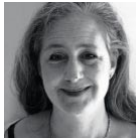


What is strategy?

JANE LEWIS is City editor of *The Week* and contributes to *MoneyWeek*



It's easy to be cynical about business strategies, but they're more than just hot air. Jane Lewis charts their evolution and explains why every business needs one

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trange as it might seem, but there are those who suggest that business strategy didn't even exist before 1963. "Imagine the world of business without corporate strategy," writes Walter Kiechel, former editorial director of *Harvard Business Review*, in *Lords of Strategy* (2010). "Remarkably, 50 years ago, that's the way it was. Yes, businesses made plans, but without understanding the underlying dynamics of competition, costs and customers. It was like trying to design a large-scale engineering project without knowing the laws of physics."

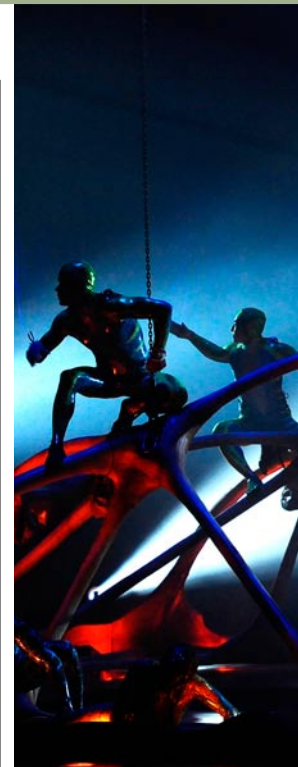
In 1963, Kiechel argues, the mould was broken when Bruce Henderson founded the Boston Consulting Group, cementing a more scientific approach to strategy and, with it, the modern multi-billion-dollar consulting industry.

Of course, that wasn't really the start. The concept of strategy is as ancient as civilisation. The word itself derives from the Greek word for general – and whether you're fighting wars in Sparta or opening a chippie in Totnes, some basic truths apply.

"At its simplest, any strategy is about crystallising a view of who we want to be, where we want to be and what steps we need to take to get there," says Dominic Houlder, adjunct professor in strategy and international management at London Business School. "These are fairly eternal principles." Hence the continuing relevance of works by such formidable strategists as the ancient Chinese general Sun Tzu, the Renaissance Florentine Niccolò Machiavelli and the 19th-century Prussian military mastermind Carl von Clausewitz.

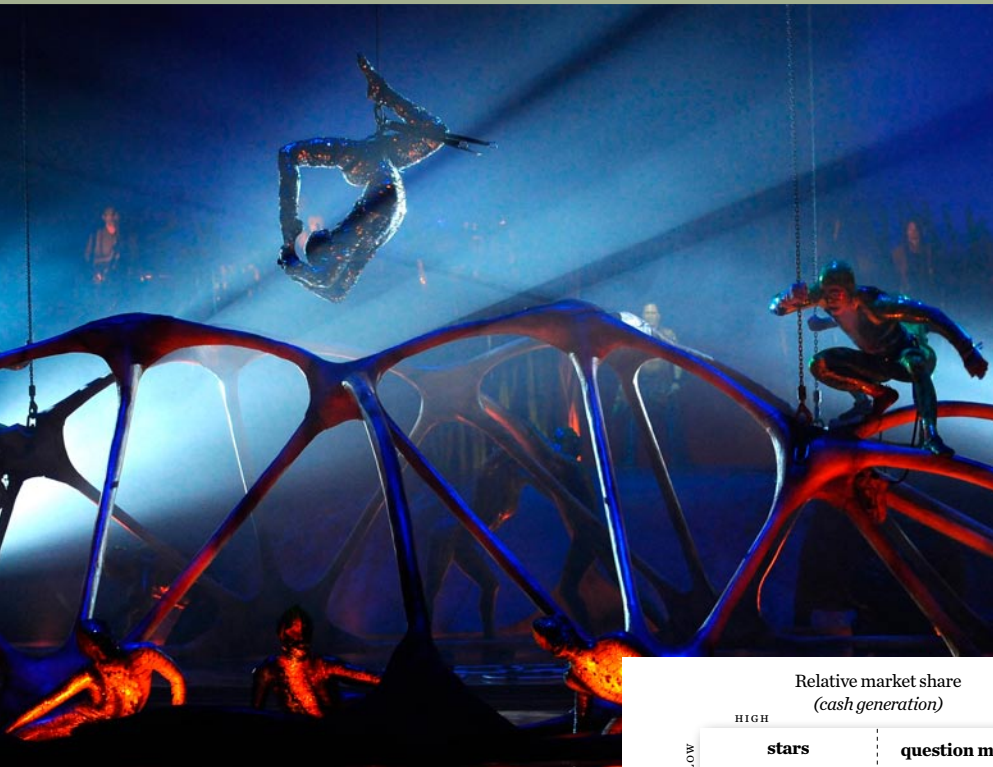
A business without strategy is rudderless. But definitions of what should constitute strategy – or, indeed, how it should be defined – have differed widely down the years, becoming the subject of protracted (and often entertainingly catty) spats between academics.

