1

INTRODUCING STRATEGY

Learning outcomes

After reading this chapter you should be able to:

● Explain what 'strategy' is about.

● Summarise the strategy of an organisation in a '*strategy statement*'.

● Identify key issues for an organisation's strategy according to the *Exploring Strategy* model.

● Distinguish between *corporate*, *business* and *operational* strategies.

Key terms

Business-level strategy p. 6

Corporate-level strategy p. 6

Exploring Strategy Model p. 9

Managing strategy in action p. 13

Operational strategies p. 7

Strategic choices p. 12

Strategic position p. 11

Strategy p. 2

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Three horizons framework p. 3

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(1.1) INTRODUCTION

S trategy is about key issues for the long-term future of organisations. For example, how should Google – originally a search company – manage its expansion into the mobile phone industry? Should universities concentrate their resources on research excellence or teaching quality or try to combine both? How should a small video games producer relate to dominant console providers such as Nintendo and Sony? What should a rock band do to secure revenues in the face of declining CD sales?

All these are strategy questions. Naturally, they concern entrepreneurs and senior managers at the top of their organisations. But these questions matter more widely. Middle managers also have to understand the strategic direction of their organisations, both to know how to get top management support for their initiatives and to explain their organisation's strategy 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 as a strategy consultant or as an in-house strategic planner, often key roles for fast-track young managers.

This book takes a broad approach to strategy, looking at both the economics of strategy and the people side of managing strategy in practice. The book is also relevant to any kind of organisation responsible for its own direction into the future. Thus the book refers to large private-sector multinationals and small entrepreneurial start-ups; to public-sector organisations such as schools and hospitals; and to not-for-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.

(1.2) WHAT IS STRATEGY?[1]

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KEY CONCEPT
Strategy

In this book, **strategy is the long-term direction of an organisation**. Thus the long-term direction of Nokia is from mobile phones to mobile computing. The long-term direction of Disney is from cartoons to diversified entertainment. This section examines the practical implication of this definition of strategy; distinguishes between different levels of strategy; and explains how to summarise an organisation's strategy in a 'strategy statement'.

1.2.1 Defining strategy

Defining strategy as the long-term direction of an organisation implies a more comprehensive view than some influential definitions. Figure 1.1 shows the strategy definitions of three leading strategy theorists: Alfred Chandler and Michael Porter, both from the Harvard Business School, and Henry Mintzberg, from McGill University, Canada. Each points to important but distinct elements of strategy. Chandler emphasises a logical flow from the determination of goals and objectives to the allocation of resources. Porter focuses on deliberate choices, difference and competition. On the other hand, Mintzberg uses the word 'pattern' to allow for the fact that strategies do not always follow a deliberately chosen and logical plan, but can emerge in more

Figure 1.1 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 resource necessary for carrying out these goals'

Alfred D. Chandler

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

Michael Porter

'a pattern in a stream of decisions'

Henry Mintzberg

'the long-term direction of an organisation'

Exploring Strategy

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*, 1966, November–December, p. 60; H. Mintzberg, *Tracking Strategy: Toward a General Theory*, Oxford University Press, 2007, p. 3.

ad hoc ways. Sometimes strategies reflect a series of incremental decisions that only cohere into a recognisable pattern – or 'strategy' – after some time.

All of these strategy definitions incorporate important elements of strategy. However, this book's definition of strategy as 'the long-term direction of an organisation' has two advantages. First, the long-term direction of an organisation can include both deliberate, logical strategy and more incremental, emergent patterns of strategy. Second, long-term direction can include both strategies that emphasise difference and competition, and strategies that recognise the roles of cooperation and even imitation.

The three elements of this strategy definition – the long term, direction and organisation – can each be explored further. The strategy of News Corporation,* owner of social networking company MySpace, illustrates important points (see Illustration 1.1):

● *The long term*. Strategies are typically measured over years, for some organisations a decade or more. The importance of a long-term perspective on strategy is emphasised by the 'three horizons' framework in Figure 1.2. **The three horizons framework suggests that every organisation should think of itself as comprising three types of business or activity, defined by their 'horizons' in terms of years**. *Horizon 1* businesses are basically the current core activities. In the case of News Corporation, Horizon 1 businesses include the original print newspapers. Horizon 1 businesses need defending and extending, but the expectation is

* The enquiries into News Corporation's involvement in telephone 'hacking' and its associated govern-ance implications were just under way as this edition of the book was going to press.

ILLUSTRATION 1.1

MySpace becomes part of a bigger network

Social networking site MySpace presents opportunities and challenges for the global media conglomerate News Corporation.

The social networking site MySpace was founded in California in 2003 by MBA graduate Chris DeWolfe and rock musician Tom Anderson. From the first, the networking site was strong on music, and helped launch the careers of the Arctic Monkeys and Lily Allen. By 2005, it had 22 million members, with more page views than Google. That was the point when the multinational media conglomerate News Corporation bought it for $580m (€406m).

News Corporation started in Australia in the newspaper business, acquiring the *Times* newspaper group in the United Kingdom and the *Wall Street Journal* in the United States. It also diversified into television (for example Fox News and BSkyB) and film, including 20th Century Fox, responsible for the hit film *Avatar*. Its chairman is Rupert Murdoch, whose family owns a controlling interest: Rupert Murdoch's son James is expected to succeed him at the top.

