Your learning objectives for this chapter are to be able to:

- define strategy
- highlight the major aspects that are essential to strategy
- understand the development of strategic thought
- identify the major theoretical approaches to strategy
- identify three levels of strategy
- understand a model of business strategy analysis and management
- explain why strategy might be different in countries with smaller economies
Facebook and ‘strategy’

The 2010 film, _The Social Network_, captured the heady early days of Facebook. Established in a dorm room at Harvard University in autumn 2003 by Mark Zuckerberg, few could have predicted the ebullient years ahead for what was to become an extraordinary success story.

When Facebook was established, it was aimed only at Harvard University students, before opening to other university students and later to anyone over 13 years of age. Today, it is truly global in reach, with members from every nation.

According to its March 2013 accounts, Facebook had more than 1.1 billion users, 4000 employees, US$5 billion annual revenues (mostly from advertising, not from individual users), around US$2.5 billion in annual earnings fit and a listed market value of over US$60 billion.

So what is Facebook’s ‘strategy’? Several different representations of Facebook’s ‘strategy’ are given by its organisation and its people, and by analysts. Facebook itself says that its mission ‘is to give people the power to share and make the world more open and connected.’ Many people think of it as a social networking facilitation organisation. More prosaically, its steady stream of ‘traffic’ makes it a valuable place to advertise just about anything. Some see Facebook’s strategy as being a hub site for customer interaction through the internet—with Facebook offering a means by which they will connect by voice and video with one another, further driving regular visits by their customers to the site. But it is also the largest gaming organisation in the world and some analysts think it could be a new breed of telco. Or is Facebook’s strategy to be an open technology platform—a digital content exchange platform for social networking? Clearly it does a lot of things and does them very well to attract such a large global market.

Additionally, when the Facebook IPO was launched on the NASDAQ stock exchange, founder Mark Zuckerberg, who still owns more than 20% of the shares and has more than 50% voting rights, posted a vision statement of sorts on his own Facebook profile page. He said:

*People use Facebook to stay connected with friends and family, to discover what’s going on in the world, and to share and express what matters to them.*

Contrary to the financial aims of most traditional organisations, Zuckerberg, aged 27, said in his letter to potential IPO investors:

*We don’t build services to make money. We make money to build better services.*

In many ways, Facebook is a new breed of company that challenges our notions of what it means to have an organisational strategy. Its growth was so steep and unexpected that its corporate leaders had to continuously go back to the drawing board, thinking again about what it could, and should, aim to achieve with its access to its 1 billion regular users.

It has deep and complex competencies in programming and in the commercialisation of content. Facebook saw off early challengers by MySpace and others, and now dominates the social networking ‘industry’. As such, it is in a position to create, to a great degree, its own strategic destiny.

In accounting, every organisation uses the same income statement, balance sheet and cash flow statement, in the same format. In marketing, everyone learns the same 4 Ps and the expanded 7 Ps. But with strategy, each company has a different view of what strategy is, what content it embraces, how it is expressed. What is Facebook’s strategy? Is it a good strategy? What makes it ‘good’? Or is it just very good at doing things? If it does have a good strategy, which would help to explain its phenomenal performance, why is it so hard to agree on it?
This book is about the key concepts, issues, techniques and tools involved in strategic thinking, analysis and action. As you will see, there are many different definitions of 'strategy'. We define strategy as:

*Those decisions that have high medium-term to long-term impact on the activities of the organisation, including the analysis leading to the resourcing and implementation of those decisions, to create value for key stakeholders and to outperform competitors.*

This definition highlights seven aspects of strategy:

1. Strategy is about *decision making*—with decisions based on rational analysis of organisations, their customers and their industry competitors. Because strategic decisions are based on future expectations and are wide ranging in their effects, uncertainty is always present. It is always tempting to seek more information before making a decision. However, a complete set of relevant information is never available. Strategy is not simply about analysis. It involves action. For strategic action to occur and for strategy to be implemented, decisions must be made.

