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Jofre, Sergio

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Strategic Management

The Theory and Practice of Strategy in (Business) Organizations

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DTU Management Engineering

Sergio Jofre

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Foreword

The present report is the result of an ongoing study on the patterns and trends on both the theory and practice in the field of strategic management. The report focuses on three relevant issues regarding the current diversification and fragmentation in the field:

(1) The lack of a universally accepted definition of what strategy is,
(2) The multi-disciplinary nature of the field, and
(3) The development and evolution of our knowledge on human cognition and organizations' behaviour

These issues are addressed from the perspective of influential scholars and practitioners of different disciplines. The contents of this report – in addition to case study samples – have been edited as the main reading material for the current MSc course *Introduction to Strategic Management*, dictated at the Department of Management Engineering. The course targets students from different engineering specializations.

Author:

Sergio Jofre, PhD
Researcher/Assistant Professor
Section of Innovation Systems and Foresight
Department of Engineering Management
Technical University of Denmark

Contact information:

Produktionstorvet
Building 426 Entrance A
2800 Kgs. Lyngby
Denmark

Phone: +45 4525 4534
Email: sejo@man.dtu.dk

CHAPTER ONE
Defining Strategy

1. Strategy as a natural and human activity

We have heard – and used – the word strategy countless times. Indeed, we have developed and implemented strategies since the moment we were born. Overtime, anybody is capable to analyze and react to others' strategic moves. We do experience strategy every day.

Certainly, a person can be an accomplished strategist even without to know what strategy is or means, simply because strategy is not an exact science nor a defined tool or skill for itself, but a very *abstract attribute of the intricate human cognition* that let us to position ourselves in life according to our personal goals. As such, strategy is driven by our individual and characteristic "way to do" (or being) or in other words, it is driven by our personality and what determines it.

However, strategy is not an exclusive attribute of the human condition. In nature, strategy regards the traits (characteristics) of individuals and populations to deal with the primordial objective of surviving. From this perspective, strategies to survive do emerge and evolve endlessly.

We can illustrate such dynamics through the lenses of the natural selection theory for example. When the environment and the resources it provides changes, organisms must quickly adjust to new conditions keeping at least one basic objective that is to ensure the maximum possible viability of offspring. Individuals and the populations they form will face this challenge through a strategic trade off between quantity and quality of progeny. This is known in ecology as the *r/k selection theory*. According to the prevailing characteristics of the environment, organisms will exhibit an "r" or "k" strategy. The *r-strategy* is optimal for unstable (rapidly changing) environments, and is based on *quick reproduction cycles*. Organisms that are r-strategists will naturally have small bodies, short generational time, and a large number of offspring capable to disperse over large geographic areas (e.g. rats, insects, and bacteria). On the contrary, in stable (thus predictable) environments, *K-strategists* will tend to specialize on *effective competition for resources*. Since resources in ecosystems are limited, k-populations will keep they number near constant and close to what is their maximum carrying capacity. Hence, this individuals or populations will have larger long life expectancy and body size, and produce fewer offspring that in turn require greater parental care until maturity. Obviously, humans populations presents a K-strategy as do other large mammals (including whales), and some species of threes. However, populations rarely exhibit just one strategy but rather a combination of both. This fact, probes the existence of a third strategy in which individuals and populations do prepare themselves to survive as environments evolve.

In any case, strategies in natural systems seem to emerge spontaneously from the interaction between environment and organisms over time. Whether and individual or a population will be more o less successful to cope with environmental changes is determined by their capability to respond to such changes, or in other words, by their capability of adaptation. Therefore, there is an implicit link between strategy and the need to adapt successfully to new conditions in the surrounding environment. Here, however strategy seems a little closer to *instinct* than to *deliberation*. In general, the capability to adapt in organisms is in part determined by the genes dictating appearance (e.g. the colour of your eyes) and functioning (e.g. the degree of sight), and for the characteristics of the environment (e.g. intensity and regularity of light), in which they develop and struggle to survive. Hence, the effect of the environment over adaptation and therefore over strategy becomes twofold:

i) It determines the *need of response* and in the same time,
ii) It determines the *capacity to respond*.

The earlier occurs in the present, the later emerge from the past. Therefore, strategy also implies evolution. Whether an individual or population will be more o less successful to adapt, survive, and project its progeny into the future is – to a great extent – determined by the history of adaptation of their predecessors and the proper. In strategy, time and history matter.

For people and their organizations it is not much different, since strategy also regards the quest for survival. Whether we are more or less successful in life depends on how we manage to respond to the changes in the environment we are immersed into. That capability will be determined in part by the traits of our personality and by the dynamic balance between opportunities and barrier in our surrounding environment. Naturally, our perception of what is a barrier and what is an opportunity will differ according to our cognitive nature and the goals we establish to direct our life. Most newborns will respond to changes in the environment (e.g. light or sound) in similar (instinctive) ways, often on the base of a trial-and-error strategy. This is basically a problem-solving approach that emerges from experience but is triggered by instinct. At later stages of development, children (as well as adults) will gradually rely more and more on their cognition, not only to solve problems but also to avoid and even prevent them. Unlike other populations, in their rational approach, humans do formulate strategies to achieve particular goals beyond the primordial quest for survival. In this context, strategy seems to appeal to rational *decision-making* rather than to *instinct*, although we usually are inclined to make simultaneous use of both approaches.

In advanced organizational levels, humans do formalize strategies as a function to direct and focus their efforts. In a *business* organization (*a firm*), such efforts will focus on creating value for profit and guiding the organization towards future. In this context, the environment is a *market* with limited resources and therefore in which *competition* exists. This environment might be more or less stable, but it is in constant change. Firms will struggle to adapt to avoid being selected-off. Strategy in here becomes a *systemic and rational act,* a *process* that can be managed in order to successfully attain the goals of the firm.

2. The different meanings of strategy

Although strategy is a buzzword it does lack of a universally accepted definition. Therefore, in different contexts and to different people, strategy means different things. In the most broad and general context strategy would be defined as a "*plan of action*".

The Oxford Dictionary (http://oxforddictionaries.com)defines strategy as:

1 [C] ~ (for doing sth)| ~ (to do sth) *a plan that is intended to achieve a particular purpose*: to develop a strategy for dealing with unemployment. It's all part of an overall strategy to gain promotion. The government's economic strategy

2 [U] *the process of planning sth or putting a plan into operation in a skilful way*: marketing strategy

3 [U, C] *the skill of planning the movements of armies in a battle or war*; an example of doing this: military strategy. Defence strategies—compare tactic

The etymology (or history) of the word strategy comes from the Old French "strategie" that in turns derives from the Ancient Greek "stratēgia" [στρατηγία] that means "Office of General", "Command" or "Generalship". Therefore, strategy has in fact a true historic link with deliberation, skilful actions, leadership and… warfare.

In the 6th century BC, the Chinese military strategist *Sun Tsu* wrote one of the first, and probably the most influencing, book in strategy ever. "The Art of War" (孫子兵法 or Sūn Zǐ Bīng Fǎ) is a military treatise – composed of 13 chapters or 13 basic aspects of warfare – that became the basic text for military strategy in Asia, and an influential reference to the Eastern military thinking (See the *Art of War* translated by Giles, 2009). Over time, the work of Tsu has extended its influence away from the military world and motivated generations of successful managers and strategist in business and beyond. The treatise remarks the importance of *positioning* in strategy, and that position is affected by both the objective conditions in the physical *environment* and the subjective opinions of *competitive actors* within that environment. Tsu thought of strategy not as detailed plan of action but as a *response* – a fast and appropriated response – *to changing conditions*. From his perspective, Tsu suggests that *planning* is only effective in *stable environments* since sticking to a plan in changing conditions will rather raise unexpected conflicts.

2.1. The common analogies: warfare, and competition

The old expression "Business means war" reflects the competitive mood and the strategic nature of the business world. In that world, rivals compete for the ultimate dominance in a battleground (market) in which each contender has access to and makes use of common *resources* (e.g. available human and technological resources). A basic *strategic advantage* to win and prevail over rivals in the market comes from the *differentiated* used of such resources. Such advantage regards the particular way a firm employs its resources, or in other words, it regards the firm's *capabilities* to compete. As in war, competition in business pushes the rivals to the limits of their capability. This effort, successful or not, will inevitably change the trajectory (of behaviour and performance) of the firms over time.

To illustrate the analogy between business and warfare we can have a look of one of the most iconic contemporary conflicts between rival firms: the "Cola War" (See Yoffie and Wang, 2002). The "Cola War", was a remarkable *marketing* confrontation between the two giant beverage companies Coca-Cola and Pepsi-Cola between the 80's and 90's. From this confrontation, you might recall some clichés like the "Pepsi Challenge" "the taste of a new generation" or some of the songs in spots featuring artists such as Michel Jackson, David Bowie, Julio Iglesias or Madonna, among many others. The cola war went global and was plagued with anticipation moves, discredit, and a good dosage of industrial espionage. For every move of the opponent, there was a counter-action: A game of action and reaction brought to every possible public media. Amid each battle, the consumers were the ultimate driver of the next move by expressing their preferences for one or another. In this context, millions were spent in dead-end (unsuccessful) strategies and thousands of jobs were lost. Although we can recall quite a number of different strategies emerging from the Cola War, I would like to draw your attention to a very particular series of events starting in 1985:

While Coca-Cola was still keeping its predominance in the beverage market with its flagship product "coke", PepsiCo was advancing fast on the base of a successful "image strategy" targeting the youngest segment of the market under the slogan "the taste of the new generation". By 1983, the market share of Coke plunged below 24% from a solid 60%. Pepsi had begun to outsell Coke in supermarkets while Coke maintained its edge only through soda vending machines and fast food restaurants. Although different marketing strategies where ongoing – particularly those focusing in public icons – Coca-cola made a strategic breakthrough by far unexpected: it walked away from the all-time successful formula of coke. In 1985, the "New Coke" was introduced after an extensive study of market trends, surveys, focus groups, and taste tests. The new formula (or taste) was based on a different (lower cost) source of sugar: high fructose corn syrup to replace cane sugar. All of coca (the plant from which comes the alkaloid cocaine) derivates were also removed from the old formula. The new flavour was better that the one of traditional coke and Pepsi in the opinion of executives and consumers used in the taste tests. Sure enough, the product was released with the blessing of the firm's market experts, and after a few days, more than 80% of the population in the US was aware of the change. Three months later, Cola-Cola announced the return to the old "classic" formula of Coke amid one of the most discussed strategic retreat ever. Although, the initial sales in the US were promising, the whole idea of a new formula rapidly became a marketing nightmare, and the "New Coke" got under fire. After the retreat, the product continue to be sold separately under different names (e.g. C2), until it became "coke II" in 1992. Confined to North America the production of Coke II was finally discontinued in 2002, seven years after its introduction into market.

There are several theories about the reasons for such a huge strategic blunder including some conspiracy speculations:

(i) The company intentionally changed the formula in order to upset loyal consumers that will demand the return to the original formula causing sales to increase rapidly,

(ii) The retreat was a plan to cover up the change from sugar-sweetened Coke to cheaper high fructose corn syrup. Here the theory is based on the allegations from the U.S. Sugar Trade Association saying that after the retreat and the return to the old formula, corn syrup was still being used. Some detractors suggest a link between corn syrup and increased obesity and other health problems.

(iii) The retreat provided cover for the final removal of all coca derivatives from the drink in order to calm down the mood in the Drug Enforcement Administration (DEA). Although by that time DEA was indeed pressing to get the cultivation of the crop down in South America, there was no direct pressure over Coke to stop using the plant derivates.

As a response to the increasing rumours of conspiracy, the CEO of the company at that time said, "We're not that dumb, and we're not that smart". True or not, a few months after the retreat, "Coke Classic" was outselling both New Coke and rival Pepsi by far. Rapidly, Coca-Cola was number one again.

In this example, the interesting issue is not about the failure or success of a marketing strategy, but about the unexpected and crucial reaction of the public. Of course, market studies can assess consumers' preferences, and Coke did expend time and resources to do so. According to such studies, the new product was supposed to become a best seller because it was better. However it did not. The main issue here was that the loyal consumers were honestly outraged by the replacement of the formula and took the initiative to boycott the product. Another important issue was that the bottlers working for the company were uneasy with the introduction and promotion of a product that came to contradict the slogan of the company focusing on keeping the "real" and classic taste of the product unchanged. On the other hand, the issue of the sweetener instead of cane sugar also ignited quite a few ethical conflicts among the bottlers. Nevertheless, in the eyes of consumers, New Coke was never intended to become a major success. The Director of the company by then, Donald Keough, put the whole issue in few words:

> "The simple fact is that all the time and money and skill poured into consumer research on the new Coca-Cola could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola felt by so many people."

Curiously, at Pepsi market studies proved equally wrong. After the introduction of the new Coke, market research suggested to Pepsi top-management that an immediate (and considerable) number of Coke's consumers would be gained. However, this study also failed to measure the "abiding emotional attachment" of Coke consumers as expressed by Keough. Indeed, the consumers opted to stop drinking Coke at all rather than to consume the new product or to switch to Pepsi. Eventually, as a result of the Coke retreat, Pepsi will decrease its market share.