In 2005, with media audiences increasingly moving to the internet, Rupert Murdoch declared his ambition to create 'a leading and profitable internet presence'. The acquisition of MySpace seemed a good fit. Chris DeWolfe and Tom Anderson were retained at the head of MySpace, but within a new division providing oversight for all News Corporation's internet interests. Ross Levinsohn, long-time News Corporation insider and head of the new division, told the *Financial Times*: 'The MySpace guys were really freaked out that we were going to come in and turn it into Fox News. One of the things we said was: "We're going to leave it alone"'.

Some adjustments had to be made. Tom Anderson told *Fortune* magazine: 'Before, I could do whatever I wanted. Now it takes more time to get people to agree on things. All the budget reviews and processes. That can be a pain. But it's not stopping us.' News Corporation was able to fund a more robust technology platform to cope with the thousands of new users MySpace was getting each day. In 2006, MySpace signed a three-year advertising contract with Google worth $900m, which paid for the original acquisition with money left over. Executives summed up MySpace's distinctive positioning by saying: 'Your mom uses Facebook'.

But business then got tougher. Facebook overtook MySpace in terms of unique visitors in 2008. News Corporation executives complained about the excessive new initiatives at MySpace and the failure to prioritise: DeWolfe and Anderson were even considering launching their own film studio. Then Rupert Murdoch announced a target of $1bn in advertising revenues for 2008, without consulting DeWolfe. MySpace missed the target by about 10 per cent. The push from News Corporation to increase advertisements on MySpace, and a reluctance to remove pages with advertising from the site, began to make MySpace increasingly less attractive for users.

During 2009, MySpace's share of the social networking market fell to 30 per cent, from a peak of 66 per cent. The company missed the online traffic targets set by the Google contract. Losses were expected to be around $100m. In March, Chris DeWolfe was removed as Chief Executive of MySpace. The new Chief Executive was Alan Van Natta, from Facebook. Van Natta told the *Financial Times* that MySpace was no longer competing with Facebook: 'we're very focused on a different space . . . MySpace can foster discovery [of music, films and TV] in a way that others can't'.

Sources: M. Garnham, 'The rise and fall of MySpace', *Financial Times*, 4 December 2009; P. Sellers, 'MySpace Cowboys', *Fortune*, 29 August 2006; S. Rosenbusch, 'News Corp's Place in MySpace', *Business Week*, 19 July 2005.

Questions

1 How valuable is MySpace's distinctive position in the social networking market?

2 How should News Corporation have managed MySpace?

Figure 1.2 Three horizons for strategy
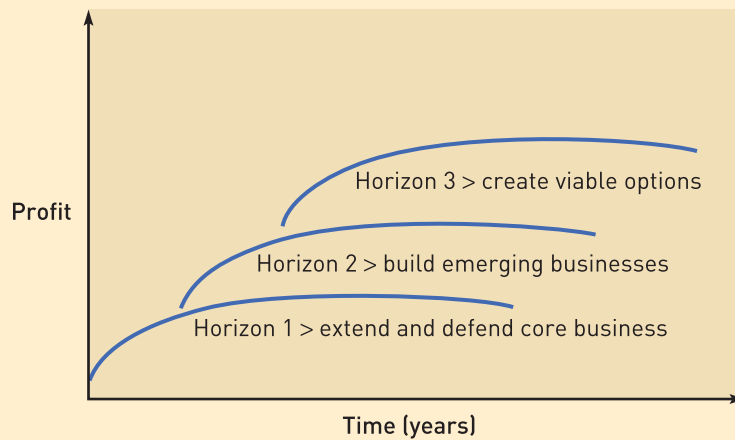
Note:
'profit' on the vertical axis can be replaced by non-profit objectives;
'business' can refer to any set of activities;
'time' can refer to a varying number of years.
Source: M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, 2000, Texere Publishers: Figure 1.1, p. 5.

that in the long term they will likely be flat or declining in terms of profits (or whatever else the organisation values). *Horizon 2* businesses are emerging activities that should provide new sources of profit. In News Corporation, those include the various internet initiatives, principally MySpace. Finally, there are *Horizon 3* possibilities, for which nothing is sure. These are typically risky Research & Development (R&B) projects, start-up ventures, test-market pilots or similar, some of which may fuel growth in the future even if most are likely to fail. For a fast-moving internet organisation like MySpace, *Horizon 3* might only be a couple of years from the present time. In a pharmaceutical company, where the R&D and regulatory processes for a new drug take many years, *Horizon 3* might be a decade ahead. While times-cales might differ, the basic point about the 'three horizons' framework is that managers need to avoid focusing on the short-term issues of their existing activities. Strategy involves pushing out Horizon 1 as far as possible, at the same time as looking to Horizons 2 and 3.

● *Strategic direction*. Over the years, strategies follow some kind of long-term direction or trajectory. The strategic direction of News Corporation is from print to internet media, as represented by MySpace. 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. Thus Rupert Murdoch's acquisition of MySpace was driven by the objective to create a leading and profitable presence on the internet. 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 controlling families (such as perhaps News Corporation's Murdoch family) may sometimes sacrifice the maximisation of profits for family objectives, for example passing down the management of the business to the next generation or exercising influence over political affairs and public opinion. The objectives behind strategic direction always need close scrutiny.

● *Organisation*. In this book, organisations are not treated as discrete, unified entities. Organisations involve complex relationships, both internally and externally. This is because organisations typically have many internal and external *stakeholders*, in other words people and groups that depend on the organisation and upon which the organisation itself depends. Internally, organisations are filled with people, typically with diverse, competing and more or less reasonable views of what should be done. At MySpace, the News Corporation executives clashed over strategic direction with MySpace founder Chris DeWolfe. 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 shareholders. For MySpace, the relationship with Google was critical. Strategy, therefore, is also crucially concerned with an organisation's external *boundaries*: in other words, questions about what to include within the organisation and how to manage important relationships with what is kept outside.