2. Strategy is about *long-term* impacts of important decisions for the organisation. Strategy involves commitment. Strategic decisions cannot easily be reversed and have long-term impacts (positive or negative) once they are made. Such decisions might include what product range to sell, which geographic market to serve, where to locate operating facilities, how to structure the compensation/reward system, what activities to outsource/insource, or what information systems to use.

   But what is the definition of 'long term'? 'Long term' depends on the nature of the industry. In high-tech industries with short product life cycles, two years may be long term. In other industries, such as resources, the decision to develop a resource can take several years before production can commence, so 10 years may be long term. As a rule of thumb, in practice we find that three years normally qualifies as long term for strategic plans and decisions for most organisations.

3. Strategy is about 'organisations' and not simply 'businesses' or 'corporations'. Strategy principles and practice are needed for all types of organisations—large and small, private and public, profit and not-for-profit (NFP). The development and focus of strategy will vary according to organisation type. We see 'businesses' as a subset of the more general 'organisations'. For businesses, profits and shareholders are more important than for other types of organisations, but stakeholders, performance and beating competitors (current or potential) are important for all organisations.

4. Strategy is about *creating value for customers and key stakeholders*. Organisations do not carry out activities for their own interest. They carry them out because customers and key stakeholders want them to, or need them to, perform those activities. Organisations in the same industry with different types of customers and key stakeholders will carry out different activities and act differently, because they will have different views of what is value/valuable.

5. Strategy is about the *integration and focus* of organisation functions. Strategic decisions are designed to impact on the *whole organisation*, not just a particular function or activity. Decisions about what particular geographic market to serve do not simply affect the marketing function. They also affect operations (where to produce), logistics
(how to store and transport to serve the market), personnel (which market to hire in), finance (where to locate accounting) and other functions.

6 Strategy is about *implementation* of the decisions. While many organisations are good at strategic thinking and analysis, if they do not implement, they will not achieve the expected outcomes from their strategy. Many organisations want to be ‘world class’ or ‘number 1’, but very few achieve it. Implementation—often the forgotten part of strategy—is *critical* to successful strategy. This aspect is the ‘management’ part of strategic management.

7 Strategy is about *outperforming competitors*. If the organisation is satisfied being a ‘me-too’ competitor, it does not need strategy. It simply needs to copy its competitors’ actions unthinkingly. However, if the organisation does nothing different, it is unlikely to create any special value for its customers and key stakeholders. Most restaurants and cafes are good examples of organisations where strategy is either not used or not wanted (but consider the McDonald’s restaurant and Starbucks coffee shop chains as examples of applying strategy to those industries). The end purpose of strategy is to do something better than competitors and so to outperform them. Public sector organisations often do not have ‘competitors’, but their work can be outsourced, and they can be closed down, privatised or opened up to competition, so even public sector organisations in monopoly positions need to consider what might happen if they are not efficient.

Strategy @ work 1.1 on Singapore Airlines gives an example of some of the strategic decisions that have resulted in Singapore Airlines being consistently voted one of the best airlines in the world for many years.

Together, the elements of strategy aim to assist an organisation to achieve its long-term aims, which is the essence of operating an organisation, whatever its size or nature.

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**STRATEGY @ WORK 1.1  THE BUSINESS STRATEGY OF SINGAPORE AIRLINES AND HOW IT IS SUPPORTED BY FUNCTIONAL STRATEGIES**

Singapore Airlines’ (SIA’s) business strategy is to deliver the highest quality of customer service that is safe and reliable, and to deliver a satisfactory return to its shareholders. Consistent strategic decisions have been taken over more than 40 years that have created a highly successful company in an industry that is dogged by volatility and poor performance.²

SIA’s core competency is its service excellence. This is based on its innovation capabilities (in terms of continually upgrading its service quality on and off board), its aligned and supportive human resource management practices (focusing on customer service excellence), its diversified global revenue base (meaning it is not impacted by regional downturns and is aware of new trends anywhere in the global industry), its modern and technologically leading fleet, its support for high-quality, fast-service maintenance, catering, training and other support facilities from having a strong home base at Changi Airport in Singapore (an airport renowned for high-quality customer service) and strong long-term capital support from the Singapore government (helping to avoid short-term industry volatility). This set of consistent, globally benchmarked functional strategies has enabled SIA to rise from nothing to global industry leader and retain its position over the last 15 years. SIA’s recent development of entering the low-cost sector of the industry through launching Silk Air and Tiger Airways demonstrates continued product innovation as the market changes.
However, the essential question in strategy is not just achieving its aims but:

