation than the concrete nature of objectives. It is therefore crucial that vision, mission and values are meaningful when included in strategy statements.

1.2.3 Strategy statements

David Collis and Michael Rukstad[10] 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***