Because strategy typically involves managing people, relationships and resources, the subject is sometimes called 'strategic management'. This book takes the view that managing is always important in strategy. Good strategy involves understanding the managerial context and consequences of strategy, not just the strategic decisions themselves.

1.2.2 Levels of strategy

Inside an organisation, strategies can exist at three main levels. Again they can be illustrated by reference to MySpace and News Corporation (Illustration 1.1):

● **Corporate-level strategy is concerned with the overall scope of an organisation and how value is added to the constituent businesses of the organisational whole**. Corporate-level strategy issues include geographical scope, diversity of products or services, acquisitions of new businesses, and how resources are allocated between the different elements of the organisation. For News Corporation, diversifying from print journalism into television and social networking are corporate-level strategies. Being clear about corporate-level strategy is important: determining the range of businesses to include is the *basis* of other strategic decisions.

● **Business-level strategy is about how the individual businesses should compete in their particular markets** (for this reason, business-level strategy is often called 'competitive strategy'). These individual businesses might be stand-alone businesses, for instance entrepreneurial start-ups, or 'business units' within a larger corporation (as MySpace and Fox are inside

News Corporation). Business-level strategy typically concerns issues such as innovation, appropriate scale and response to competitors' moves. In the public sector, the equivalent of business-level strategy is decisions about how units (such as individual hospitals or schools) should provide best-value services. Where the businesses are units within a larger organisation, business-level strategies should clearly fit with corporate-level strategy.

- **Operational strategies are concerned with how the components of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people**. For example, MySpace engineers had to keep developing enough processing capacity to cope with the strategy of rapid growth. In most businesses, successful business strategies depend to a large extent on decisions that are taken, or activities that occur, at the operational level. Operational decisions need, therefore, to be closely linked to business-level strategy. They are vital to successful strategy implementation.

This need to link the corporate, business and operational levels underlines the importance of *integration* in strategy. Each level needs to be aligned with the others.

1.2.3 Strategy statements

David Collis and Michael Rukstad[2] at the Harvard Business School argue that all entrepreneurs and managers should be able to summarise their organisation's strategy with a 'strategy statement'. **Strategy statements should have three main themes: the fundamental *goals* that the organisation seeks, which typically draw on the organisation's stated mission, vision and objectives; the *scope* or domain of the organisation's activities; and the particular *advantages* or capabilities it has to deliver all of these**. These various contributing elements of a strategy statement are explained as follows, with examples in Illustration 1.2:

- *Mission*. This relates to goals, and refers to the overriding purpose of the organisation. It is sometimes described in terms of the apparently simple but challenging question: '*What business are we in?*' The mission statement helps keep managers focused on what is central to their strategy.

- *Vision*. This too relates to goals, and refers to the desired future state of the organisation. It is an aspiration which can help mobilise the energy and passion of organisational members. The vision statement, therefore, should answer the question: '*What do we want to achieve?*'

- *Objectives*. These are more precise and, ideally, quantifiable statements of the organisation's goals over some period of time. Objectives might refer to profitability or market share targets for a private company, or to examination results in a school. Objectives introduce discipline to strategy. The question here is: '*What do we have to achieve in the coming period?*'

- *Scope*. An organisation's scope or domain refers to three dimensions: customers or clients; geographical location; and extent of internal activities ('vertical integration'). For a university, scope questions are twofold: first, which academic departments to have (a business school, an engineering department and so on); second, which activities to do internally themselves (vertically integrate) and which to externalise to subcontractors (for example, whether to manage campus restaurants in-house or to subcontract them).

ILLUSTRATION 1.2

Strategy statements

Both Nokia, the Finnish telecommunications giant, and University College Cork, based in the West of Ireland, publish a good deal about their strategies.

Nokia vision and strategy

Our vision is a world where everyone can be connected. Our promise is to help people feel close to what is important to them.

The businesses of Nokia

- Compelling consumer solutions with devices and services
- Strong infrastructure business with Siemens Networks

Our competitive advantage is based on scale, brand and services

- Scale-based assets and capabilities
- Leading brand
- Build further competitive advantage by differentiating our offering through services

Our business strategy

- Maximize Nokia's lifetime value to consumer
- Best mobile devices everywhere
  - Take share and drive value across price brands and geographies
  - Enhance and capture market growth in emerging markets
- Context-enriched services
  - Take share of the internet services market by delivering winning solutions
  - Take share of business mobility market

University College Cork (UCC), Strategic Plan 2009–2012

University College Cork (UCC) . . . is sited in Ireland's second city . . . UCC's motto *'Where Finbarr taught let Munster learn'* binds us to the sixth-century monastery and place of learning established by St. Finbarr . . . UCC was established in 1845 as one of three Queen's Colleges . . . The campus today is home to over 18,000 students including 2,000 international students from 93 countries. . . . A third of our staff are from overseas. Our strategic alliances with world-ranking universities in Asia, Europe and North America ensure that we learn from and contribute to the best standards of teaching, learning and research.

Vision

To be a world-class university that links the region to the globe.

Mission

In an environment which gives parity of esteem to teaching, learning and research and where students are our highest priority, the University's central roles are to create, preserve and communicate knowledge and to enhance intellectual, cultural, social and economic life locally, regionally and globally.