*Why do some organisations perform better than others?*

For individual organisations, this translates to:

*How can my organisation perform better than my competitors?*

Some organisations perform better than their competitors, whatever their aims are. For instance, some sports teams perform better than others consistently, over long time periods: for example, Manchester United, Real Madrid and Inter Milan in football; Australian swimming and cricket teams; New Zealand rugby teams and Chinese gymnastics teams. Strategy is concerned with understanding what factors enable such outperformance, highlighting the thinking, analysis and action that brings those results, whatever the field of endeavour, and implementing them appropriately in our own organisation.

In this chapter, we first outline how the field of strategy has developed and built its ideas over its relatively short history as an identifiable academic discipline. We then outline the wide variety of current theoretical perspectives in the discipline. It is the existence of this wide variety of perspectives and the lack of agreement in the field that causes us to be cautious about the use of the term ‘strategy’ in the title of this chapter and throughout the book.

Next, we discuss the three levels of strategy that exist within a typical organisation. We then outline the environment–strategy–capability gap analysis model of strategic thinking, analysis and action that we will use as the main framework for discussion in this book. Finally, since the development and most of the main concepts of strategy have originated in the United States, a country with a large economy, we consider to what extent the concepts, issues and solutions of strategic management might be different for countries with small economies, which is pertinent, in fact, to most countries in the world. We also consider how strategy is developed in China, given the important role China and Chinese organisations now play in most industries.

Strategic management is an exciting subject, critical for delivering good performance for most organisations. It requires understanding and integration of material from functional areas such as marketing, operations, human resources, finance, accounting and information technology, which you have probably already studied.

A warning, however! Strategy looks easy, but it requires an understanding of and an ability to integrate and manage many variables in a world of rapid change, widening scope and uncertainty about the future. It requires an ability to critically evaluate—and not just accept—analysis, and to be flexible and adaptable as organisation circumstances change in the dynamic world in which we live. In fact, it is very difficult to be a good strategist and to implement good strategy. This book will help you to understand the nature of strategy and improve your strategic skills.

### The development of strategic thought: a brief history

#### Strategy as the task of the top manager

The history of strategy can be traced to the military in ancient times. Sun Tzu’s *The Art of War* dates back to 500 BC, while stories from Greek and Roman military campaigns demonstrate the importance of strategy. However, as an academic discipline, the first books in
the field are considered to be the Learned, Christensen, Andrews and Guth book developed for teaching business policy at the Harvard Business School\(^5\) and Ansoff’s book on corporate planning,\(^6\) both published in 1965. The essence of the model in both books was to match the internal resources and capabilities of the organisation (referred to then as the organisation’s strengths and weaknesses) with the demands of the environment (referred to then as its opportunities and threats). Crafting the resulting organisational strategy was seen as the province of the chief executive officer. The CEO had to evaluate the organisation’s position, decide which strategy to choose and arrange for implementation of that strategy (see Figure 1.1).

![Figure 1.1: Strategy as the task of the top manager](image)

This model, along with the continuing work of the staff at the Harvard Business School where the model originated, has remained enormously influential in the field. Described as complex by its originators, it is viewed by others as a simple model because:

- it is linear, with implementation following strategic analysis
- it presumes that all strategic information is available to the top management, originally perceived to be only the CEO
- it presumes that the enormously complex environment that exists outside the organisation can be satisfactorily analysed and summarised
- it presumes that the future is closely related to the past, so that analysis of past performance is a useful guide to future action.

This model was appropriate for developing strategy in a generally favourable post-World War II environment, where satisfying demand was a major theme for most organisations. It led to the development of long-range planning, which was based on the extrapolation of existing or known trends. The position of corporate planner was created and planning departments came into existence in organisations at this time to assist the CEO with the detailed tasks of strategic planning.