During the last decades – due the effort paid to win the war – both companies have evolved, diversify, and consolidated their positions. One could say that in this case, competition has strengthened them. Although both firms have made successful and wrong decisions eventually, results have been driven by not only deliberated thoughts, detailed plans or actions, but also by chance. There is something else to strategy than purpose and plan – as suggested by Sun Tsu – that comes from the constant adaptation to changes in our surrounding environment. Something determined by our capability to respond to changes and that arises from the patterns of our own background and history. Strategy in this sense can be seen simultaneously as a source and a driver of change.

3. A working definition

Inspired in the work of Henry Mintzberg on the field of strategic management, we propose the following working definition for strategy (See Mintzberg et al., 1998):

"The means by which an individual or an organization accomplishes its objectives"

By *means*, we understand ways or actions. In this context, Mintzberg and collaborators identify five key means:

(1) **P**lans
(2) **P**atterns
(3) **P**ositions
(4) **P**erspectives
(5) **P**loys

These five means or actions are what Mintzberg calls the "five Ps" of strategy (Mintzberg et al., 1998).

Plan is, as we know, is the most popular action to achieve an objective. A plan can be seen as a set of *intended actions*, hence that implies *future* actions. Plans can be either *formal* or *informal*. In its most informal form, a plan is made up of *abstract ideas* that remain as such until implementation. Instead, in a formal plan, abstract ideas are translated into *documented meaningful information*. A formal plan is a set of actions, a procedure we can follow repeatedly for a given period. In general, plans are very concrete in nature and do not allow any departure (we do not change plans, but rather go for new ones). Consequently, Plans do not evolve. In businesses, we frequently hear about plans with a particular purpose (e.g. a plan to reduce cost or to increase production) and for a determined amount of time (short, medium or long-term plan). In large companies, each department would have a particular plan in the short (annual) and the long run (commonly 3 – 5 year periods). From the personal perspective, plans are generally informal; we rarely document our thoughts for intended actions.

Pattern is an *unintended guide* to our actions that *emerges* from repeated behaviour overtime. Think for example, on a firm that by permanently searching for excellence in quality naturally positions itself in the high-end of the market (e.g. luxury cars by Rolls-Royce Limited or watches by Rolex). In this case, the strategy of the company emerges from its focus (producing and selling superior quality products at higher prices) and consistent behaviour (commitment to quality and excellence). One can say that the firm has naturally adopted a *high-end strategy*. In this kind of strategy, the firm avoids competitors by positioning itself in a place in the market in which clients are willing to pay extra cash for extra value (luxury). For persons it works in the same way. We achieve certain objectives by the patterns arising from our past (e.g. a personal strategy to find a job could naturally emerge from the patterns in our past and consistent behaviour regarding tendencies in risk taking, passivity, or proactivity).

Achieving our goals by mean of *position* implies that we locate ourselves in a particular place for a particular purpose. In a business perspective, positioning is about locating particular products in particular markets (e.g. the iPhone or iPad). In this type of strategies companies look to position themselves (or their products) in a *market niche* (e.g. for introducing an original product or function) or seek for an *opportunity gap* in a given market. The opportunity gap is a position that emerges spontaneously after existing products generate new needs among consumers. Take for example the development of Notebooks – ultraportable computers – and the increasing need of USB-enabled products not included in the original design of the machine such as DVD/CD burners or portable Hard Disks in the high-end, but also the need for new accessories such as soft-cases or screen protective films.

Strategy as a *perspective* is a more abstract way to achieve a goal since it does not directly regard a market or a business action but the *style* or way a firm does things. This implies a view to the inside of the firm and how – over time – things tend to be done in a particular way. Such a way might be influenced by the overall perspective of the firm to do businesses: it refers to the *vision* of the company or what the company want to be in the future. The vision is therefore, a permanent reference acting as a guidance and inspiration for strategic developments in the firm. These type of strategy can be illustrated by looking at iconic firms with a very defined – characteristic – way to do business like for example Apple, IKEA, McDonalds or Starbucks. In these examples, the vision of the company strongly determines what the strategy for a new product or move in the market will be: there is a strong alignment between the vision of future and the actions taken to achieve that goal today. In general, *perspective* and *position* are related strategies. So, a successful introduction of a new Apple gadget inspired in the vision of the firm still requires of the right positioning in the market. Position strategies can be easily adjusted within a long-term and steady perspective strategy. On the contrary, it will not be that easy to change perspective even while keeping the same position. In other words, firms observe only one perspective strategy and adjust positioning strategies accordingly (that is a business fact!).

The last type of strategy regards the so-called *ploy* or tactic. This is an intended action to defeat or overcome an opponent or competitor. In businesses, and besides positioning, ploys are probably one of the most used means of strategy. Common ploys in businesses are:

(i) Deception
(ii) Threat
(ii) Discredit

To illustrate what a business ploy is, we can use the tactic of deception. Let us think of a large corporation wanting to discourage growing competitors by sending signals that suggest a plan for further expansion of operations in a disputed region. Supposedly, the corporation invests in land to build a factory right in the region were competitors were planning to start their new operations (according to the rumours). Competitors see this action (buying the land) as a clear indication of "war" and retreat to avoid the now potentially higher cost of competition. They eventually will change plans. The ploy here is that the corporation bought the land with no intention to build and expand operations but to deceive competitors. The ploy in this case was to make the opponents believe the firm was decisively moving first. Buying the land was certainly a low cost strategy to get rid of the increasing competition in the region. You can always resale the land later. A counter-ploy in this case would be competitors making the corporation believe they wanted to start operations in that region forcing it to move and overlook the real issue: a merger of rivals to take over the market in other regions. By moving first and buying the land the corporation lost time, money and focus, becoming vulnerable to the future coalition of rivals.

3.1. The genesis and status of strategies

Whether we think of a ploy, a plan or any other type of strategy, we can just think of only two possible origins for them. Strategies can be either deliberately *developed* or emerge to be *shaped* as such. In other words, strategies can be either *formulated* (e.g. ploy) or *formed* (e.g. pattern). This also regards the status of the strategy that can be either *realized* (e.g. pattern) or *intended* (e.g. plan). In businesses as in your personal life, strategies are not absolutely formulated or formed nor are they purely realized or intended. In more simple terms:

> *Strategies are a combination of deliberation and impulsiveness on the base of new and past ideas and actions*.

Therefore, firms do not strategize only in the base of creating new strategies but also modifying existing ones, based on facts as well as on the instinct and wisdom of senior managers. For individuals, strategies are an intricate mixture of purpose and instinct that emerges from experience and in the same time from our expectations of future.

In spite of their genesis and status, strategies in business commonly seek the creation of advantage. Mintzberg suggests four main advantages associated with the deployment of strategies in businesses. However, for each strategic advantage we achieve we might as well consider a potential disadvantage:

Pros and cons of strategies in organizations (modified from Mintzberg et al., 1998):

Strategic Factor	Advantage	Disadvantage
Setting Direction	Sets the directions to the future balancing internal and external factors	Following a fix course of direction is a blind action with hidden dangers
Focussing Effort	It increases coordination of activity reducing overall effort and detrimental effects of chaos	Excess of focus reduces the chance of spontaneous actions needed for adaptation to change
Defining Organization	It gives meaning to the organization and its people defining the purpose of being	Increases the chance of becoming too simplistic and stereotyped
Achieving consistency	It reduces uncertainty and provides order facilitating action	It reduces the chance of creative actions emerging from uncertainty and chaos

3.2 The lack of strategy

One can say that an organization can keep running on *profit* (or even increase it) without strategies if we are talking about the absence of *formal planning* or *strategic management*. If we talk about strategy per-se, then the answer becomes no, since strategies in their pure form are an intrinsic attribute of human cognition and by extension of human organizations, and as such they cannot be segregated.

When formalized, strategy becomes a *process* in connection to organizational *functions* and *structure* that – as Mintzberg suggests – can hinder the capability of learning, adapting or creating by excess of planning and control. This last thought has been the driver of an increasing interest in the potential advantages of informal methods to cope with change and uncertainty. However, studies in this emerging management trend indicate that results are very context dependant and therefore, it is yet too early to say which approach is better. We can illustrate the paradox emerging from this debate in the following way:

> EXAMPLE: Let us imagine a small firm that decides to keep decision making as flexible and democratic as possible, avoiding setting up strict direction guidance but

> devising a simple communication system that allows quick response to changes in consumer preferences and operational logistics. The firm has therefore chosen not to formalize strategy but to keep a simple responsive intelligence approach. The decision has been made considering that investing in the additional implementation of strategic management will increase unnecessarily productions cost and would, on the other hand, decrease their chance to quickly adapt to changes in the market and the supply chain. After all, the industry is small and unpredictable.

Can we say that in this case, the firm has no strategy at all? Probably the answer is no. Although we can say the firm has chosen *not to formalize* its strategic process, it is evident that the firm has implemented an *informal* strategy too. Such a strategy is *keeping ahead of competitors (the objective) by means of increasing internal responsiveness and adaptability by keeping a flexible organizational structure and function*. We could even elaborate a little further, saying that in this case the strategy is a *perspective* (a particular way to do business), and that at the same time it does *emerge* from a *pattern* (e.g. due to the size of the firm and the dynamics of the market). In any case, the firm is setting a direction, its position, and it is defining its organizational setting. To make the choice of flexibility over formality the firm needs to know itself and the environment in which exist and project itself in time. This is a process, indeed it is the rudiment of a formal *strategy process*.

Eventually, the paradox about strategy in organizations is that the choice of not having a formal strategy (or strategic management) process is in itself a strategy. The question therefore becomes, whether or not strategy is to be institutionalized, or in other words, whether we internalize strategy as one more process in the organizational structure. In the informal approach strategy will be present in the overall *decision making process* while in the formal process will be concentrated in the strategic management process. In large firms, that process can be decentralized and be part of each (or most) working units (e.g. Departments such as Production, Finances or Marketing). In any case, and from a historic point of view, the ultimate strategist in a firm is often the head, namely, the manager (or Chief Executive Officer, CEO). There are new trends in management, and therefore there are new trends in strategy management too. Further, into the course, we will review classic and trendy styles of strategic management. For the time being we should keep in mind that in general, new trends in strategy management rescue the value of human and organizational attributes such for example learning, beyond the classic perspective focused on the manager and his/her skills to strategize or simple, to plan ahead.

CHAPTER TWO
Strategy in Organizations

Over time, the influence of organizations over our life has increased continuously, particularly in most developed economies (Baum and Rowley, 2005). They have become the building blocks of societies. Today, individuals and groups derive their identities from organizations. They influence our present and shape our future. Organizations share more power than individuals do (Grant, 2008b).

People increasingly delegates roles and tasks to organizations. We trust them with the production and control of resources and infrastructure. We are gradually becoming dependant on the functioning of organizations. As we have seen in the previous chapters, organizations such as business entities do increasingly rely in the strategic management of their resources and capabilities in order to stay competitive, learn and adjust to changes to survive. Knowing more about organizations and their behaviour is an important issue in strategic management. Learning about organizations, their origin and evolution is also important for us as individuals. After all, the decisions driving organizations – strategic or not – will influence our life in more than one way. For better or worse, organizations are here to stay.

In the following chapter, I will describe and briefly discuss on the development of organizations over time and the basic way they function and behave. We will depict how an organization organizes, grows, and evolves overtime. The focus of this review is on the business organization – the firm – and their strategic quest to create value for profit increasingly in order to adjust and survive over time.

Since there are as many definitions and perspectives in organizational theory as many type of organizations we might find, the review focuses on the unifying work of Baum and Rowley (2005) on organizational theory, and Grant on (2008b) on business organizations and industrial dynamics.

4. Defining and classifying organizations

Baum and Rowley (2005), suggest that “although most of us ‘know an organization when we see one’ the diversity and complexity of organizations and their activities is difficult to capture in a single formal definition. As a result, multiple and sometimes contradictory conceptions of organizations exist, each one highlighting particular features of organizations, but necessarily providing only partial and incomplete views.”

Baum and Rowley suggest the use of a framework based on three definitions suggested by Scott (1998) considering “the spectrum of how organizations are conceived”. In this framework organizations are defined as:

(i) Rational system
(ii) Natural system
(iii) Open system

Organizations as *rational systems* are oriented to the search of relatively specific goals and exhibit a relatively high formalization of social structures. As a *natural system,* organizations are collectivities whose participants share a common interest in the survival of the system by participating in informally structured collective activities. Finally, as an *open system* organizations become the system of interdependent activities linking shifting coalitions of participants.

In this context, the organization (or system) is embedded in the environment in which it operates. Scott listed these systems in the order in which they emerged in history. Each new system to some extent emerges as a response to the criticism of the prior concept. Therefore, from a theoretical point of view, the definition and study framework of organizations as an open system is the most contemporary approach. In this view, scholars focus on the behaviour of the organizations themselves and not between them, as occurred in the views of the rational and natural systems.