Targets by 2012 (selected from 'Teaching, Learning and the Student Experience')

- Achieve a first year retention rate of 93 per cent or greater
- Increase the proportion of students at postgraduate level from 19 per cent to 30 per cent
- Increase flexible/part-time provision to 15 per cent of undergraduate entrants

Sources: www.nokia.com; www.ucc.ie.

Questions

1 Construct short strategy statements covering the goals, scope and advantage of Nokia and University College Cork. How much do the different contexts matter?

2 Construct a strategy statement for your own organisation (university or employer). What implications might this statement have for your particular course or department?

● *Advantage*. This part of a strategy statement describes how the organisation will achieve the objectives it has set for itself in its chosen domain. In competitive environments, this refers to the *competitive* advantage: for example, how a particular company or sports club will achieve goals in the face of competition from other companies or clubs. In order to achieve a particular goal, the organisation needs to be better than others seeking the same goal. In the public sector, advantage might refer simply to the organisation's capability in general. But even public-sector organisations frequently need to show that their capabilities are not only adequate, but superior to other rival departments or perhaps to private-sector contractors.

Collis and Rukstad suggest that strategy statements covering goals, scope and advantage should be no more than 35 words long. Shortness keeps such statements focused on the essentials and makes them easy to remember and communicate. Thus for News Corporation, a strategy statement might be: 'to build a leading and profitable presence in both old and new media, drawing on competitive advantages in terms of the scale, diversity and international range of our businesses'. The strategy statement of American financial advisory firm Edward Jones is more specific: 'to grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to conservative individual investors through a national network of one-financial adviser offices'. Of course, such strategy statements are not always fulfilled. Circumstances may change in unexpected ways. In the meantime, however, they can provide a useful guide both to managers in their decision-making and to employees and others who need to understand the direction in which the organisation is going. The ability to give a clear strategy statement is a good test of managerial competence in an organisation.

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

1.3 THE *EXPLORING STRATEGY* MODEL

This book is structured around a three-part model that encompasses issues of economics and people equally. The **Exploring Strategy Model** includes understanding *the strategic position of an organisation; assessing strategic choices* for the future; and managing *strategy in action*. Figure 1.3 shows these elements as overlapping circles, each closely interlinked with the others. However, because this book is about the *fundamentals* of strategy, it concentrates on the first two elements of position and choice. There is less emphasis on the management issues of strategy in action: on these, the book focuses just on key issues such as managing strategic change and putting in structures and systems to deliver the chosen strategy. Other issues to do

Figure 1.3 The *Exploring Strategy* Model
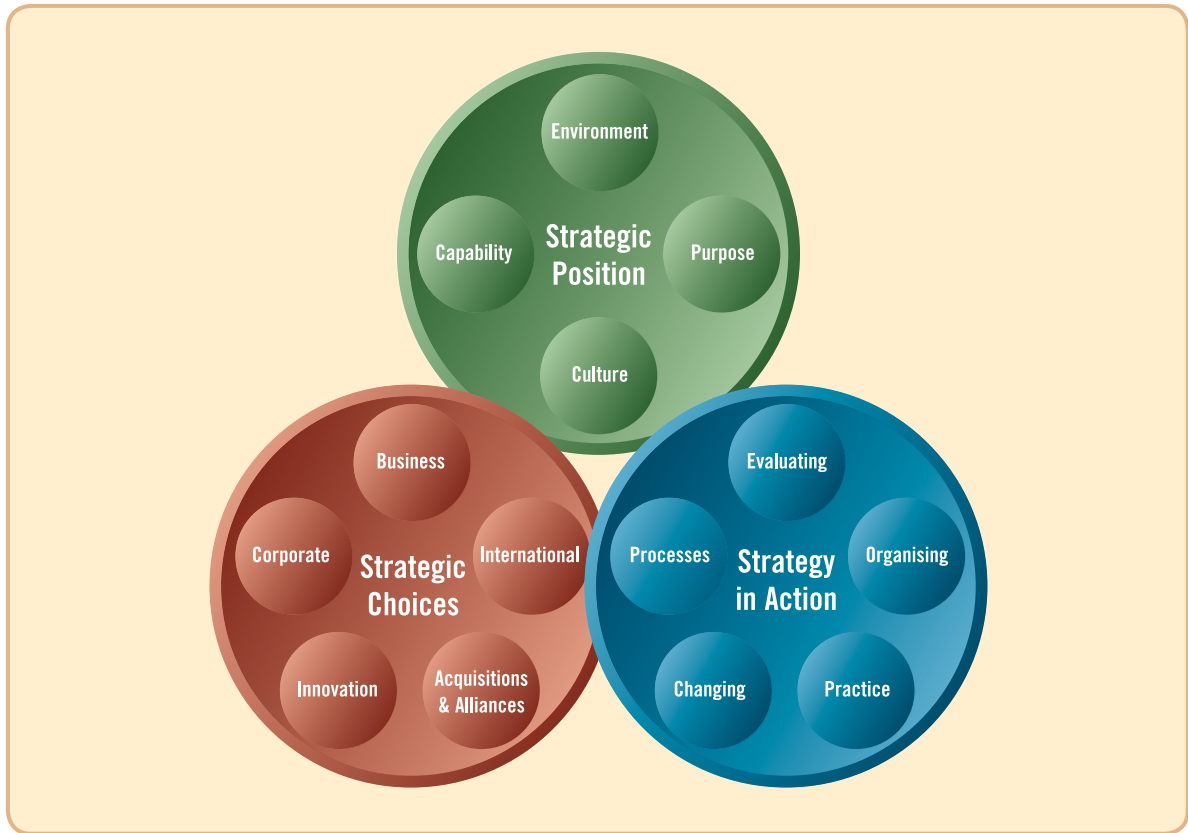
with strategy in action – such as strategic planning and the practice of strategy – are covered more fully in *Exploring Strategy*.[3]