**Development of corporate strategy and associated techniques**

In the late 1960s, many industries in the United States underwent a conglomerate diversification merger and acquisition wave. As a result, many multi-business corporations emerged as they sought growth within other industries to avoid anti-trust laws, which discouraged high market shares in any particular industry. However, the techniques of strategy at this time were largely designed for business strategic analysis and it was unclear what techniques or processes a multi-business corporation could use to determine its multi-business, or corporate, strategy. As a result, in the period of the late 1960s and early 1970s, consulting firms developed business portfolio techniques for multi-business corporations. For instance, the Boston Consulting Group (BCG) developed a 2 × 2 market growth/relative market share matrix, which categorised businesses as dogs, question marks, stars or cash cows, depending on the analysis of their relative positions. From this analysis, corporations tried to balance their portfolio mix of businesses.

BCG also developed the concept of the experience curve, which showed that unit costs in some industries declined with accumulated volume of production because of productivity improvements occurring due to cumulative production experience. This encouraged corporations to go for size to develop economies of scale. The Profit Impact of Market Strategy (PIMS) industry analysis, which related profitability of a firm within an industry to market share and other operating variables, was also developed. Profitability was found to be related to market share, which also encouraged corporations to seek size growth. Notably, each of these concepts was developed by large-scale empirical data analysis, rather than having any underlying theoretical base from which scientific hypotheses could be developed and tested.

**Focusing on industry and competitive analysis**

In 1980, building on his industrial organisation economics background, Porter produced a book which changed the focus of strategic analysis. The industrial organisation field of economics deals with the structure of markets, the conduct of firms in those markets and the industry performance that results. This structure–conduct–performance model of economics assumes that firms largely replicate each other and that industry performance depends on
the structure of the market. In this model, firms are seen as little more than ‘black boxes’ following paths determined by market structures.

Porter turned this deterministic economic model on its head and concluded that managers within firms could use a variety of tools to make unique decisions that would influence conduct within the industry and even influence the structure of the industry. Firms could position themselves within an industry by offering products or services that gave them a sustainable competitive advantage, which would enable them to achieve superior performance to that of competitors.

The persistence of differing profit levels by firms within an industry had long worried economists, who dismissed it as a short-term phenomenon. Porter’s work suggested that it could be a long-term phenomenon. The ‘five forces’ model of industry analysis that he developed (see Chapter 3) focused managers on analysing their industries, but used a range of standard microeconomic tools to isolate ways for firms to achieve a sustainable competitive advantage.

In 1985, Porter produced another book which focused more on the specifics of how to compete within an industry. He suggested that there were only three generic strategies—low delivered cost, differentiation and focus—available for achieving sustainable competitive advantage.11 Organisations needed to adopt one of these three strategies to outperform competitors. This concept was equally influential in the field and remains so today.

In 1990, Porter completed a third book, this time focusing on how countries could develop appropriate structures so that whole industries made up of clusters of competing but cooperating firms, and not just isolated large ‘national champion’ firms, could be internationally competitive.12 Based on extensive empirical analysis of internationally competitive industries in a variety of countries, this book moved the previously domestically focused industry analysis to the issue of how internationally competitive firms and industries were developed, an issue which has become more and more important over the last 25 years as trade barriers between countries and regions have been progressively reduced.

Another focus from this work was on how networks or clusters of firms in the same industry, supported by government policy setting, cooperated and competed to develop international competitive advantages for the whole industry. This led to the development of a strategic focus on the value of networks of organisations and of strategic alliances.

Focusing internally: the resource-based view

In 1990, Prahalad and Hamel’s concept of the ‘core competence’ of an organisation, coupled with work by Wernerfelt and Barney, developed the concept that strategy could be developed from within, by leveraging the resources of the organisation.13, 14 Unlike traditional economics, the assumptions of what became known as the resource-based view of the firm were that firms in an industry were heterogeneous and unique in their makeup due to the specific set of resources available to each firm. Resources, including tangible and intangible assets and know-how, could, if well managed, be ‘bundled together’ to form a unique and defensible portfolio of capabilities that would sustain competitive advantage over time.