Clearly, the larger the organisation, the more complicated things get. The first



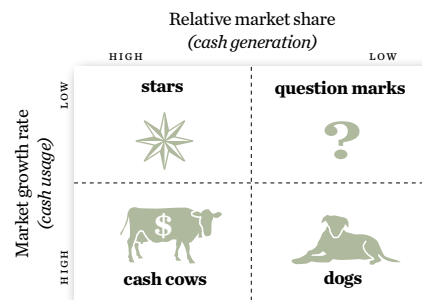
'Blue ocean' thinking: Rather than trying to outperform traditional rivals, Cirque du Soleil has redefined the concept of a circus, thus gaining a new market space all to themselves

“**Strategy is about crystallising who we want to be, where we want to be and what steps we need to take**”
– Dominic Houlder,
London Business School



CEO to address the problem of a multi-divisional company was Alfred Sloan at General Motors, who, in the 1930s and 1940s, decentralised GM into semi-autonomous strategic business units (SBUs) with centralised support functions. That opened a new can of worms about how the relationship between the corporate parent and its units should operate. “A large corporation will probably have dozens of strategies being pursued within it, many of which it knows nothing about,” observes Stephen Bungay, a director of strategic management at Ashridge Business School. But unless you can unite these separate agendas into one overarching strategy, you risk creating silos.

The ideal corporate strategy should create a framework that’s strong enough to provide cohesion and a sense of direction, but flexible enough to accommodate changes in tactics as new circumstances arise. As Michael Porter, professor of strategy at Harvard Business School, argues, it’s about charting a clear course for your company, with the CEO playing the role of commander-in-chief: “The ability to change constantly and effectively is made easier by high-level continuity.”



BCG MATRIX

For decades, the key strategic driver for companies was “creating a competitive position based on market share,” says Bungay. Hence the storming success of the BCG Matrix: Boston Consulting Group’s tool for managing a ‘portfolio’ of business units and product lines to optimum effect (see box above). This ‘positioning’ school probably reached its apogee in 1980 with the publication of *Competitive Strategy* – Porter’s landmark book, which cited five key competitive ‘forces’ that would determine the ability of a product or service to achieve a strong competitive position. The worst position to be in, Porter concluded, is “stuck in the middle”, without clear price leadership, a clearly differentiated product or a distinct focus. “A strategy delineates a territory in which a company seeks to be unique,” he wrote. Successive waves of thinkers have

KNOW YOUR STRATEGY

ANSOFF MATRIX

Created in 1957, this is an aid to deciding product and market growth strategy. It offers four growth strategies, combining present and new markets and products, and suggests tactics for achieving them. Particularly useful for quantifying risk.

BCG MATRIX

Sweeping the board in the 1970s, BCG remains the starting point for plotting strategy for a portfolio of business units or product lines in an approachable way. The four categories of units (cash cows, stars, question marks and dogs) are wonderfully self-explanatory.

BALANCED SCORE CARD

Developed in the early 1990s, this seeks to align business activities to strategy by deploying a wide range of measures: financial metrics, marketing, production, organisational and new product development. Still a brilliantly forensic tool for knowing your organisation.

CORE COMPETENCIES

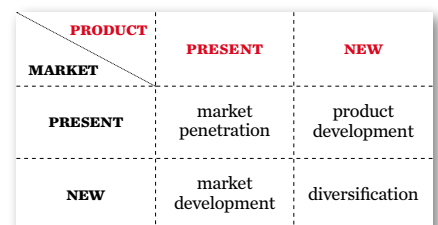
This challenge to the classic emphasis on market positioning argues that it’s far better in a fast-moving business world to develop unique capabilities in-house that could be deployed across different markets and products. Strategy should be active and interactive.