Although each of these definitions represents a theoretical perspective of its own, together and in a historical perspective they represent the evolution of our knowledge and perception of what organizations are and how they work (Baum and Rowley, 2005). Therefore, it is important to review each definition on their own perspective and collectively.

4.1. The organization as a rational system

In the perspective of a rational system, an organization is created or designed to achieve a specific goal or objective. This implies the design of formal structures, rules, roles and relationships to increase the chance of attaining the specified goal as efficiently as possible. For such a purpose – of high efficiency – the design acquires the sense of a well-functioning machine in which each part behaves as expected. In such a design, the behaviour of individuals is under control and coordinated to ensure the collective objective is achieved with the least amount of energy. In other words, this is to achieve the expected result in the most economic way possible. To do so, the design should provide or procure *standards* for control and coordination. In a rational system, the organization operates reliably. Historically, the theoretical foundations of the rational view have dominated the study and perception of organizations (Baum and Rowley, 2005). As the industrialization of production rapidly advanced since the advent of the twentieth century, also new theories about organizational behaviour were suggested. In North America, Taylor proposed the concept of "scientific management" based on the rationalization of activities of managers and workers on the base of an analytical "regimen of science" (Baum and Rowley, 2005). While in Europe, Max Webber and Robert Michels evidenced the rise of the "bureaucracy", as a form of organization based on the belief of normative and hierarchy of command, the French industrialist Fayol and the Americans Mooney and Reiley (General Motor Company) advocated the development of *universal administration principles*. Universal principles would serve to guide a greater and efficient specialization, grouping, and coordination of work activities. Baum and Rowley (2005), suggest that the work of all these early thinkers was devoted to a common objective, the formal conceptualization of organizations as "an instrument purposefully designed to achieve explicit goals with the greatest economy of resources".

In the view of Baum and Rowley, the most influential contribution to the theoretical foundations of the rational system perspective was given by the North American group known as "the Carnegie School" lead by Herbert Simon, James March, and Richard Cyert. Since the mid 40s, they introduced concepts and theories such as "goals and constraints", "formalized structure", "bounded rationality", "information processing", "decision-making", "political coalitions", and "performance programs". All those concepts remain central to the research and practice on contemporary organizational studies (Baum and Rowley, 2005). In general, the work of the Carnegie School departed from the classic narrow view of the earlier rational theories, by focusing not only in the organizational activities but also in the *choices* determining them, and by avoiding the search for simplistic solutions. This work, is supported by the idea that human cognition is limited by the extent of available information – the bounded rationality – and because most of the time the information we have is incomplete, and our choices will be based on the satisfaction of a minimum set of requirements rather than on the best criterion. In other words, fully rational decisions might not be possible since available information (and capability to process it) is often – or naturally – limited. From the perspective of organizations, the "behavioural theory of the firm" (see Cyert and March, 1963) suggest that choices are not made by individuals, but by an organization, in which the rationality resides in the structure. By structure, Cyert and March mean the specialized set of rules, roles, programmes and procedures within the firm. Eventually, such structure supports the behaviour of the firm. However, Baum and Rowley (2005) notice that this perspective of the firm evidences a conflict regarding two aspects of the adaptation process of organizations:

> *"On the one hand, organizations' behavior is directed toward performance improvement, compatible with rationalistic assumptions of traditional economic theories of the firm. On the other hand, their behavior tends to be complex, slow and sensitive to organizational conditions, characteristic of bounded rationality. Thus, while intendedly adaptive, organizations' behavior might not necessarily result in performance improvement – structures developed to promote rationality may, under some conditions, have the opposite effect."*

4.2. The organization as a natural system

Baum and Rowley (2005), indicate that in opposition to the rational perspective, the theory of natural systems advocate an organization with an informal structure that adapts to its environment, and in which purpose is not fully deliberated but emerges over time because of the adaptation process. Indeed, the continuous adaptation is what gives the concept a sense of being "natural". The role of a formal structure in a natural system is not important. In contrast, what really matters is that the *informal structure* of roles and relationships that *emerges* among individuals and groups is what shapes and drives the different organizational activities and goals. This view opposes the sense of deliberated *design* for efficiency, suggested by the rational or machine-like view, suggesting a more "organic" type of organization that emerges and evolves in the light of human interaction. Although these views seems totally opposed, in reality they are deeply connected. For the natural system to emerge it is necessary first the rational system to exist. In other words, the organic organization does evolve from the rational system supplementing or even replacing the original actions and purposes intended in the formal structure.

Historically, since the late 30s the focus of scholars advocating the natural system perspective such as Barnard, Mayo, Roethlisberger, and Dickson was on the interaction between formal and informal structures. In their view, the formal structure corresponds to a conscious expression of a cost-effective logic, while the informal structure reflects the human logic that is spontaneous and based on emotions and needs. The appearance of informal relationships between individuals and groups is what on the view of these scholars, increases the consistency of the structure through better communication. One can say that informal relationships in the organization are what "get the things done" and constitute the centre of the political life in the firms (Baum and Rowley, 2005). By late fifties, the prominent work of Philip Selznick suggested that over time and in order to perpetuate themselves, organizations will depart from their original objective, evolving and acquiring a life of their own. Consequently, a firm will develop a distinctive *character* and *competence* beyond the technical requirement of the task it perform. Selznick called this process of change a process of *institutionalization*. Talcott Parson gives a final contribution to this stream of organizational theory, by late fifties. Parsons elaborated a general analytical model to identify a set of functional needs that all social systems must satisfy in order to survive. The model was named AGILE, combining the initials of the following four survival functions:

* Adaptation or the capability to interact with the environment,
* Goal attainment or the capability to set goals for future,

* Integration through congruence between norms and values and,
* Latency or preserving the core norms and values over time

This rather intuitive model became an influential paradigm and reference to sociological research during the 60s and 70s. In addition, the work of Parsons on *structural functionalism* has been also important in the theoretical development of the perspective on organizations as open systems.

4.3. The organization as an open system

We have briefly reviewed the views of organizations as rational and natural systems. In both views, organizations and their environments are two different components of the systems. They are separated by well-defined boundaries. In the third view however, such boundaries become less evident. The view of organizations as an open system focuses on the "relationship and interdependencies between organizations and environments" (Baum and Rowley, 2005). The theoretical framework of open systems has been broadly inspired by general *systems theory* and by *cybernetics* from mid 50s to late 70s. Baum and Rowley (2005), suggest that:

> *"Open systems models conceive organizations as both systems of internal relationships and as inhabitants of a larger system encompassing the environments in which they operate and on which they depend for resources. Organizations are conceived of as a throughput model, obtaining resources from the environment, processing them and distributing the output back to the environment."*

In this view, "*organizations are adaptive and interdependent systems, comprised of various interrelated – possibly conflicting subsystems – attempting to meet and influence the dynamic demands of the environment.*"

The findings of Baum and Rowley indicate that some considerable volume of early work on open systems did meanly focus on the development of a *contingency theory*. In such theory, the *optimal* organizational model was to be found in the proper adjustment of the internal characteristics of the organizations (e.g. processes and knowledge), to the demands imposed by the environment in which it operates. In general, the contingency theory advocates that *there is no absolute best way to organize a corporation*, to lead a firm, or make decisions, and that the optimal course of action is dependent – or contingent – on the organization's internal and external situation. Take for example the following situation; two companies that operate in different technological environments will have different demands to arrange their structure and functions. In an environment in which technology is very specialized and complex, the optimal model for organising the firm will probably rely in capturing and retaining particular know-how and in developing a competent network of specialized suppliers. Contrarily in an environment in which technologies are standard and tend to be replaced (or upgraded) rapidly, the optimal organisation for the firm will probably consider a fast prototyping and release of new products. In general, when the organisational model increases its degree of differentiation of activities (as a response to the environment), the need of coordination and control becomes greater and so increases the overall complexity of the system (and the model). A slight connection between this logic and the fundamentals of the *rational system* and the theory of *bureaucracy* can be seen here. Indeed, Baum and Rowley (2005), suggest that the *contingency theory* correspond to a "content-oriented", "rational-open" view of systems.

Nevertheless, contingency is not the unique theoretical approach in the open system research. In this context, Baum and Rowley (2005) describe the work of Karl Weick by late 70s as an alternative "process-oriented natural-open" view of the system. In this view of the open system, "organizational activities are directed toward resolving equivocal informational inputs from the environment." This is, focusing on the capability of the organization to interpret properly what happens on its surrounding environment and act accordingly. Organizational activities according to Weick are then in three stages: enactment, selection, and retention. These stages regard the capability of the "organizational members" (people) to influence their environment (enactment), and recognizes the role of human cognition, interpretation, and meaning creation in the survival of the firm (selection and retention). Summarising, the natural-open view of the system does emphasize the role of human resources as drivers of change and adaptation, in both the internal and external environment of the firm. In this view, one key element (and focus of study), is the human capability to *interpret* information.

5. Levels of organization

Baum and Rowley indicate that with the advent of the open system perspective, the organizational science recognized (and studied) the existence of different levels of organization from individual members, groups, departments, to organizations, to populations and even to communities (of organizations). These levels form a hierarchy of aggregation that supports the theory that organizational systems are hierarchically arranged. Since many other levels can be drawn from this hierarchic arrangement, Baum and Rowley (2005), suggest an organizational approach based on "the focus of interest to be explained" and that consist of only three levels:

(i) Intra-organizational level
(ii) Organizational level
(iii) Inter-organizational level

The *intra-organizational level* focuses on understanding people (individually and collectively), the knowledge, the tools and the tasks that constitute any organization. The *organizational level* instead, focuses on understanding processes, the systems of activity, the organizational boundaries, and the strategies of organizations. At the *inter-organizational level*, the focus of attention is on understanding the nature and dynamics of relationships, and interactions within and among organizations. The objective of these levels of levels of classification is to simplify the analytical process of the complex phenomenon of organization. The multilevel perspective aids researchers to attain a richer understanding of this phenomenon.

6. Organizational environments

Baum and Rowley, describe another important contribution from the open system perspective to the organizational science: "the conceptualization of the nature of organizational environments". This set of theories regards the existence of different environments in which organizational activities take place, resources are exchanged, and interactions occur. Baum and Rowley (2005), describe the following three organizational environments:

(i) Task environment
(ii) Technical environments
(iii) Institutional environments

The *task environment* is probably the first and most common view of an organizational environment. The task environment compresses all aspects in the environment of the organization that are or might be relevant to the setting of goals and their achievement. Hence, such environment compresses the sources of input, the market for outputs, the regulators and the competitors.

The *technical environment* on the other hand is the location were organizations produce their products or services and such outputs are awarded by the market for their high quality or efficient performance. Both environments, tasks and technical, imply that organizations are activity systems conceived with the purpose to achieve economic-driven goals. The rationale behind this perspective is that organizations need to interact with their environment in order to survive since they are not self-sufficient to produce all required resources and information. In this context, Baum and Rowley indicate that the need for information in organizations creates uncertainty while the need for resources creates dependency. On the other hand, when the environment is complex and unstable it induces a higher degree of uncertainty (information is complex, fragmented, scarce, difficult to collect or interpret). When resources in the environment become scarce and their sources are highly concentrated and coordinated, it induces high degree of dependency. Although the conditions in the environment affect the organization as a whole, in general one can say that each component of the organization could experience uncertainty and dependency in a different way.

Organizational environments also entail normative and symbolic references for the activities organizations perform. These set of formal rules and beliefs form the *institutional environment* of a firm. This environment rewards the performance of organizations not on the base of the quantity and quality of outputs (products or services), but on the use of proper structures and practices. In the institutional environment, conditions will be broadly influenced by the social structure and values (e.g. given by the state, professional associations and trade unions and, social and civil groups). In general, the institutional environment theory advocates that organizations not only need to be rewarded by markets to survive, but also be supported and legitimized by its environment. Such approach implies that the environment becomes a source of normative and cognitive constraints to organizational activities (e.g. ethic regulations).

Often, technical and institutional environments are perceived as independent forces, since each organization can respond to them in very different ways. In other words, some scholars suggest that the survival of an organization will be determined for just one of the environments in which it is immersed (and according to the activities, it performs). Baum and Rowley illustrate this perspective contrasting the activities of an educational organization and an airline. The educational institution will be broadly influence by the conditions posed by its institutional environment, while the airline will respond to demands emerging from its technical environment. However, there is increasing consensus about the interdependency between both environments. Indeed, contemporary views advocate the idea that the broad institutional environment defines a particular technical environment. Baum and Rowley explain that markets that reward organizations for their efficient performance are indeed based on institutionalized rules such as for example *intellectual property rights* and norms for *fair trade*. However, for some scholars distinguishing between these two environments is wrong in principle, since all organization are supposed to respond to both technical and institutional aspects of their environments simultaneously.

7. Modern organizational perspectives

The present classification suggested by Baum and Rowley (2005), surely does not include all possible theories in the field, but it certainly does represent some of the main theoretical streams observed in business organizations today (See Figure 1). This simplified classification, suggests that the dominant theoretical stream is the open system perspective. From this stream, three different approaches connected to the principle of natural and rational systems emerge. Each of the three approaches entails a number of different underlying theories.