It is important to understand why the *Exploring Strategy* Model is drawn as interlinked circles. Figure 1.3 could have shown the model's three elements in a linear sequence – first understanding the strategic position, then making strategic choices and finally turning strategy into action. Indeed, this logical sequence is implicit in the definition of strategy given by Alfred Chandler (Figure 1.1) and many other textbooks on strategy. However, as Henry Mintzberg recognises, in practice the elements of strategy do not always follow this linear sequence. Choices often have to be made before the position is fully understood. Sometimes too, a proper understanding of the strategic position can only be built from the experience of trying a strategy out in action. The real-world feedback that comes from launching a new product is often far better at uncovering the true strategic position than remote analysis carried out in a strategic planning department at head office.

The interconnected circles of Figure 1.3 are designed to emphasise this potentially non-linear nature of strategy. Position, choices and action should be seen as closely related, and in practice none has priority over another. It is only for structural convenience that this book follows a

sequence with its subject matter; the book is not meant to suggest that the process of strategy must follow a logical path of distinct steps. The three circles are overlapping and non-linear, just as strategy often is in real life. Strategy rarely occurs in tidy ways and it is better not to expect it to do so.

However, the *Exploring Strategy* Model does provide a comprehensive and integrated framework for analysing an organisation's position, considering the choices it has and putting strategies into action. Each of the chapters can be seen as asking fundamental strategy questions and providing the essential concepts and techniques to help answer them. Working systematically through questions and answers provides the basis for persuasive strategy recommendations.

1.3.1 Strategic position

The **strategic position** is concerned with the impact on strategy of the external environment, the organisation's strategic capability (resources and competences), the organisation's goals and the organisation's culture. Understanding these four factors is central for evaluating future strategy. These issues, and the fundamental questions associated with them, are covered in Chapters 2–4 of this book:

- *Environment.* Organisations operate in a complex political, economic, social and technological world. These environments vary widely in terms of their dynamism and attractiveness. The fundamental question here relates to the *opportunities* and *threats* available to the organisation in this complex and changing environment. Chapter 2 provides key frameworks to help in focusing on priority issues in the face of environmental complexity and dynamism.

- *Strategic capability.* Each organisation has its own strategic capabilities, made up of its *resources* (e.g. machines and buildings) and *competences* (e.g. technical and managerial skills). The fundamental question on capability regards the organisation's *strengths* and *weaknesses* (for example, where is it at a competitive advantage or disadvantage?). Are the organisation's capabilities adequate to the challenges of its environment and the demands of its goals? Chapter 3 provides tools and concepts for analysing such capabilities.

- *Strategic purpose.* Although sometimes unclear or contested, most organisations claim for themselves a particular purpose, as encapsulated in their *vision*, *mission* and *objectives*. The strategic purpose is a key criterion against which strategies must be evaluated. This strategic purpose is influenced by both the *governance structure* of the organisation and its *culture*. The third fundamental question therefore is: what is the organisation's strategic purpose; what does it seek to achieve?

Applying the *Exploring Strategy* Model to the positioning of News Corporation (Illustration 1.1) raises the following issues. News Corporation was threatened by an environmental shift from print to the internet. It also lacked the capabilities to develop a social networking business on its own. The company was determined to grow its internet business fast, setting demanding objectives that MySpace struggled to meet. Finally, there appeared to be culture clashes between the traditional family-owned conglomerate and the young entrepreneurial start-up.

1.3.2 Strategic choices

Strategic choices involve the options for strategy in terms of both the *directions* in which strategy might move and the *methods* by which strategy might be pursued. For instance, an organisation might have a range of strategic directions open to it: the organisation could diversify into new products; it could enter new international markets; or it could transform its existing products and markets through radical innovation. These various directions could be pursued by different methods: the organisation could acquire a business already active in the product or market area; it could form alliances with relevant organisations that might help its new strategy; or it could try to pursue its strategies on its own. Typical strategic choices, and the related fundamental questions, are covered in Chapters 5 to 9 of this book, as follows:

- *Business strategy*. There are strategic choices in terms of how the organisation seeks to compete at the individual *business level*. Typically these choices involve strategies based on *cost* (for example, economies of scale) or *differentiation* (for example, superior quality). Crucial is deciding how to win against competitors (for this reason, business strategy is sometimes called 'competitive strategy'). The fundamental question here, then, is how should the business unit compete? Key dilemmas for business-level strategy, and ways of resolving them, are discussed in Chapter 5.

- *Corporate strategy and diversification*. The highest level of an organisation is typically concerned with corporate-level strategy, focused on questions of portfolio scope. The fundamental question in corporate-level strategy is therefore which businesses to include in the portfolio. This relates to the appropriate degree of *diversification*, in other words the spread of products and markets. Corporate-level strategy is also concerned both with the relationship between the various businesses that make up the corporate portfolio of the business and with how the corporate 'parent' (owner) adds value to the individual businesses. Chapter 6 provides tools for assessing diversification strategies and the appropriate relationships within the corporate portfolio.

- *International strategy*. Internationalisation is a form of diversification, but into new geo-graphical markets. It is often at least as challenging as product or service diversification. Here the fundamental question is: where internationally should the organisation compete? Chapter 7 examines how to prioritise various international options and identifies key methods for pursuing them: export, licensing, direct investment and acquisition.