BLUE OCEAN

An analogy to describe the potential of unexplored market space, drawing heavily on theories about the power of ‘disruptive’ technologies and products to alter the status quo. Rather than trying to outperform rivals in established markets (‘red oceans’), companies should create new kinds of demand.

SHAREHOLDER VALUE

This aligns a company’s strategy to activities that do most to boost the share price. In theory, an excellent idea. In practice, it often leads to short-termism and overly risky tactics.



ANSOFF MATRIX

BUILDING TOMORROW
Please speak to your relationship director to see how RBS can support your strategic objectives

challenged this emphasis on market positioning. In the 1990s, CK Prahalad and Gary Hamel argued that companies should pay more attention to what was happening internally: what mattered was developing superior capabilities (“core competences”) within your company, which could then be deployed across different sectors – Sony’s expertise in miniaturising, for instance.

More recently, W Chan Kim and Renée Mauborgne of Insead have argued that, rather than focusing on established markets – ‘red oceans’ where sharks compete mercilessly for action – companies should seek out ‘blue oceans’: new market spaces where you redefine the terms of competition and therefore have the water to yourself. The classic examples they cite are Cirque du Soleil, which redefined the concept of a circus, and Apple’s highly disruptive iPod and iTunes.

All strategies, however brilliant, have a limited shelf-life. In the long run, they’re invariably overtaken or made redundant by changes in broader business and economic cycles. Indeed, the most pressing dilemma facing any corporate strategist is judging when to change tactics and when a complete overhaul of the underlying strategy is required.

Dominic Houlder at London Business School reckons we’re experiencing one of those tectonic plate shifts right now. He explains, “From the late 1980s onwards, companies operated in what some economists call ‘The Great Moderation’: a period of relative economic and

geopolitical stability that saw fast-paced expansion via a supply side revolution and rapid globalisation.

“That led to more gung-ho strategising, with the focus on execution. ‘Just do it’ became the prevailing motto. That period of relative certainty has come to

“**Strategy is about matching the capabilities you have – or can build – with your opportunities”**

– Stephen Bungay
Ashridge Business School

an end and risk has returned.”

Hence the current emphasis on building a ‘risk intelligent’ culture, with risk analysis embedded within the wider strategy.

The danger with any new swing in direction is that it becomes a fad. That can lead to

companies developing a tick-box mentality, says Houlder. While it’s widely agreed that “there’s always some underlying truth” behind a hot new strategic movement, there’s also a danger of the pendulum swinging too far, or of companies taking their eye off the ball. Stephen Bungay cites the 1980s-1990s preoccupation with Business Process Re-engineering (BPR) – “when the West rediscovered what the Japanese had been saying about efficiency for decades” – as a classic distraction of this type. “BPR was necessary, but it wasn’t sufficient for having a good business,” he points out.

“Companies do act like lemmings to some extent,” says James Henderson, professor of strategy at the Swiss-based IMD business school – a tendency particularly pronounced in listed companies who sometimes find their share prices at the mercy of the latest preoccupation of analysts. Moreover, as Bungay points out, such faddery is fanned by the management industry itself.

The hard truth is that when it comes to devising or reviewing strategy for your business – as well as engaging and harnessing the energy of those who implement it – there are no shortcuts. Bungay concludes, “Strategy is about matching the capabilities you have, or can build, with your opportunities.” It’s never an easy process, so be prepared to make difficult choices – and, as Bungay advises, “be hard-headed about it”. ■

Seek to be unique: Michael Porter, professor of business strategy at Harvard Business School, speaks at the 2010 HSM World Innovation Forum in New York



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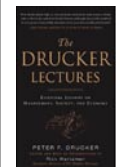
Strategic reading



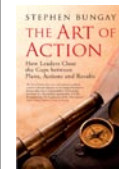
Competitive Strategy
Michael E Porter
Deals with strategy at a high level. The analytical tools Porter develops are useful for trying to bring a product or service to market.



Must-Win Battles
Peter Killing and Tom Malnight
How to identify the challenges most likely to make or break a business, and to mobilise resources in turn.



The Drucker Lectures: Essential Lessons on Management, Society and Economy
Peter F Drucker
All his books are vital but this essay collection is a great start. You’ll emerge wiser on many levels.



The Art of Action
Stephen Bungay
Uses military history, business reading and his time as a CEO to present a pragmatic and very readable guide to strategy.