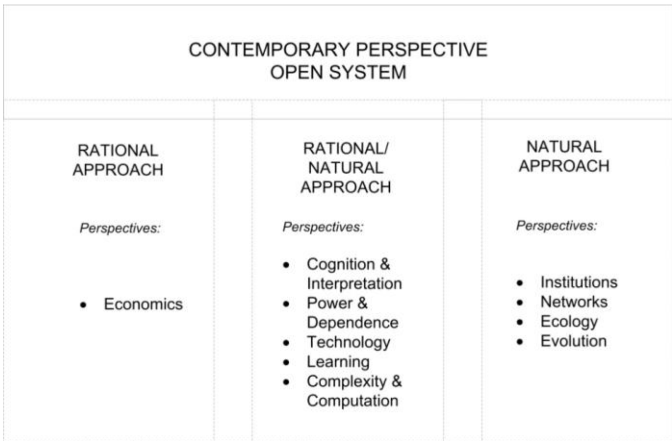

Figure 1. Ten different contemporary perspectives on organizations in relation to the rational, natural and open definition of systems (Modified from Baum and Rowley, 2005).

7.1. Natural – open systems

In *the natural-open systems* approach, the main theoretical trends include *institutions*, *networks*, *ecology* and *institutions*. The *institutions theory* advocates the idea that organizations are constructed by the increasing rationalization of cultural rules. In this perspective, the role of institutional cognition, the construction of social actions by organizations and the effect that institutionalized rules and environments have over the organizations are core concerns. In other words, as suggested by Baum and Rowley (2005), "Organizational performance is inherently social, depending not on technical and economic competence, but on conformity to rationalized rules and requirements necessary to acquire needed social support and resources and to be perceived as legitimate."

Networks theory on the other hand, focuses on the nature and dynamics of networks of inter-personal and inter-organizational relations, and the characteristics that actions acquire because networking. This perspective is based in old theories (back to late 1800s) attempting to explain the role of social environments as determinants of individual behaviour. During the last decade, networks scholars have devoted much effort to explain how certain characteristic of the network (e.g. structure and information channels), and their positions within other networks, can be used to predict organizational behaviour.

From the perspective of *ecology theory* the characteristics of the environment (its constitution), affects the relative abundance (number) and diversity (type) of organizations and their evolution over time. In general, the characteristic of the environment refers to economic, social, and politic conditions. The rationale behind the ecology theory is that the members of an organization are in permanent struggle to adapt strategies and structures to the demands posed by an uncertain and changing environment. In this context, the organizations that are not able to cope with such demands are "selected off" as occurs in ecological systems. This process of selection over time induces changes in the structure and strategy of organizations and their populations. This principle is often observed from the perspective of markets, firms, or industries.

In a similar stream, *evolution theory* in organizations focuses on the dynamics between environments and "populations" or "communities" over time. In the evolutionary perspective there are three fundamental processes: variation, selection and retention. These concepts are taken from principles of biology and ecology. *Variation* in the organizational context is a process that produces variations in structure and strategy, *selection* entails a process of selective elimination of certain (inappropriate or less effective) variations, while the process of *retention* represents the preservation of and propagation of the variations that were not eliminated. In general, there cannot be a proper evolution if one of the three processes is missing. In addition, variation is an erratic process that operates "blind", "by chance" or "random" that remarks the role of uncertainty in evolution. Although variation is the input to selection and retention, it is the least studied process in the evolutionary theory of organizations. In addition, little is known about the "inheritance" process in organizations and social structures. In biology, the mechanism of inheritance is explained in the base of the propagation of genes, but in organizations, no information unit such as gen has been ever identified. Indeed, the process of inheritance in organizations seems to act significantly different (somehow more erratic) than a process driven by genetic transmission.

7.2. Natural & rational-open systems

This approach currently entails theories and views such as *cognition and interpretation*, *power and dependence*, *technology*, *learning*, and *complexity and computation*.

Cognition and interpretation is the application of cognitive principles to organization. In this context, the organization can be perceived indistinctly as a *system of information* or as a *system of meaning*. In the first view, the organization codes and enacts information in a computational fashion. Searching and processing relevant information implies high costs and its effectiveness as a process rely on the rationally-bounded nature of the managers leading the organization. In the second view, the characteristics of the process of searching and processing information are determined by the meaning of that information in the social context created by the members of the organization. In other words, the first view focuses on processing information while the second focuses on interpreting it.

Power and dependence is a perspective based on the principles advocated by Marx about the diversification of interest and goals and the role of power on determining which interest or goals are to prevail. In the organizational context this principle advocates that it is the (organized) use of power (or influences) what determines the success of some organizations over others. One stream within this perspective focuses on the "corporate elite" or the use of power for the collective benefit of a group of organizations. Another stream focuses on the exercise of power within and between organizations. Although these views refer to organizations, the principles behind broadly regard the capability of individuals to use resources and capabilities to their advantage.

Technology theory on the other hand, advocates that technology is an important driver of organizational structure. Baum and Rowley (2005) indicate that:

> "…the greater the technical complexity, the greater the structural complexity; the greater the technical uncertainty, the greater the decentralization and lower the formalization; the greater the technical interdependence, the greater the need for coordination."

This perspective however, is less accepted today since it fails to predict technology changes. Baum and Rowley indicate that such failure is due in part to the influence that both, informal and formal structures in organizations have in technologies and the structures they form. Then, one can say that the dynamics of technology change are to some extent, determined by the social context in which they take place. However, in the most contemporary perspective on technology theory, emphasis is giving to the role of organizations in technology change and diffusion of technologies, the dynamics of competition between rival technologies, and the dynamics of technology change in organizational environments. Another perspective is based on the role of technology as an agent of "creative destruction" (Schumpeter). This perspective suggests that technologies do evolve over time in long cycles of incremental change until new and superior technologies are created, old technologies are replaced, and a new cycle of incremental change is initiated. In this context, Baum and Rowley (2005), suggest "organizations are "carriers" of technology whose fates are influenced profoundly by these technological dynamics. Recently, as the idea that "knowledge" is a key to superior organizational performance has become more influential, attention to technology has increased dramatically in organization science." This suggests that after a short period of "theoretical weakness" the technology perspective is once again relevant to the organizational theory.

Learning as a theoretical perspective has been established as a consequence of the increasing interest in the role of knowledge in organizations. Organizational learning theory suggests that organizations are transformed by experience. The process of "learning" however, takes place when knew knowledge is introduced and embedded in the organization. New knowledge can be embedded in different "reservoirs" such as people, routines or technologies. Eventually, the embedded knowledge can be retained and transmitted. However, Baum and Rowley (2005) remark that learning in organizations not always implies progress or improvements. Indeed, experience in this context can be biased in many ways. Take for example the development of a new operational procedure in a transnational firm that has been based on the experience acquired working with suppliers in India. Such procedure might not be optimal in the organizational environment outside the context of that particular country. Although the organization has learnt a new procedure, the value of such knowledge is context dependant. Currently, there has been increasing focus in the fact that organizations not only use their own experience, but that also can learn from the experience of other organizations. This perspective is reflected in the concept of "transfer learning" in which a positive change (e.g. innovation) occurs by sharing direct or common experience among organizations or their structural units. This concept also regards the action of constructive imitation by observation.

The perspective on *complexity and computation* emerges from the interest to apply complexity theory to organization (e.g. chaos and dynamic equilibrium). This perspective has become very popular in recent years, particularly in large and diversified multinational organizations. There is an increasing focus on the issues of adaptation in changing environments, and of interdependence within and among organizations. Although useful principles have been introduced to deal with the increasing complexity of organizations, a serious lack of empirical work in the field is observed. In general, some common complexity-based theories suggest that the units that form an organization are in permanent transformation until reaching the edge of chaos. In turn, the organization is constantly adapting to new demand and condition between organizations and their system. If an organization has a rigid structure, and each unit is highly interconnected and dependant, each decision and action taken at the unit level can have catastrophic consequences for the whole organization. In the same way, if the system of organizations is tightly constructed and the degree of inter-dependency is high, the fall of one organization can bring the entire system down.

7.3. Rational-open systems

The perspective of organizational *economics* is the main theoretical framework in the rational open approach. Baum and Rowley (2005) suggest that this contemporary perspective departs and differentiates itself from the neoclassic point of view of the firm, in which the firm makes choices of output volumes according to the prices observed in the market. In such market, firms have access to the same technology and information therefore, decisions become rational and predictable and broadly driven by changes in cost and demand. The neoclassical view consequently, does not consider the role of institutional settings and the effect of differentiated capabilities of the firm. The market and the organizations immersed into it (the firms) become mere abstractions.

The *economics perspective* today combines different managerial and economic theories and frameworks (e.g. resource-based theory and evolutionary economics), in an attempt to address and explain "real life" situations observed in markets and firms, in a less abstract way than in the neoclassic view. One stream in this perspective addresses the role of strategic management (and therefore of the managers) as focused in the maximization of profits through the development of specialized resources and capabilities (of high quality). This stream opposes the neoclassical view of strategic management as focusing in tactics or plots to create entry barriers to potential competition.

Another streams in the economics perspective address the question of how firms growth and behave beyond equilibrium based on their particular acquisition and management of resources, and the boundaries of firms and markets (e.g. transaction cost theory). In general, these perspectives acknowledge the existence of dynamic and imperfect markets conditions. In the same line, another popular stream is based on the so-called "agency theory". In this theory, the focus is on an agency-like relation between stockholders and managers (the agents), and the emerging or potential conflicts in the "agency" due to the particular (and hidden) agendas of each agent.

Baum and Rowley remark that although these streams are different to the neoclassic view, they still observe the basic principles of market competition and organizational rationality. Therefore, the economics perspective still does not address the issue of individual choices (strategies) but do concentrate on the observation of the events regarding organizational efficiency. Eventually, the economics perspective – popular among managers and economists – still considers the firm as entity that is driven by entirely rational decisions and actions.

8. Strategy in the perspective of organizational theory

Organizational theory, *organizational behaviour* or *organizational studies*, is the systematic study and application of knowledge about *how people – as individuals or groups – act within organizations*.

In this context, organizations are studied from multiple viewpoints, methods, and levels of analysis. For example, behaviour in an organization can be analyzed from a *micro* perspective – focusing on individual and group dynamics in a given organizational setting – and/or from a *macro* point of view – focusing on the organization's dynamics, their evolution and the guiding strategies and structures over time. Whatever the focus of study might be, organizational theory not only attempts the understanding and modelling of the many factors driving people's interaction within organizations but also their *explanation*, *prediction* and *control*. Hence, organizational theory is perceived by many as an important tool towards the successful (and sustainable) development of organizations. Others however believe the opposite, and warn us about the implicit risk of using such studies as a tool to control the behaviour of workers (Grant, 2008b)

As a scientific discipline, organizational theory is not recent. Some scholars believe that it begun with the advent of "scientific management" in the late 1800's. Early studies on organizational theory did focus on human and organizational issues affecting productivity. After the First World War (WWI), the focus moved to the analysis of how human factors and psychology affected organizations. After the end of WWII, the development of large-scale logistics and operations research brought interest on a multidisciplinary approach to the study of organizations (e.g. systems theory, complexity theory and complexity strategy). During the 1960s and 1970s, the field was strongly influenced by *social psychology*, while the emphasis in academic studies was on performing *quantitative* research. This brought with it a large number of new theories, such as for example the "bounded rationality", the "informal organization", the "contingency theory", "resource dependence", "institutional theory", and the "organizational Ecology" theories, among many others. In the 80's, the role of *culture* in organizational behaviour acquired great relevance and new qualitative methods based on psychology, anthropology and sociology were developed and broadly applied.

Nowadays, organizational theory is a steadily rising cross-disciplinary field with formal presence in academic departments and programs in faculties of industrial psychology, business schools and engineering. Therefore, the field has become highly influential in the business world with practitioners translating academic research into business practices all around the world. Varieties of analytical methods are used in organizational studies including quantitative methods such as multiple regression, non-parametric statistics, time dependent analysis, and ANOVA. Some qualitative methods entail ethnography (direct observation), single and multiple case-analyses, and other history-oriented methods. In the last decades, the focus on *language*, *metaphors*, and "o*rganizational storytelling"* has increased. Eventually, the theory and practice of organizational behaviour is acquiring relevance in the global economy, as more people with diverse backgrounds and cultural values have to work together effectively and efficiently. Some new important keywords in this context are *ethics*, *leadership* and *culture*.

8.1. The evolution of corporate organizations

The most of our current production of goods and services is in the hands of corporations (Grant, 2008b). Corporations are enterprises with a legal identity that is different to the identity of their owners. Exemptions to this fact are the activities of agriculture and craft in developing countries (family-based production mainly), and services such as education (government-based production/control). Historically, the control of production not always was in hands of corporations but organized through *networks of self-employed*, home-based workers. Commonly, the largest networks were agricultural plantations. Within these networks, a basic *"putting-out"* production system was implemented. Take for example the wool industry in Briton in 1800s: home-based spinners who purchased raw wool (on credit) from a merchant to whom they sold the yarn; the merchant resold the yarn to home-based weavers from whom he purchased cloth. After the industrial revolution, the home-based workers became employees at a textile factory and stop being independent contractors. Eventually, they became part of an organization.