- *Innovation strategies*. Most existing organisations have to innovate constantly simply to survive. Entrepreneurship, the creation of a new enterprise, is an act of innovation too. A fundamental question, therefore, is whether the organisation is innovating appropriately. Chapter 8 considers key choices about innovation and entrepreneurship, and helps in selecting between them.

- *Mergers, acquisitions and alliances*. Organisations have to make choices about methods for pursuing their strategies. Many organisations prefer to grow 'organically', in other words by building new businesses with their own resources. Other organisations might develop through mergers and acquisitions or strategic alliances with other organisations.

The fundamental question here, then, is whether to buy another company, ally or to go it alone. How to choose between these alternative methods is discussed in Chapter 9.

Again, issues of strategic choice are live in the case of News Corporation and MySpace (Illustration 1.1). The *Exploring Strategy* Model asks the following kinds of questions here. Should MySpace compete against Facebook by emphasising its music strengths? Should a newspaper company diversify into the new social networking market and, if it does, is an acquisition the best method? How should News Corporation add value to its entrepreneurial new business? And should MySpace be allowed to continue to innovate in its old, loosely disciplined style?

1.3.3 Strategy in action

Strategy in action is concerned with how chosen strategies are actually put into practice. Chapter 10 covers three key issues for strategy in action:

- *Structuring* an organisation to support successful performance. A key question here is who is in charge and who is accountable.
- *Systems* are required to control the way in which *strategy is implemented*. The issue here is how to ensure that strategies are implemented according to plan.
- Managing s*trategic change* is typically an important part of putting strategy into action. How should change be led?

Strategy in action issues loom large in the MySpace case (Illustration 1.1). For example, should the new business have been integrated into a larger division within News Corporation? Was it appropriate to impose big company systems on a new social networking company? Chapter 10 is an introduction to such important issues of strategy in action. There is also the question of *evaluating* the strategy behind the MySpace acquisition: Appendix 1 to this book provides a guide to evaluating strategic options, which should be useful for checking recommendations on case analyses or assignments generally. All these issues, and related ones to do with strategic planning and practice, are dealt with more extensively in Johnson, Whittington and Scholes' *Exploring Strategy.*

(1.4) STRATEGY DEVELOPMENT PROCESSES

The previous section introduced strategic position, strategic choices and strategy in action. However, strategies do not always develop in a logical sequence of analysis, choice and action. There are two broad explanations of strategy development:

- The *rational–analytic view* of strategy development is the conventional explanation. Here strategies are developed through rational and analytical processes, led typically by top managers. There is a linear sequence. First, the strategic position is analysed; then options are weighed up and choices are made; finally, structures, processes and change procedures are put in place to allow effective implementation. Often formal strategic planning systems

are important to the analysis and formulation of the strategy. In this view, strategies are *intended*, in other words the product of deliberate choices. This rational–analytical view is associated with theorists such as Alfred Chandler and Michael Porter, in Figure 1.1.

● The *emergent strategy* view is the alternative broad explanation of how strategies develop. In this view, strategies often do not develop as intended or planned, but tend to emerge in organisations over time as a result of ad hoc, incremental or even accidental actions. Good ideas and opportunities often come from practical experience at the bottom of the organisation, rather than from top management and formal strategic plans. Even the best laid plans may need to be abandoned as new opportunities arise or the organisation learns from the marketplace. This is a view associated with Henry Mintzberg, referenced in Figure 1.1.

The two views are not mutually exclusive. Intended strategies can often succeed, especially in stable markets where there are few surprises. Moreover, an organisation's key stakeholders – employees, owners, customers, regulators and so on – will typically want to see evidence of deliberate strategy-making: it is rarely acceptable to say that everything is simply emergent. The tools and concepts throughout the book are particularly helpful in this deliberate strategy-making. But it is wise to be open as well to the possibilities of emergence. Inflexible plans can hinder learning and prevent the seizing of opportunities. Moreover, strategic choices do not always come about as a result of simple rational analysis: *cultural and political processes* in organisations can also drive changes in strategy, as will become apparent in the discussions in Chapter 4.

This book allows for *both* the rational–analytical view and the emergent view. Indeed, the interconnected circles of the *Exploring Strategy* Model in Figure 1.3 deliberately underline the possibly non-linear aspects of strategy. It is not just a matter of putting strategic choices into action in a logical sequence leading from strategy formulation to strategy implementation. Strategy in action often creates the strategic choices in the first place, as new opportunities and constraints are discovered in practice. Implementation can lead to formulation as well.[4]

SUMMARY

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AUDIO SUMMARY

● Strategy is the long-term direction of an organisation. A 'strategy statement' should cover the *goals* of an organisation, the *scope* of the organisation's activities and the *advantages* or *capabilities* the organisation brings to these goals and activities.

● *Corporate-level strategy* is concerned with an organisation's overall scope; *business-level strategy* is concerned with how to compete; and *operational strategy* is concerned with how resources, processes and people deliver corporate- and business-level strategies.

● The *Exploring Strategy* Model has three major elements: understanding the *strategic position*, making *strategic choices* for the future and managing *strategy in action*.

RECOMMENDED KEY READINGS

It is always useful to read around a topic. As well as the specific references below, we particularly highlight:

- Three accessible introductory articles on the nature of strategy are M. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, pp. 61–78; F. Fréry, 'The fundamental dimensions of strategy', *MIT Sloan Management Review*, vol. 48, no. 1 (2006), pp. 71–75; and D. Collis and M. Rukstad, 'Can you say what your strategy is?', *Harvard Business Review*, April 2008, pp. 63–73.