Since resources were not perfectly mobile between organisations due to asset specificity, stickiness, transaction costs, sunk costs and information asymmetry, sustainable competitive advantage based on this heterogeneity could well remain for long periods without being eroded by the competition.
Extending to dynamic processes and capabilities: learning and knowledge

Both the industry analysis and the resource-based views have been criticised as providing only a static analysis of the current position of organisations. They do not explicitly address the issues of (externally) how competition will develop in the future and (internally) how current resources have been developed and how necessary future resources will be developed.

In 1990, Senge developed the concept of the learning organisation, based on systems theory. He argued that organisations should not simply react to observed problems, but should understand the systemic cause(s) of the problem and address those causes. For instance, poor quality could be ‘solved’ by introducing quality inspectors. However, a better solution would be to find/learn what caused the poor quality (e.g. substandard machinery, untrained workers, poor-quality raw materials) and fix that, rather than introduce extra processes and extra costs, such as checking procedures.

Senge’s work, together with the focus on the total quality management (TQM) movement at the time, led many organisations to focus on processes and the role of learning within the organisation as a cause of strategic success. In 1997, after studying organisations that had survived for centuries, de Geus argued that the main reason most organisations did not survive for very long (12.5 years on average) was that they had a ‘learning disability’ and were unable to adapt or evolve.

In the late 1990s, the concept of dynamic capabilities was developed to investigate how firm capabilities could emerge over time. Eisenhardt and Martin noted that capabilities needed to be developed dynamically over time through careful processes of accumulation or investment and unlearning or divestment.

A knowledge-based view of strategy was also developed, focusing on the organisational knowledge of the organisation (in the form of operational know-how, organisational culture, routines, documents, etc.) as an important organisational resource. This approach emphasised knowledge as a special, unique and complex capability that could create competitive advantage by itself.

External focus revisited

In 1994, Hamel and Prahalad, reacting against the operationally-oriented focus of TQM and benchmarking, argued that, while improving operational efficiency, this would not lead to any sustainable competitive advantage. They argued that organisations should be concerned with stretching themselves for the future of their industry, rather than having others create the future for them.

This approach stressed the important roles of innovation and growth for those organisations that wanted to survive in an increasingly uncertain and fast-changing world. Innovation was necessary to stay ahead of competitors, even if a competitive advantage had been obtained. Growth was necessary, simply to hold one’s position. Failure to grow would mean that the organisation would actually decline or slip back relative to competitors.

Also focusing on the external drivers of strategy, some authors argued that the rate of change was resulting in more intense competition and the loss of any long-term sustainable competitive advantage, the assumed Holy Grail of strategy. In 1994 D’Aveni, applying
game theory to competitive interactions, called this ‘hypercompetition’. He argued that
disequilibrium was the norm, not equilibrium. As a result, he argued that organisations
needed to be flexible, to be continuously changing and to find new bases of competition,
rather than seek stability. D’Aveni also argued that organisations needed to think ahead
of their competitors and understand their likely reactions when developing their own
strategy.20

Consistent with this, in 1998 Brown and Eisenhardt applied the theory of complex
adaptive systems processes—or complexity theory—to strategy. They argued that strategy
was about the ability of the organisation to change in order to meet unpredictable, uncontr-
trollable and diverse situations in an unknowable future. To do this, the organisation
needed to focus on experimentation and flexibility, not on planning or commitment for the
long term.21

A new level of analysis: cooperative strategy

In contrast to the prescriptions of hypercompetition and complexity theory, at the same
time theories of cooperative strategy emerged. Strategy was seen to be about cooperating groups
of firms, strategic alliances, or networks competing with other groups or networks, rather
than about individual firms competing with each other.