The business organization is often indicated as one of the greatest innovations of modern civilization. This is reflected in their increasing role as organizers of production, and therefore in their influence over the main features of modern economy. Hence, we can infer that business organizations are effective and efficient organizing the economic activity. In the *capitalist economy*, production can be organized in two places: in *markets* (by the mechanism of *price*) and in *firms* (by *managerial direction*). The potential role of markets and firms in the capitalist economy is determined by *efficiency*: e.g. if the administrative cost of firms is *lower* than the transaction cost of markets, transactions will tend to be organized within firms and not across markets. Hence, if firms are more *efficient* managing their cost than markets, the economy is then *organized* around the firms.

According to Grant, the modern business organization or corporation, as we know it today, emerged as the result of two changes: (1) the adoption *line-and-staff structure*, and (2) the creation of the *multi-division corporation*. Initially, most of companies were very small and operated (managed) from a single plant or office. The lack of transportation limited the operations and market of the firms to their immediate location. With the creation of the telegraph and the railway system, such limits did eventually disappear. However, in the perspective of geographically larger markets, operations needed to be adjusted originating new organizational structures and management methods. Having now physically separated units, the firms needed to provide them with an administrative structure. In principle, a basic organizational structure was created on the base of a group of units, managed by an administrative headquarter. This was the so-called *line-and-staff structure*. Employees of the firm were either *line*, allocated to operational task within operational units, or *staff*, as administrators or functional specialists placed at a head office.

The other fundamental change, the creation of the *multi-divisional corporation*, took place on 1920s because of expanding operations (different products) and businesses (merger of companies). Such new organizational arrangement came to replace the predominant centralized functional model, giving rise to a more complex functional structure. At that time, two pioneering companies took the lead on the implementation of multiple divisions: DuPont and General Motors. DuPont indicated that the ever-increasing complexity of operations raised too many coordination problems and the few top managers were just overwhelmed by the load of work and the complexity of decision-making. Hence, the firm did transform each different product line into a decentralized product division with its own sales, R&D, and support activities. In the case of General Motor, the rapid acquisition of other companies brought with it a great deal of coordination and management, particularly in terms of a weak financial control and a rather confused product line. Making each new company a division under a common management system was a better arrangement for the need of the company at that time. This implied that each manager at a division was responsible for the operation and performance of the unit, and a director was the responsible for the development and control of the entire organization.

Therefore, the primary feature of the emergent "*divisionalized" corporation* was the separation of *operating responsibilities*, now in hands of general managers at the divisional level, from *strategic responsibilities*, now located at the head-office. This basic approach to modern organizational structures combines both *centralized coordination* (top management) an *operational decentralization* (operation management).

Following the occurrence of these two fundamental changes, business organizations have continue to evolve. Since the end of WWII structures and systems of companies have changed drastically. Today, the multi-divisional structure of large firms has evolved into a *matrix organization* in which separate hierarchies are coordinated around a variety of products and functions at different geographical areas. This increasing organizational complexity demanded a higher degree of flexibility and responsiveness. Accordingly, new forms of shared coordination and control emerged (e.g. networks, alliances and outsourcing partners). In the last decade, the focus of management systems has rapidly shifted from *operational issues* towards *corporate issues* such as knowledge management and social responsibility (Grant, 2008b).

8.2. The strategic need to align specialization, coordination and cooperation

Any *organized activity*, at any organizational level, does implies the interaction of t*wo* opposed requirements (Grant, 2008b):

i) The *division of labour into various tasks*, and
ii) The *coordination of tasks* to accomplish the activity

Therefore, it is suggested that the two fundamental organizational requirements are the *specialization* and the *division of labour*.

Grant suggests that specialization is the fundamental *source of efficiency in production*, particularly through division of labour in to separate tasks. This might bring to the memory the iconic image of an assembling line at an old car factory. In the assembling line (through division of labour) each worker does something particular (the task) that only he/she does (the specialization), and adds to the assembling of the final product. Henry Ford, the American car maker and creator of the moving assembly line, reduced the production time (and cost) of a car from 106 hour to only 6 hours thanks to specialization and division of labour. Of course, specialization and division of labour do not only regard assembling lines, but any division and coordination of tasks with the purpose of increasing production. Indeed, it has been suggested that the huge difference in human productivity, between old and modern societies, is the mere result of efficiency gains of individuals specializing. However, the highest the specialization, the higher the number of required specialist to carry out the tasks will be. Instead, the highest the number of specialists, the higher the *cost of coordination* becomes. If the environment in which the labour takes place becomes unstable, the need of specialized decisions increases together with the cost of coordination. On the contrary, if the environment stabilises the division of labour becomes optimal. This is suggested to be true for both firms and societies. If a society is immersed in a chaotic environment (e.g. countries in state of war or civil turmoil), the chance of specialization to spread among individuals is low, since basic self-sufficient organizational units prevail over large (and costly) specialized organizations. Such societies often subsist on the base of self-sufficient units such as families rather than on the base of firms. These economies do not grow and the countries move to a state of mere subsistence. However, specialization by itself is not enough. No matter how specialized an individual become, production efficiency will not arise if the coordination of such skills with the skills of other individuals within the organization is not possible (Grant, 2008b):

> *"Production efficiency depends on both the specialization and coordination of efforts between individuals working together"*

As in a sport team, success is most cases the result of an adequate coordination of individual capabilities and the collective effort. However, how do organizations coordinate the efforts of individuals? Literature depicts four basic coordination mechanisms (Grant, 2008b: p. 176):

Coordination mechanisms in organizations

Mechanism	*Description*
Price	As in a market, price also drives coordination in firms: Each division or department "trade" the price of their own assets though an *internal price* that can be negotiated or set by the head office.
Rules and directives	Employees at a firm agree on performing a variety of duties (tasks) according to *general work contracts*. The firm exert authority and control over employees on the base of rules (e.g. minimum work period per day) and directives (e.g. not to smoke in common areas) set by the contract.
Mutual adjustment	This is a primary mechanism of coordination of activities. By interaction and mutual learning, individual adjust their individual routines to their common routine. This kind of coordination occurs in all teams and groups without a formal leader.
Routines	A routine is the formalization of frequent activities coordinated by means of rules and mutual adjustment. This means that coordination is embedded in routines that can be repeated over time.

The role of each mechanism is to be determined by the type of activity being performed and the degree of collaboration required doing so. *Price mechanisms* will fit better in straight coordination activities such as for example, the coordination of production and sales. In this case, the best incentive is to offer to the sales' personnel a high commission (price incentive) over products with high inventory. *Rules mechanisms* on the other hand might work better in activities that require standardized results such as for example high quality standards. In this situation, operators often have limited freedom of decision, and simple rules to coordinate (and standardize) the efforts are followed instead. *Routines mechanisms* are more efficient to coordinate activities where the interdependence between individual is very high. This applies for simple or complex activities

Coordination also means *cooperation*. Grant suggests that when *coordination problems* are not solved by the simple implementation of a coordination mechanism, due to the rise of individuals with *conflicting goals*, we face a *cooperation problem*. In order to overcome such issues, *incentives* and *controls* are required. *Incentive mechanisms* often entail financial incentives (reward of performance), while *control mechanisms* are often based on supervision of performance and behaviour (direct supervision of subordinates). A third mechanism to solve coordination problems and conflicting goals without incentives and controls is the *share of values*. Sharing values in firms imply sharing *cultural values* such as religion or the appreciation for excellence for example. Today, the role of corporate culture is receiving a lot more of attention than before. Cultural factors for example are suggested as the main driver of success in many Japanese corporations. Sharing values can reduce the cost of implementing control and incentive mechanism through self-control and self-motivation.

8.3. Hierarchy: The basic organizational design

In order to address specialization, coordination and cooperation, large-sized organizations have implemented a *hierarchy* system. It has been suggested that hierarchy is fundamental to the structure of any organization, indeed hierarchy is believed to be present in *all* complex systems (Grant, 1998b).

Hierarchy itself is a system, composed of interrelated subsystems (e.g. the individual, the family, the community, the society). In management, we understand hierarchy as and administrative arrangement within superiors and subordinates in which the flow of authority runs from top to bottom. One of the main purposes of hierarchy in organizations is to *economize coordination* efforts, time and costs (See Figure 2). In *self-organizing groups or teams* (with no hierarchy), more coordination interactions are needed compared to a basic hierarchy. Another important function of hierarchy is *adaptability*. Hierarchical or modular systems are able to evolve faster than unitary systems that are not organized into subsystems. However, such a degree of evolution and adaptability to changes implies that each subsystem in the hierarchy must have a certain degree of independency. In such arrangements, problems would be detected and isolated rapidly.

Hierarchy can also be used as a *control mechanism,* helping to solve problems of cooperation in organizations. In this context, hierarchy is used to clearly define who has the power in the organization and which the rules to be followed are. Hence, it does establish a system in which superiors have the *control* over subordinates. Cooperation in such a system, often called *administrative hierarchy*, is very high since it can be *managed*. An administrative hierarchy becomes a *bureaucracy* when rules and norms are standardized and formalized. The main purpose of a bureaucracy is to reduce the effect of human behaviour (e.g. emotions, personality) on production. For this reason, bureaucratic organizations are also named *mechanistic* or machine-like organizations.

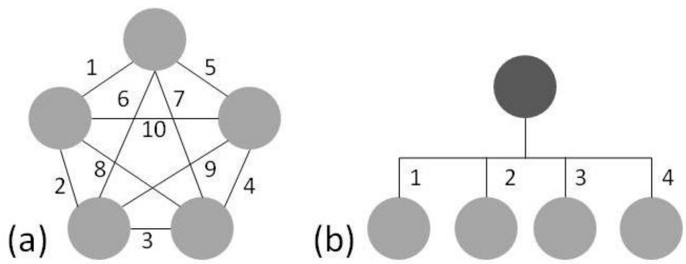

Figure 2 How hierarchy economizes on coordination: (a) For a self-*organizing group* of five persons with no leader, 10 interactions are needed to coordinate one activity. However, for the same number of persons under a (b) *hierarchy* of one leader and three subordinates, only 4 interactions are needed to coordinate the same activity. Hence, the hierarchy system “b” saves six moves economizing resources

- Modified from Grant, 2008b: p. 179-

We have seen that hierarchy can be employed to optimize coordination and control collaboration in organizations, and that the focus on control to reduce human interference gives rise to what we know as bureaucratic organizations.

In organizational theory, bureaucracies are also known as the *mechanistic* form of organization. This name comes from the vision of an efficient working organization without the trail of human deficiencies, resembling the view of a tireless, flawless machine. This organizational model, reached its peak on popularity and diffusion by the first half of the 20th century. During this period, bureaucracy became *the* way to organize not only large business corporations, but also public divisions such as the Military and the Public Service. However, as more knowledge was gained in theory of management, an alternative form of organization started to arise: the *organic organization*. By mid-50s, scholars suggested that coordination and collaboration where also a function of *social interaction*. If an organization is not bureaucratic, it becomes more informal and therefore, more flexible. In such organizations, efficiency is also possible but it depends on mutual adjustment and interaction. The name "organic" was derived from the non-mechanistic sense of the form. Today, in a single firm both mechanic and organic forms can co-exist simultaneously. Whether an organization is more mechanistic or organic depends on the type of activities the organization takes on and the environment in which the activities are performed at. Some companies will find advantage on keeping a mechanistic approach when they are required to operate under strict standards.

> EXAMPLE: The fast-food restaurant McDonalds is an example of mechanistic organization. The firm depends on providing the same quality of food at low cost to consumers worldwide. To do so, McDonalds developed highly standardized working practices and operational procedures. As a mechanistic organization, the firm carefully controls its inputs to reduce variation (work or operations out of the standard) and avoid human interference as much as possible.

On the other hand, if an organization requires constant development of new knowledge, and depends on strong R&D activities, an organic form of organization will be preferred. The main characteristics of and differences between mechanistic and organic organizations are described bellow (modified from Grant, 2008b: p. 182):

Differences between the mechanistic and organic forms of organization:

Feature	*Mechanistic Organization*	*Organic Organization*
Task definition	Rigid and highly specialized	Flexible and general
Coordination & Control	Vertical top-down management by rules and directives	Horizontal management approach by mutual adjustment and common culture
Communication system	Vertical flow	Vertical and horizontal
Knowledge creation	Centralized at the top	Dispersed
Commitment and loyalty	To immediate superior	To the organizations and its goals
Environment around the firm	Stable with low technological uncertainty	Unstable with high technological uncertainty

In practical terms, all organizations do organize their functions and divisions based on both, the organic and the mechanistic approaches under the same criteria listed above. Stable operations such as financing, customer support, or acquisitions will be usually organized in a mechanistic form. Contrarily, highly variable activities such as for example R&D, Marketing and Strategic Planning will be organized in an organic form.