- For contemporary developments in strategy practice, business newspapers such as the *Financial Times*, *Les Echos* and the *Wall Street Journal* and business magazines such as *Business Week*, *The Economist*, *L'Expansion* and *Manager-Magazin*. See also the websites of the leading strategy consulting firms: www.mckinsey.com; www.bcg.com; www.bain.com.

REFERENCES

1. The question 'What is strategy?' is discussed in R. Whittington, *What is Strategy – and Does it Matter?*, International Thomson, 1993/2000 and M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, pp. 61–78.
2. D. Collis and M. Rukstad, 'Can you say what your strategy is?', *Harvard Business Review*, April 2008, pp. 63–73.
3. G. Johnson, R. Whittington and K. Scholes, *Exploring Strategy*, 9th edition, Pearson, 2010.
4. The classic discussion of the roles of rational strategy formulation and strategy implementation is in H. Mintzberg, 'The design school: reconsidering the basic premises of strategic management', *Strategic Management Journal*, vol. 11 (1991), pp. 171–95 and H.I. Ansoff, 'Critique of Henry Mintzberg's The Design School', *Strategic Management Journal*, vol. 11 (1991), pp. 449–61.

Glastonbury – from hippy weekend to international festival

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Glastonbury Festival has become a worldwide attraction for music fans and artists alike. In 2009, Bruce Springsteen was added to the long list of acts (from Paul McCartney to Oasis) that have appeared at the festival. It started in 1970 when 1,500 hippy revellers gathered on a farm near Glastonbury Tor to be plied with free milk and entertainment from a makeshift stage. Now, Glastonbury is a major international festival that attracts over 150,000 attenders. Without any knowledge of the line-up, the tickets for the 2010 Festival sold out in days.

In those early days, the Festival was developed by local farmer, Michael Eavis, whose passion for music and social principles led to a weekend of music as a means of raising funds for good causes. It was a social mission rooted in the hippy counter-culture of the 1960s and events such as Woodstock. Today, the Glastonbury Festival attender finds that those early days of hippy idealism are a long way off. The scale of the organisation demands strong management to support the achievement of the festival's social aims.

At first, the statutory requirements for an event held on private land were minimal. Jovial policemen looked over hedges while recreational drugs were sold from tables near the festival entrance as if this was just a slightly unusual village fête. Needless to say, the festival began to attract the attention of a number of different groups, especially as legislation around the running of events tightened. Eavis struggled with local residents who hated the invasion of their privacy; with hippy activist groups who felt that their contribution in helping at the festival gave them a sense of ownership; with drug dealers carrying on their activities on the fringes of the festival; and fans climbing over the fences to get free access.

The festival's continued expansion has resulted in a festival with over ten stages covering jazz, dance, classical, world music and other genres. Added to this, there is comedy, poetry, circus, theatre and children's entertainment alongside more esoteric street theatre

Source: Getty Images.

performances. Much of this is organised into specific grassy field areas where, for example, the Dance Village uses a number of tents dedicated to different types of dance music. Indeed, such is the range of entertainment on offer that some attenders spend the whole weekend at the festival without seeing a single live music act. Though the Eavis family remain involved with the main programme, much of the other entertainment is now managed by others. Reflecting this shift towards more diverse entertainment, the name of the festival was changed from Glastonbury Fayre (reflecting the ancient cultural heritage of the area) to the Glastonbury Festival for Contemporary Performing Arts.

In some years, the festival is forced to take a year off to allow the farmland to recover from the trampling of thousands of pairs of feet. Not only is this wise on an agricultural front but also gives the local residents a rest from the annual invasion of festival goers. Despite this, the festival has met with a number of controversies such as when a large number of gatecrashers spoilt the fun in 2000. This caused the festival to be fined due to exceeding the licensed attendance and excessive noise after the event. Furthermore, health and safety laws now require the event management to have a

'duty of care' to everyone on the festival site. To address these health and safety concerns, support was sought from Melvin Benn who ran festivals for the Mean Fiddler organisation. With a steel fence erected around the perimeter, Melvin Benn helped re-establish the festival in 2002 after a year off.

Ownership of the festival remained with the Eavis family but Melvin Benn was appointed Managing Director. However, concerns arose in 2006 when his employer, Mean Fiddler, was taken over by major music promoters, Live Nation and MCD Productions. In a worrying move, Live Nation announced that they would entice a number of major artists to appear on the weekend normally used by Glastonbury at a new UK festival called Wireless. Based in London, this seemed set to offer a city-based alternative to Glastonbury. At much the same time, Live Nation announced that they would launch their own online ticket agency to support the sales of their music events. This shift in power between the major music promoters indicated not only their interest in the ownership of key events but their desire to control income streams.

Elsewhere in the world of live entertainment, the success of Glastonbury had not gone unnoticed and the festival market showed considerable growth. Some of the other festivals tried to capitalise on features that Glastonbury could not offer. For example, Glastonbury was famous for its wet weather with pictures of damp revellers and collapsed tents being commonplace. Live Nation's city-based Wireless festival offered the opportunity to sleep under a roof at home or hotel, as opposed to risking the weather outdoors. Alternatively, Benicassim in southern Spain offered a festival with an excellent chance of sunshine and top acts for the price of a low cost airline ticket. Other festivals noted that Glastonbury attenders enjoyed the wider entertainment at the event. In doing this, they realised that many festival goers were attracted by the whole social experience. So, sidestepping major acts and their related high fees, smaller festivals were created for just a few thousand attenders. These offered entertainment in various formats, often in a family-friendly atmosphere. Sometimes described as boutique festivals, Freddie Fellowes, organiser of the Secret Garden Party, describes this type of festival as a chance 'to be playful, to break down barriers between people and create an environment

where you have perfect freedom and perfect nourishment, intellectually and visually'. Festival Republic, the rebranded Mean Fiddler, created a boutique festival on a larger scale with their Latitude festival. Similarly, Rob da Bank, a BBC DJ, put together Bestival on the Isle of Wight where the attenders are encouraged to join in the fun by appearing in fancy dress. Quite clearly, audiences are now being presented with a wide range of festivals to consider for their leisure time entertainment.