Also using game theory, Nalebuff and Brandenburger argued that competitors cooper-
ated with each other as well as competing, terming this ‘coopetition’. They argued that
value could also be created by seeking complementor organisations in related industries to
expand the total value offered to end customers by avoiding win/lose competitive approaches
to strategy by individual organisations.22 The recognition of the emergence of strategic alli-
ances between competitors, suppliers, customers and others represented a new way of
thinking about strategy.23

Widening the organisation’s responsibilities: stakeholder interests;
sustainability/corporate responsibility

Table 1.1 overleaf summarises the main developments in the field of strategy since 1965. By
the 2000s the simple picture of the late 1980s had become very complex. Several different
approaches to strategy had been developed, with limited integration between them. Basic
assumptions such as the organisation as the unit of analysis, the assumption of competition
as normal and the importance of sustainable competitive advantage were all being
questioned.

A key issue emerging at this time was whether the organisation should be run for the
benefit of shareholders or for a wider group of stakeholders.24 Shareholder value had been
the dominant theme in strategy. Shareholder value proponents argued that, as shareholders
provided the risk capital for equity-based organisations, and elected the board of directors,
which then chose the top management team, such firms should be run for shareholders.
However, the rise in power of large multinationals, increases in the rewards for and power
of top management teams, the development of the balanced scorecard performance meas-
urement system by Kaplan and Norton, coupled with the widespread and international
development of community-based or issue-based lobby groups (called ‘non-government
organisations’, or NGOs), such as Greenpeace, World Wildlife Fund, World Vision and Red
Cross (among others), led to the development of stakeholder-based theories of the role of the


**TABLE 1.1 Main developments in strategy**

<table>
<thead>
<tr>
<th>Period</th>
<th>Author</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-1960s</td>
<td>Christensen et al., Ansoff</td>
<td>• Business policy (strategy) exists as a field of study&lt;br&gt;• Corporate planning is valuable</td>
</tr>
<tr>
<td>Late 1960s</td>
<td>Boston Consulting Group</td>
<td>• Multi-business portfolio planning techniques</td>
</tr>
<tr>
<td>Early 1970s</td>
<td>Boston Consulting Group, PIMS</td>
<td>• Experience curve&lt;br&gt;• Business profitability relationships</td>
</tr>
<tr>
<td>1980s</td>
<td>Porter</td>
<td>• Five forces industry analysis&lt;br&gt;• Generic strategies&lt;br&gt;• National competitiveness&lt;br&gt;• Clusters, networks</td>
</tr>
<tr>
<td>Early 1990s</td>
<td>Wernerfelt and Barney, Hamel and Prahalad,</td>
<td>• Resource-based view&lt;br&gt;• Core competence&lt;br&gt;• Learning organisation</td>
</tr>
<tr>
<td></td>
<td>Senge</td>
<td></td>
</tr>
<tr>
<td>Late 1990s</td>
<td>Hamel and Prahalad, D’Aveni, Nalebuff and</td>
<td>• Strategies as stretch for the changing future&lt;br&gt;• Hypercompetition&lt;br&gt;• Coopetition&lt;br&gt;• Complex, adaptive systems and strategy&lt;br&gt;• Knowledge-based management&lt;br&gt;• Dynamic capabilities&lt;br&gt;• Balanced scorecard; strategy maps</td>
</tr>
<tr>
<td></td>
<td>Brandenburger, Brown and Eisenhardt,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nonaka and Takeuchi, Eisenhardt and Martin,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kaplan and Norton</td>
<td></td>
</tr>
<tr>
<td>2000s</td>
<td>Various, Kim and Mauborgne, Christensen,</td>
<td>• Sustainability&lt;br&gt;• Blue ocean strategy&lt;br&gt;• Innovation’s role in strategy&lt;br&gt;• Organisational networks, complex and responsive supply chains, knowledge sharing between firms</td>
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<td>Tiwana</td>
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In addition, Hart argued that 'natural capital' (the ecological environment) ought to be considered in organisational decision making, not just financial capital. These theories argue that organisations have a responsibility to be socially responsible and to promote the best interests of all of their stakeholders, which includes other parties with an interest in the firm and its operations, not just shareholders (e.g. local communities, employees and the natural environment).

This movement reached its height in the late 2000s, in the run-up to the UN Copenhagen Climate Change Conference 2009, which aimed to set binding global and national carbon emission limits. Strategy @ Work 1.2 summarises this external pressure, which came not so much from academic theorists as from the stakeholders themselves.