8.4. Alternative organizational forms

As the organization grows in size and complexity, more layers within the hierarchy will be added. In a bureaucracy with centralized power, each additional layer added brings an increment in the number of required (top and mid) managers, a reduction in the speed of the decision-making process, and an overall deficit of control over the whole system. Over time, the ecological, social, cultural, economic, and politic environments surrounding the firm have become more unstable forcing firms to quickly adjust their structures and forms in order to survive. In bureaucratic firms, the capability to adjust (or respond) to changes in the environment is limited by the rigidity of the system. As a consequence, in the last decade less and less companies do completely keep mechanistic structures. However, as the mechanistic form still provides the most efficient and reliable coordination and control of labour division, new organizational structures are not completely free of bureaucracy. Hence, the challenge for these new firms is not to eliminate hierarchy but to organize it in a different way, allowing more flexibility and responsiveness.

> EXAMPLE (Grant, 2008a): General Electric is a large corporation that has been forced to rethink its huge hierarchic system. The company has a large multi-divisional structure that demands efficient coordination and large control efforts. In the current organizational form, the company kept the same divisions but it has reduced the number of layers (scales) in the hierarchy, decentralizing decision-making. This implies that the number of management personnel at headquarters was reduced to the minimum possible and that the communication system shifted from horizontal to vertical. Control in this new organizational form is based on accountability rather than in supervision.

In the prevailing structure of contemporary (large) firms there are four basic ways to organize personnel (according to Grant, 2008b):

(i) Task
(ii) Products
(iii) Geography
(iv) Process

Grouping employees based on the *task* they will perform, is probably the most basic form of labour division. Here the group is arranged on the base of a common task and all members do perform the same job (sales, assembling, acquisitions, marketing, etc). Contrarily, when a company offers many *products,* each product will become a department, and labour will be divided accordingly. Let us take the example of Pepsi Co. that has three main production divisions on the base of three very different products groups such as PepsiCo Beverages (sodas, juice and water), Frito-Lay (snacks-food), and Quaker Foods (cereals and processed food). On the other hand, when a company operates in different local markets, working divisions are commonly organized on the base of *geography* (e.g. 7-Eleven operations organised into international divisions by regions, countries and areas). In terms of operations, a company also can organize itself around a particular *process* (a sequence of interrelated activities). In this case, the organization is seen as a set of processes such as for example the product development process or the manufacturing process. In general, firms tend to organize labour in terms of particular processes regarding a product (e.g. bottling and distribution of Pepsi) or a particular task (e.g. PepsiCo marketing: communications and sales of Pepsi).

Firms can be organized not only in terms of grouping personnel and activities but also in terms of *factors of advantage* (Grant, 2008b). For example, there is an advantage in grouping together activities where *economies of scale* are present (e.g. research activities – R&D – through projects generating knowledge and research infrastructure within and out the firm). In addition, a department can be created with the solely objective of *economic utilization* (e.g. a Department of Maintenance could be more cost-effective that to have maintenance engineers in each working unit). On the other hand, a firm can increase its competitiveness by building capabilities through *learning.* In this case, labour can be organized in terms of maximising the effect of mutual learning like for example creating cross-disciplinary departments of R&D able to link different knowledge bases at the firm. Another criterion to divide labour in a firm is based on the need to *standardize control systems*. Units that do not have the same way to operate require different control systems. In general, firms tend to group units into divisions that have the same control system (e.g. manufacturing). The approach of a firm to organize tasks and activities, will determine the organizational and operational structure. Grant (2008b), suggests three main types of structure for the contemporary firm:

(i) *Functional structures*
(ii) *Multidivisional structure*
(iii) *Matrix structure*

Single-business firms adopt *functional structures* in order to increase their capability to exploit economies of scales, learning, capability building, and standardization of control systems. This implies that firms group together tasks with similar functionality (e.g. entertainment division, medical division, etc). Control in this structure is highly centralized. The *Multidivisional structure* instead, was created with the objective to reduce the problems of diversification by decentralizing decision-making in firms producing more than one product and or operating in different geographical locations. In this case, each division is able to decide upon local business strategies and operation-related options. The so-called *Matrix structure* in contrast, was created to organize large and complex corporations, or groups of them, working simultaneously with different products, functions, at different locations (e.g. Royal Dutch Shell Group, Philips, and Nestle).

All forms of organization we have seen so far are to some extent hierarchic arrangements. However, in the last two decades scholars and managers have suggested that hierarchy as such is no longer efficient and new forms of organizations are needed. This claim is broadly based on the apparently endless opportunities for organization and management emerging from new Information and Communications Technology (ICT). Grant explains that such technologies are facilitating the advent of very different organizational structures driven by efficient self-organization and "virtuality". Among these raising forms of organization, we can recall at least three forms (Grant, 2008b):

(i) Adhocracies
(ii) Team and project-based organizations
(ii) Networks

Adhocracies are organizations with a high share of values, motivations and high level of communication and commitment among their members. In these organizations, a high level of coordination is achieved with little control effort. *Team-based and project-based* organizations are very flexible and adaptive forms of organization. Project-based businesses like in the construction sector for example, are activities conducted for a limited time focused on solving particular problems. Each project demands a different structure and focus. Team-based organization on the other hand, is becoming very popular among different type of companies. Activities such as product development, R&D, and marketing for example, are mostly organized on teams in order to enhance interaction and creativity. Finally, *Networks* are organizational structures aiming at increasing managerial and operational efficiency in highly-specialized firms, producing complex products. In the network, different firms will produce a particular part (often a technology) necessary to assemble a complex product. In order to increase coordination efficiency, it is common that one (and only one) company in the network is designated as a "system integrator".

8.5. Management systems for coordination and control

Management systems provide the mechanisms of communication, decision-making, and control that allow companies to solve the problems arising from coordination and control. There are four management systems in contemporary organizations (Grant, 2008b):

(i) *Information systems*
(ii) *Strategic Planning Systems*
(iii) *Financial planning and control systems*
(iv) *Human resources management system*

Information systems are concerned with the control and coordination of all information flowing towards, within and out the firm that are central to all operations. The flow of information in an administrative hierarchy is vertical and/or horizontal. Decentralizing communications is fundamental in order to increase flexibility. If so, decentralization of information is based on two principles: *information feedback* and *information network*. Feedback is fundamental to increase self-control among individuals, and networking to allow the voluntary coordination of activities among them.

Strategic Planning Systems are employed at large firms to increase coordination within the company. Plans helps to systematically build up on consistency between the decisions made at different sections and the goals of the firms. Strategic plans are first developed for particular units and then coordinated into a main corporate plan. A basic plan design usually entails five steps: A statement of the goals, a set of assumptions about future conditions or forecast, a qualitative statement of changes in performance, a sequence of specific actions, and a set of financial projections. In general the most important role of strategic planning regards the strategy process or the way in which knowledge is shared, ideas communicated, consensus is established, and commitment to action and results is built. Currently, there is consensus regarding the following aspects: strategic plans are more focused on performance target than in actions, that the focus on projections is on strategic directions (vision, mission and strategic intent) rather on forecast, that the focus of strategic plan is on coordination rather than in control, and finally that strategic responsibility is among senior managers (Grant, 2008b).

Financial planning and control systems are the primary control mechanism for managers. The fundamental process to implement such control is the *budgetary process*. Through a plan on what and how much to expend during a given period (the budget), managers have a basic framework to base decision making. There are specific and general budgets in a company.

None of the previous systems can work without people or human resources. Hence, it is imperative to any coordination and control system to be aligned with the system in which people organize their behaviour. The *Human resources management system* focuses on building up collaboration and commitment to the general objectives (and mission) of the organization. Only then, the rest of coordination and control systems can be implemented.

Modern companies often integrate different control systems. Currently the trend is creating *shareholder value* by coupling financial and strategic planning into human resource management. In this approach, managers try to define qualitative goals for individuals and groups and the mechanisms to measure and report the attainment of such goals.

9. Fundamental characteristics of industrial dynamics

According to Grant (2008b), there are two relevant environments to a business organization or firm:

(i) Internal Environment
(ii) External Environment

The *internal environment* (the firm itself), is determined and characterized by three basic elements: (1) *goals and values*, (2) *resources and capabilities*, and (3) *structure and systems*.

Instead, the *external environment* has different dimensions regarding politic, social, economic and legal issues, comprising the interaction of many actors. The prevailing view of the external environment of a firm focuses on actors rather than on dimensions. The most relevant actors in the external environment of a firm are: (1) *Competitors*, (2) *customers*, and (3) *suppliers*.

However, in some emergent management perspectives, the environment of the firm is understood as a rather dynamic (changing) system, in which actors and dimensions are equally relevant. In this view, there is no distinction between internal and external environments. This is the perspective of business organizations as components of larger systems as in ecological ecosystems (e.g. See the concept of business ecosystems proposed by James Moore). In the context of strategic management, the "fit" (harmonization) between the internal and external environments becomes the reason of developing and implementing strategies (Mintzberg et al., 1998).

9.1. The source of industrial dynamics

In Simple terms, value is the amount of money customers are *willing to pay* for a good (product) or service. Grant (2008b) suggests that business is all about creating *value* and that the main challenges for a business organization are:

(i) *To create value* for customers, and
(ii) *Transforming* part of that *value into profit* for the firm

Furthermore, Grant explains that *value* can be created by means of *production* or *commerce*. By *production* value is created physically transforming products that are less valuable to consumers into products that are highly valued by consumers (e.g. transforming a grain of coffee three into coffee, transforming the coffee into a cappuccino).

Contrarily, by means of *commerce* value is created through repositioning products in time and space. This implies moving or transferring products from individuals and places in which they are less valuable towards individuals and places in which they are more valued (e.g. importing dried and toasted coffee grains from Ethiopia to Europe). Another variation of commerce is *speculation*. This is transferring products from a given point in time in which they are less valuable to a time in which they will be more valuable (e.g. trading gold, jewels, houses and antics). Value, of course is not only about money but also about satisfaction. Then, besides the cash, firms also seek to satisfy their customers creating a value that exceeds the price paid for the product or service.

Companies produce value for their *stakeholders* (employees, customers, society, etc) and/or the *shareholders* (the owners). Grant (2008b) suggests that the balance in the distribution of value between stakeholders and shareholders will largely depend on *cultural issues* since countries differ on the approach to value distribution. Grant illustrates these through the following example:

> In North America boards are legally requested to act in favour of shareholders, instead in France boards are compelled to pursue national interests.

Currently, socio-cultural issues are the base of an ethical discussion. Nevertheless, firms traditionally aim to sustain the *maximum profit* as long as possible. Therefore, most companies (worldwide) do focus on the shareholders' interest. Consequently, Grant suggests that the main determinants of profit in current business organizations are *demand* and *competition*.

We have described how value can be created and distributed, and indicated that creating value does not directly imply creating profit. In this context, it is suggested that the real margin of money you can earn over the cost of the product (the profit) is actually determined by *competition*. If competition increases (many people producing and trading the same product), the value to customers increases since prices go down (same or more value is given to the customer for less money), and less profit is left to shareholders (when reducing the price, the margin of gains over the cost of producing decreases, and therefore the amount of money left to share is smaller).

However, profit is not only determined by competition, *demand* also plays an important role here. In this case, you have to see the firm not only as a producer but also as a consumer. From this perspective, the firm does simultaneously sell and buy goods and/or services. If so, the company also create demands among its suppliers of goods or services. Hence, when a firm requires for example a material that is sold just by one supplier (monopoly), its power to obtain a *fair* price for the material is low. Then the production cost will be greatly influenced by the cost of using that particular material. If competence increases, the price of the product will be lowered on the base of reducing profit (while keeping the value to customers). Concluding, one can say that the profit to be earned by a business organization is determined by at least three factors:

(i) The value of the product to customers
(ii) The intensity of competition
(iii) The bargaining (dealing) power of the producer among its suppliers

In modern management, these three factors are analyzed in a common framework: the *Porter's Five Forces of Competition framework* (Grant, 2008b). This framework, although not the only available, has become very popular between managers and planers thanks to its rather logic and simple analytical structure. The Porter's framework sees profitability as the result of a dynamic process determined by "*five forces of competitive pressure"* (or what makes you compete). In the framework there are three *horizontal sources of competition* (competition from *substitutes*, new *entrants*, and established *rivals*), and two sources of *vertical competition* (the power of *suppliers* and the power of *buyers*).

9.2. The five sources of competition

Competition from substitutes:

This source of competitions determines the price that customers are willing to pay for a product. If there is a cheaper substitute, the customer might not be willing to pay what the producer of the original product wants to ask for. As more substitutes you have, more competence you get and prices go down. When a product does not have a substitute (e.g. gasoline and cigarettes), consumers become relatively insensitive to the price. Contrarily, if closer substitutes (alternatives) become available, customers will react to high prices for the original product and will probably buy the *cheaper option*. A good example of competition for substitution is given by the creation of internet. When the net was created it provided a large number of substitutes for competition affecting the profitability of many established industries such as for example travel agencies (electronic booking), newspaper (free news), and telecommunication providers (free emails, chats, and calls). The effect of substitutes depends on the inclination of customers to replace products by alternatives and in the price-performance ratio of such alternatives (quality and social status matters a lot in some businesses, like luxury brands such as Louis Vuitton, and high quality performance products like Lamborghini sport-cars.