Many of these festivals attract sponsors with some becoming prominent by acquiring naming rights on the festival. Others have low profile arrangements involving so-called 'contra' deals as opposed to sponsorship payments. For example, Glastonbury has official cider suppliers who typically boost their brand by giving the festival a preferential deal on their products in exchange for publicity. Though these commercial relationships are sometimes spurned by the smaller festivals that see the branding as an intrusion on their fun environment, larger festivals often need such relationships to survive. In order to attract sponsors, large festivals are turning to radio and television broadcasters as a means to expand the audience and offer wider exposure for the sponsor. Indeed, in 2009, the BBC sent over 400 staff members down to Glastonbury for broadcasting aimed at satisfying the interest of the armchair viewer/listener.

With such huge demand for their talents, artists can have a lucrative summer moving between festivals. Similarly, audiences can make lengthy treks to their favourite festivals. For some, this has caused environmental concerns with Glastonbury's rural location, poor transport links and large audience being cited as a specific problem. On the other hand, artists are not only finding that the festivals offer a good source of income but that private parties and corporate entertainment have emerged as alternative, often greater, income opportunities. One newspaper claimed that George Michael pocketed more than £1.5m (~€1.65m; ~$2.25m) to entertain revellers at the British billionaire retailer Sir Philip Green's 55th birthday party in the Maldives. Hence, for many artists, the summer has become a case of 'cherry picking' their favourite festivals or seeking out the most lucrative opportunities.

Over time, the shift from small, homespun event to corporate-controlled festival has provided awkward situations for Michael Eavis – from the difficulties with establishment figures who felt the event was out of control to the demands of counter-cultural groups such as the travelling hippies. However, along the way, the festival has maintained its aim of supporting charities like CND and, later, Greenpeace, Oxfam and a number of local charities. In the mind of the audience, this helps position the festival as a fun event with a social conscience. The continued expansion and shift in management of the festival has freed Michael Eavis to be the figurehead for the event and to pursue the original social mission of the festival.

Given this growing and increasingly competitive market, there is much to consider for the festivals involved. In recent years, Glastonbury has sold all its tickets and made donations to its favoured causes, confirming the financial viability of its current business model. Indeed, the festival's iconic status has traditionally meant that it is a rite of passage for many young music fans. Yet, in 2008, Eavis publicly registered concern over the age of the Glastonbury audience suggesting that selling tickets by phone would help attract a younger audience. Maybe Eavis was concerned by comments such as those in *The Times* newspaper that cruelly declared Glastonbury as suited to the 'the hip-op generation' and questioned whether young people thought it was 'cool' to go to the same music events as their parents. On the other hand, their parents belong to the 'baby boomer' generation that grew up with popular music and festivals like Glastonbury. So, there is no real surprise that they would enjoy this eclectic event. Whatever disturbed Eavis, he announced that Jay-Z, an American rap artist, was to headline in order to help attract a younger audience. With sales slower compared with previous sell-out years, he later stated 'We're not trying to get rid of anybody. The older people are fantastic, but we do need young people coming in as well.' Then, reflecting on the 2008 festival in 2009, Michael Eavis displayed concerns over the future of the festival saying 'Last year I thought that maybe we'd got to the end and we'd have to bite the bullet and fold it all up. A lot of the bands were saying Glastonbury had become too big, too muddy and too horrible.'

With such an established festival as Glastonbury, one would expect the management might be looking to leverage its brand with, for example, further events. Yet, the comments of Michael Eavis suggest not only a lack of clarity about the target audience but also concern over whether it can persist. Furthermore, Eavis seems nervous about the festival's appeal to artists who have lots of opportunities to make appearances over the summer. Audiences and artists are the two key factors that underpin financial success at these events, as successful festival promoters are well aware.

Sources: The history of Glastonbury is charted on its website (http://www.glastonburyfestivals.co.uk/history) while ownership and finances are available through Companies House.

Most of the background to the festival and related market has been drawn from online news resources such as the BBC, Times Online and the *Guardian*, or industry magazines such as *Music Week*.

More information on UK Festivals is available from Mintel.

Questions

1 Sticking to the 35-word limit suggested by Collis and Rukstad in section 1.2.3, what strategy statement would you propose for the Glastonbury Festival?

2 Carry out a 'three horizons' analysis (section 1.2.1) of the Glastonbury Festival, in terms of both existing activities and possible future ones. How might this analysis affect their future strategic direction?

3 Using the headings of environment, strategic capability and strategic purpose seen in section 1.3.1, identify key positioning issues for the Glastonbury Festival and consider their relative importance.

4 Following on from the previous question and making use of section 1.3.2, what alternative strategies do you see for the Glastonbury Festival?

5 Converting good strategic thinking into action can be a challenge: examine how the Glastonbury Festival has achieved this by considering the elements seen in section 1.3.3.