Strategy @ Work 1.3 (on page 14) indicates some current leading-edge examples of practices designed to achieve environmental sustainability for organisations. We think these types of practices will be ‘normal’ for organisations in the near term and hence strategists need to consider them in determining how their organisation’s operations will fit with these new stakeholder-driven demands.
Also, there is an emerging focus on organisational networks, both in an operational sense (managing complex supply chains, for example) and in the sense of organisations swapping knowledge and competencies. This, in part, has been driven by complexifying technology (compare, for example, the electronics in a car built in 1980 to that built into a car today) and changing patterns of world trade. Rarely now can one company ‘do it all’ in terms of delivering leading-edge products and services to customers.

In summary, the principles and concepts of strategy, once the exclusive preserve of the CEO, are now being applied to units and functions within a business. Managers at all levels are expected to have strategic skills and to be able to think strategically, as part of their position, rather than having to rely on strategic specialists or strategy departments. Businesses consider...
it important that everyone in the organisation understand their strategy, in contrast with earlier times when strategy was considered something to be kept confidential. ‘Strategy’ is pervasive throughout the organisation, and rapid environmental and industry change is making strategic thinking, analysis and action ever more important for organisational survival.

**Current theories of strategy**

The section above has shown how strategic concepts have grown and developed over time. Many theoretical lenses have been brought to bear on the development of strategy. Each of these lenses provides different insights and different perspectives. While there is no current agreement on an overall theory or framework of strategy, in this section we briefly examine the major theoretical approaches that are currently used.

Most of the theoretical work has come from one of two discipline sources: economics or organisational psychology (which embraces in part organisational theory and organisational behaviour). Table 1.2 lists the major theoretical approaches and the focus of their attention within the organisation.

We briefly explain these theories and then show how each theory might lead to a different perspective—and consequently different proposed solutions—by applying them to a simplified common hypothetical strategic issue. The hypothetical strategic issue we use is a very simple and general issue, which is outlined below.

**COMMON HYPOTHETICAL STRATEGIC ISSUE**

The organisation has been underperforming. Its environment is changing so that its current strategy is no longer consistent with the needs of the environment. Some of its resources and capabilities are inappropriate and insufficient to sustain its existing competitive advantage. The management team disagrees about the situation, and morale is low. Where should the organisation begin to address its underperformance?
In this chapter we introduced the concept of strategy. We provided our definition of strategy. We outlined the development of strategic concepts and thought, indicating the growth in complexity. We briefly summarised the wide variety of current theories that are used to assess and develop concepts and approaches to strategy. We outlined the three levels of strategy which, together with the wide variety of theoretical and practical approaches to the field, account for the often confusing use of the term ‘strategy’ in business conversation.

We noted that we will concentrate on the business strategy level, as this is the main level at which strategic thinking, analysis and action take place. We outlined the model of business strategy that we will use and described how we cover this model, together with brief explanations of what else is covered in the book, and how it relates to the main model.

Finally, we discussed to what extent strategy development in small economy countries such as Australia, New Zealand, Singapore, Malaysia and most Asian countries may differ from the proposals in mainstream theory and practice, most of which originate in the US.

End of chapter questions

1. What is the difference between strategy and strategic management?
2. What were the contributions of the following to the field?
   a. Harvard Business School
   b. Michael Porter
   c. Hamel and Prahalad
   d. Senge
3. Compare and contrast the different theoretical approaches. To what extent do they agree with each other? To what extent do they conflict with each other?
4. Which theoretical approach to strategy has most appeal to you? Why?
5. Find and discuss examples of organisations exhibiting behaviour that fits with each of the theories.
6. What similarities and differences exist between business in your country and business in the US?
7. What other differences between your country and the US exist, apart from the factors mentioned in this chapter? How might this affect the development of business strategy for an organisation in your country compared with a similar US organisation’s business strategy development?
8. How will the concept of sustainability affect the principles of strategy in the future?
9. How will the concept of sustainability affect the practice of strategy in the future?
10. How do economic and organisational psychology theories impact on the views of the same strategic situation?

Endnotes