Threat of Entry:

If a business proves to be very profitable, new firms will be tempted to try. If too many new firms appear around your successful business, your profits will rapidly decrease for an excess of competition. In such a scenario, established firms tend to constraint (reduce) the prices of their products or services to a competitive level. The effect of this threat can be reduced in the following cases:

(a) The capital to start the business it is too high, so few if not only large companies will be able to enter (High tech industries such as pharmaceutics)

(b) When large-scale operations are needed (e.g. in the car industry only companies producing over 3,000,000 units a year can make profits, hence private new entrants are discouraged, and only state-supported companies are able to enter: e.g. Proton of Malaysia)

(c) When your company has an absolute advantage in production costs (e.g. you are the owner of the main source of row material needed to produce a given product).

(d) When your product becomes unique by differentiation (e.g. a unique brand: Rolls-Royce)

(e) When the new entrant firms cannot access established distribution or supply channels

(f) Due to legal and/or governmental barriers (protection of a national industry, protection of scientific discoveries, etc)

(g) Aggressive retaliation against new entrants by the side of established firms (e.g. rapid price cutting)

Industry competitors:

Established firms are often the most common source of competition among modern industries. The intensity of competition among industry competitors is suggested to have the most significant real impact in profits. Sometimes the competition gets so intense that prices are cut below the operation cost (at a loss), causing an overall reduction in the profitability of the industry or sector. Grant (2008b) suggests that the intensity of such interaction is determined by five factors: (1) the concentration of rivals in the market (the highest the more intense); (2) the diversity of competitors (the more diverse the more intensive); (3) product differentiation (the more similar the highest the intensity); (4) Excess of capacity (the less capacity is used the highest the intensity); and by (5) variability of costs (the least variable is the cost, the highest the intensity becomes).

Bargaining power of buyers:

Firms in an industry are vendors and buyers, hence it is said that they operate in two types of markets: markets of inputs and markets of outputs. In the first case the firm buys raw material s and good to produce, and in the later they sell what they have produced. In both markets the transactions create value for both the buyer and the seller. The profitability in this case depends on the economic power of sellers and buyers. The strength of buying power depends on two factors: The buyer's price sensitivity and the relative bargaining power:

I. The buyer's price sensitivity regards how much you are willing to pay for something you need, and the ability of the vendor to keep prices as high as possible. This is affected by the capability of the vendor to establish certain control over the price by means of selling something you really need, something all competitors need, or selling the most expensive item you need.

II. The bargaining power on the other hand depends on your capability (freedom) to refuse to deal with the vendor. The balance of power here depends on the size and concentration of buyers respect to vendors (more buyers than vendors increases the bargaining power of vendors), the buyer's information (the more the buyer knows about the vendor the highest his/her bargaining power), and the capability of autonomy (if the vendor find that he/she can do something by him/herself rather than to buy it, his/her bargaining power increases).

Bargaining power of suppliers:

In this case, the firm becomes the buyer and the supplier the vendor. Therefore, conditions are analogous to those described in the previous case. Something important to remark about this context is that in general, suppliers as vendors have a low bargaining power. This is in general the case when suppliers sell to large companies. To increase their bargaining power, suppliers often form alliances such as those observed in the coffee industry or the oil production (e.g. OPEC).

9.3. The source of competitive advantage

The previous chapter described how the capability of a firm to make profits can be affected (or determined) by the so-called "five forces of competition" suggested by M. Porter. In this chapter, we will focus on a different aspect of competition that regards the criterion to increase (and sustain) profit trough creating, increasing, and/or protecting particular advantages. This is the approach called *competitive advantage*.

Establishing advantage in businesses not only means to compete successfully but to keep doing so as long as possible. It is suggested that a firm can create value and increase profit by focusing on the following two aspects (Grant, 2008b):

(a) What is that the customer needs or wants? and,
(b) What is that the firm needs to do in order to survive competition?

In any case a firm need to know first the environment in which operates (both internally and externally). From the solely point of view of competition, a firm is supposed to succeed if it is able to identify the "key success factors" (modified from Grant, 2008b: p. 90):

Identifying key success factors

Prerequisites for success	*(a) What do customers want?*	*Analysis of demand*: * Who are our customers? * What do they want?
	(b) How does the firm survive competition?	*Analysis of competition*: * What drives competition? * What are the main dimensions of competition? * How intense is competition? * How can we obtain a superior competitive position?

In basic terms, a firm will have a *competitive advantage* over its rival if "while competing within the same market the firm earns (or has the potential to earn) a constantly higher rate of profit" (Grant, 2008b). Hence, *competitive advantage* can be defined as the means by which we can increase and sustain profit overtime. By "means", we can understand for example key investments, a key technology, or even the loyalty of customers.

In general, competitive advantage emerges from a change in the environment (internal or external), that makes competitors differentiate. In times of change, firms are compelled to respond and adjust mobilizing their resources and capabilities. In a competitive environment, such response can increase or decrease the overall capability of the firm to compete. In other words, it gives to the firm a relative or absolute advantage over its competitors.

In the current managerial approach, companies invest a great deal of effort to move ahead of changes to take advantage of an *early move*. This implies that firms have to develop an effective mechanism to anticipate or *foresee* changes. This last aspect is deeply related with current strategic management methods that exploit *foresight* as a tool of advantage. Another way to successfully take advantage of changes is *innovation*. However, the use of innovation as a tool for competitive advantage is often narrowed to the context of internal changes in the firm. Innovation in this context means *strategic innovation* by creating value to customers from novel products or services.

Sustaining competitive advantage is an important requisite for success as suggested by Grant (2008b). Generating high profit is meaningless if it is possible only for a short period. The main mechanism to sustain competitive advantage over time is the *protection* or *isolation of the source(s) of advantage*. This is often called the *isolating mechanism*. Such mechanism regards the *barriers* we pose to our competitors in order to keep our source of advantage unknown, unique, or well-secured. According to Grant, the firm can establish such barriers by:

(i) Preventing rivals from identifying and/or analyzing the advantage (secrecy)

(ii) Making the rival believe that imitation is not worth the investment (deceiving)
(iii) Limiting the possibilities of the rival to acquire or transfer the source of the advantage (uniqueness, exclusivity)

9.4. Types of competitive advantage

As you will be able to observe in most of firms, for managers competition is a core strategic issue. Taking advantage of what we have at hand – our resources and capabilities – is often managed by developing a (Grant, 2008b:p. 202-221):

(i) *Cost advantage*
(ii) *Differentiation advantage*:

Cost advantage occurs when a firm can offer the same or similar product or service than competitors, but at a lower cost. If so, profit can still be generated at a lower sale price. Instead, *differentiation advantage* occurs when the firm is able to offer a product or service in such a way that the customer is *willing* to pay a high price for what make the product or service different, or unique.

From a strategic point of view, most firms connect cost and differentiation advantage to their strategies and organizational requirements (See Figure 3).

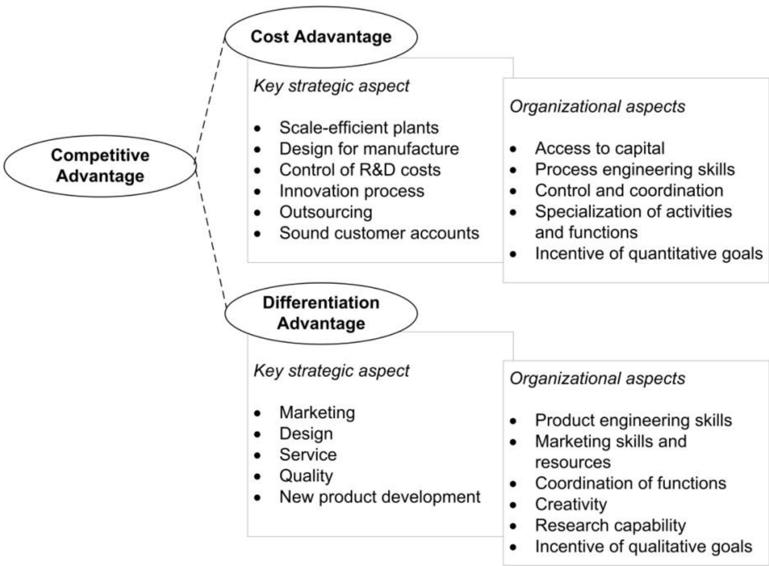

Figure 3. Common strategies and organizational requirements linked to cost and differentiation advantages (modified from Grant, 2008b: p.219)

9.5. The resource-based view of the firm: The strategic role of resources and capabilities

When strategies are focused on the firm itself, hence on the internal environment, two elements acquire strategic relevance: The *resources* and *capabilities* of the firm. This is the *resource-based view of the firm* in which *competitive advantage* emerges not from doing the *same* that other firms do (imitation), but from doing something rather *different* (uniqueness). This means, using to our advantage those elements or attributes that makes us different (Grant, 2008b):

(i) Resources, and/or
(ii) Capabilities

The *resources of the firm* are the productive assets owned by the firm. Resources can be tangible such as money, machinery and properties, or they can be intangible such as value, know-how and reputation. For some firms intangible resources are more valuable than tangibles resources. Human resources are an independent category since they are tangible but they are not owned by the firm. Human Resources bring experience and expertise to the firm and therefore, in modern management, the value of human resources is increasing rapidly, taking a central strategic role.

The *capabilities of the firm* are what the firm can do with its resources. Since resources are not productive on their own, a firm must deploy them in order to accomplish an objective. Capabilities such as efficiency and commitment to quality can increase the firm's competitive advantage. Two companies can deploy the same set of resources in different way due to their distinctive capabilities.

Resources and capabilities can be developed over time. Resources can be leveraged by concentration, accumulation, complementation and conservation. Capabilities instead, can be leveraged by creation (of new capabilities), exploitation (of experience), acquisition (merger), and accession (alliances).

10. Strategy and the performance of corporations: The Corporate and Business Strategy

In this course, we have defined strategy as the means by which an individual or an organization accomplishes an *objective*. According to Grant (2008b), for a business organization two basic objectives are to *survive* and *prosper*. Survival in this context implies that the firm in the long-term must be able to earn more than it has invested. This could be done in two possible ways:

I. Locating the firm within an industry in which potential profits are high, or
II. Developing an absolute advantage over rivals within the industry that allows the firm to raise profits over the average of the industry

These two ways of survival are what Grant defines as *mechanisms of superior performance*.

10.1. Strategic levels according to performance

The strategic level of a firm will be defined by the two sources of superior performance us:

(i) Corporate strategy, and
(ii) Business strategy

The *corporate strategy* sets the scope of the firm with respect to the industries and markets in which it competes. Such strategies regard decisions on investment diversification, the style of production integration, acquisitions and new ventures for example. In simple terms a corporate strategy helps to define the position of the firm in a given industry and market. This is where to compete.

The business strategy on the other hand, defines how the firm competes within a particular industry or market. This directly implies the need of developing and sustaining a competitive advantage. Hence, it regards the competitive strategy of the firm. In other words, a business strategy helps a firm to define how to compete.

10.2. Communicating strategies: Vision, mission, business model and strategic plan

In large companies, corporate strategies are in the hands of top management. On the contrary, the business strategy is often in the hands of divisional management. In any firm, the responsibility over strategies is primarily with the leader. In large companies that responsibility is shared by a group of top managers. In small business that responsibility is often in the hands of the leader or founder. In either case, a strategy is often communicated through a (Grant, 2008b):

(i) Vision
(ii) Mission
(iii) Business model
(iv) Strategic plan

The *vision* or "vision statement" is the concise description of the image, or an aspiration, of what the firm will be in the future. A vision can be seen as the "ideal image" of the firm if all objectives are materialized. Sometimes, vision statements can become too idealistic or abstract to transmit properly the strategy to the public, or the employees. An example of a vision statement can be as follow:

> *"Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.*
>
> - *People: Be a great place to work where people are inspired to be the best they can be.*
> - *Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.*
> - *Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.*
> - *Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities.*
> - *Profit: Maximize long-term return to shareowners while being mindful of our overall responsibilities.*
> - *Productivity: Be a highly effective, lean and fast-moving organization."*
>
> *The Coca-Cola Company (See http://www.thecoca-colacompany.com/ourcompany/mission_vision_values.html)*

The *mission* on the other hand, is a statement of purpose describing what is that the organization is looking to achieve over the long-term. The mission statement should at least depict the direction in which the strategy will take the firm:

> "Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.
>
> - To refresh the world...
> - To inspire moments of optimism and happiness...
> - To create value and make a difference."
>
> *The Coca-Cola Company (See http://www.thecoca-colacompany.com/ourcompany/mission_vision_values.html)*

A Business model is a statement of the way the business will generate profit. Business models vary on complexity, from a simple statement of price advantage, to the description of an entire competitive system. However, a business model is just a reference for strategy-making. Consider that a business model can be smart and sound, but still the company will need to define a good strategy to overrun competitors with the *same* business model, since – surprisingly or not – a business model is not subject of copyright.

Strategic plan is the documentation of the strategy in terms of performance goals, approaches to achieve the goals, and a planned commitment of resources over a specific period (usually three to five years ahead). In large companies, there are strategic plans for each division and the whole corporation, each geographic area and any individual business. Most large companies have a cycle of strategic planning that runs over a year (each year a new plan for the next year within the overall plan for the period).

In general, the firm is *not obliged* to have formal ways to communicate or implement their strategies. Some even might not have a strategy at all. In most cases however, managers of large firms will formulate and communicate strategies as a:

(i) *Support to decision-making*,
(ii) *Coordination device*, or as
(iii) *Target*

As a *support to decision-making*, strategies help mangers to overcome cognitive limitations (as a note in paper would help us to remember something, or a map would help to find a place). As a *coordinating device*, strategies provide the framework to unify behaviours across the different components of the organization (as for example, defining the goals, protocols, and control and reward mechanisms). Finally as a *target*, strategies help to define how the firm will compete today, and how it will do it in the future. Hence, strategies are forward-looking and they not only set directions for the future, but also the perspectives and visions that can drive and motivate people today.

10.3. The diversification of strategies

During the last decades new trends in management thinking has aided the diversification of businesses by building competitive advantage on the base of key resources and capabilities. Grant (2008b) suggests that the diversification of strategies today is broadly driven by three major goals in the business organization:

(i) Growth
(ii) Risk reduction, and
(iii) Profitability

In the long-term, all business organisations must change in order to survive and prosper. This also implies the redefinition of the business the company runs. In other words, in order to survive and prosper, a firm must diversify its business over time. In this context, Grant suggests that strategy is relevant to guide the search for *diversification* and that diversification itself is a strategy to survive (Grant, 2008b).

In the quest to survive and compete, strategies in firms are currently focusing on issues beyond resources and capabilities. Some trends in strategic management, for example, focus on rethinking the way firms work and adapt to changes. In this context, *Adaptability* has become a major requirement for certain business. In technology-intense industries conversely, the role of *innovation* seems more relevant to survival than adaptability. However, innovation in this perspective is not confined to the perspective of an internal process of the firm but rather open to a systemic view. The systemic perspective (or innovation system perspective) is an emerging strategic approach in which firms simultaneously compete and collaborate within the industry to innovate. This is the strategic perspective of the so-called *constructive competition*. In general, new strategic approaches to businesses not only demand new ways to do things but also new ways to think. This demands in turns the development of new forms of leadership able to encourage and guide the new strategic perspectives. In the meantime, new organizational forms with different structure and functions are emerging in order to cope with the trends in management and strategy.

In spite of the increasingly diversified strategic approach of contemporary firms, literature suggests some basic aspects about strategy in which most of practitioners and scholars agree (modified from Mintzberg et al., 1998: p.16):

I. Strategies not only concern the firm but also its environment. In fact, firms use strategies to cope with the constant changes in the environment.
II. Strategies are not simple since the changes they are coping with are of a complex nature and often, unique events.
III. Strategies affect the overall welfare of the firm since they regard all organizational levels.
IV. Strategy involves the content and process of actions in the firm, since they entail the actions we take and the process by which those actions are decided and implemented.
V. Strategies are not entirely premeditated since they also can emerge from past actions or experience.
VI. Strategies exist and co-exist at different organizational levels.
VII. Strategy implies several thinking processes ranging from conceptual to analytical.

CHAPTER THREE
Strategy as a Process

In this chapter, a generic strategy process is suggested and present together with a synopsis of relevant issues related to each of the stages in the process based on relevant literature on contemporary organizational management.

11. Defining a generic process

In a simplistic view, the strategy process – or the procedure to analyse, (re)formulate and implement (old and new strategies) over time – can be illustrated as in Figure 4 (below):

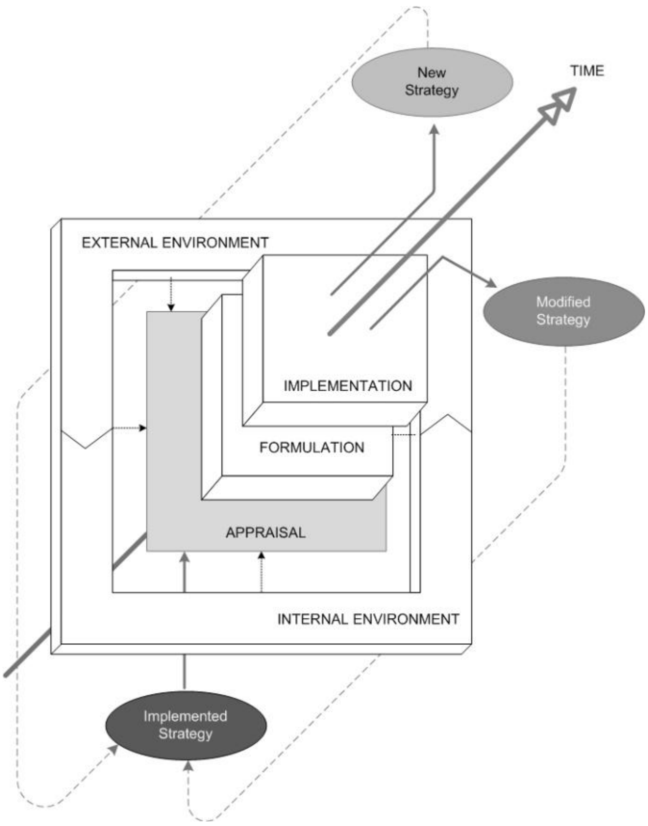

Figure 4. Generic strategy process in organizations: a cycle with three consecutive phases such as (a) *appraisal*, (b) *formulation*, and (c) *implementation* resulting in new or modified strategies.

11.1. Stage one: Environmental appraisal

The strategy process is a cyclic endeavour beginning with the *appraisal* or analysis of both the *internal and the external environments* of the organization. The most common type of diagnosis of the *internal environment* involves the identification and evaluation of goals, the organization's mission and strategic objectives in the light of major strengths and weaknesses. If strategies are already implemented the analysis commonly includes an evaluation of results against the strategic objectives.

On the other hand, the appraisal of the *external environment* often focuses on a basic "context analysis" to identify and evaluate current and/or expected *opportunities and threats to the business* carried out by the organization. Some widely popular context analyses are the SWOT analysis (to evaluate the Strengths, Weaknesses, Opportunities, and Threats in a business), the PEST analysis (of Political, Economical, Social, Technological and demographic *trends*), and the "*competitor analysis*" focusing on the evaluation of the strengths and weaknesses of current and/or potential competitors in the business. Although a common practice around the world in firms of all sizes and types, the context analysis is commonly used to produce a strategic plan and not to formulate the strategy itself. This is the base of a common misconception in management and that is also rooted in the indistinct – but academically speaking, wrong – use of the words plan and strategy. A strategic plan is a well-defined (yet static) course of action that mainly sets the *future direction of the business* for a given period (often short). A strategy is a more comprehensive and dynamic guidance, that overtime becomes a driver of both function and structure in the organization. By the years, plans do terminate, while strategies continue to evolve and might include many strategic plans in the extent of its span.

In general, there are many ways to define and perform an appraisal of the external environment of firms. From the perspective of our strategy process model, the analysis of the external environment will rather describe an *environmental scanning*. Unlike the context analysis, this broader analytical concept considers the macro-environment around a business (e.g. analyzing economic, social and technological variables). In the contemporary firm – particularly the large-sized, multi-business, and the multinational organization – the environmental scanning is one of the core activities of top-level managers since it concerns the acquisition and use of *information* (the primary role of a top manager as suggested by Auste and Choo, 1993). Such information will focus on those events and trends that are of any significance to the future development of the organization. The main objective of the scanning is to transform information into knowledge, increasing the organization's capability to respond and adapt to external changes. Therefore, environmental scanning can be seen as a primary organizational mechanism to *learn* (hence, a mode for organizational learning). In traditional companies, environmental scanning is complementary to context analysis, particularly on competitors and market intelligence. In general, a scanning activity implies both, viewing at and searching for information. Organizations often distinguish between four modes arising from these two activities (Choo, 1991):

(i) Undirected viewing:

The manager observes the environment with no particular goal in mind in order to detect any (relevant) signal of change. This is an informal and unfocussed gathering of information. The environment here seen as vast, complex, and uncertain as it is in reality

(ii) Conditioned viewing:

The manager's viewing is conditioned by his/her beliefs (and norms) and so is the information gathering. The information is focused on particular issues of interest. The environment is seen as the viewer perceive it

(iii) Enacting:

The manager looks for particular information about the effects or result of an *induced change* in the environment (e.g. about the introduction of a new product or technology). Information is gathered and used as in a "learning-by-doing" process, hence with focus on actions and their effects. The environment is seen as a construction of the viewer's mind

(iv) Formal search:

> The manager devices (or executes) a method or plan to find and *systematically* retrieve particular information on a specific issue. Information is based on objective facts of what is happening in the environment. The environment is seen as it is in reality

The quality of the information increases with formality, systematisation, frequency, and objectivity of the scanning. However, a comprehensive and efficient environmental scanning should consider all four modes of information. By doing so, the firm will increase its awareness on potential threats and opportunities arising from external changes and/or internal actions such as the attempt to shape the surrounding environment. Overall, the constant gathering and use of information in all its modes will enable the organization to develop and strengthen a knowledge-based decision making system. Nonetheless, the acquisition and use of information will always depend on or be influenced by the characteristics of the environment (and their evolution), and the perception, previous experience, beliefs and knowledge of the manager about it. Another fundamental driver in this context is the cost effectiveness of the appraisal over time. Firms will commonly avoid costly acquisition or time-consuming use of information (Auste and Choo, 1993).

11.2. Stage two: Strategy formulation

The second stage of the strategy process following the appraisal of both, the internal and the external environment is *formulation*. This stage is often connected to the decision and action mechanisms in the firm, particularly to the decision making process. After the situation appraisal, the firm should be able to *increase its situation awareness and formulate options and recommendations to actions.* Therefore, how to guide or base the action of *choosing* in the light of several options becomes an important issue at this stage. Such choice often relies on the perception, knowledge and experience of top managers, and therefore is rather a subjective action. In large and complex organizations, strategy formulation has different levels of focus and scope with respect to function and structure. In general, we can identify three levels of strategy formulation that are highly integrated and interdependent:

(i) Corporate level,
(ii) Business level, and
(iii) Functional level.

11.2.1. Formulation at corporate level

At the highest level of function and structure, *corporate strategies* regard broad decisions about the scope, direction and position of the organization in the long-term. In general, this level of strategy formulation defines the organizational growth objectives and the actions to achieve them. In addition, it also regards the portfolio of different line of business and its degree of diversification and integration within the portfolio. In other words, corporate strategies are formulated to define what we do sell and where we do sell it. From the classic point of view of markets and competition, this becomes the strategy defining what is (are) our product(s), how diversified and integrated is production, and the place in the market in which the organization will compete. Common examples of this type of strategies are:

I. *Vertical integration*: a basic concentration strategy to increase the organization competitiveness by internalizing functions otherwise carried out by suppliers or other organization up or down in the value chain.
II. *Horizontal integration* or horizontal growth: is the acquisition of businesses or organizations at the same level in the value chain to increase competitiveness

III. *Strategic alliances, mergers, and acquisitions*: generic growth strategies to strengthen, concentrate, or diversify a business portfolio. Vertical and horizontal integration are the result of these generic strategies.

11.2.2. Formulation at business level

The formulation of *strategies at the business level* instead, broadly focuses on competition. At this level, the main objective is to develop and sustain competitiveness in all the lines of business the organization has decided to participate. A popular theoretical and conceptual framework in businesses that regards this strategic level is *competitive advantage*. One can say that a *firm that generates profit over the average of its industry has a competitive advantage over rival firms*. From a strategic point of view, the objective is to sustain such an advantage over time as long as possible. This strategic viewpoint has been very influential among firms since its introduction in the early 80s by the Harvard Business School's Professor Michael Porter. In theory, a firm can excel competitiveness by means of *strategic positioning* in a market or industry. Such positioning can be based on an *advantage* achieved by either *cost* or *differentiation*. *Cost advantage* is achieve when a firm is able to offer the *same* benefits than other firms but for a *lower cost*, whereas a *differentiation advantage* is achieved when the benefits of the product of the firm *exceeds* those offered by rival products. In any case, the firm is creating and delivering more value to customers than competitors while generating more profits (Porter, 1998).

Another increasingly influential perspective on competitive advantage is the so-called Resource-Base View of the firm or RBV (Barney et al., 2001). Any firm has resources or assets (tangible as well as intangible) and capabilities to compete, however competitive advantage is only achieved and sustained when the firm makes a strategic use and management of such assets to create superior value than competitors. In the theory of modern RBV suggested by Jay Barney in the early 90s, strategic resources must be *valuable*, *rare*, *imperfectly imitable*, and *not substitutable*. This implies that a firm should not only develop superior assets than competitors but also be able to protect or isolate them from being acquired, learnt or replicated by competitors. However, imitation will occur eventually, and the achieved advantage will be lost to competition. The quest to develop, maintain and regain the advantage will in turn propitiate a dynamic cycle of development. Such dynamism is deeply connected with the dynamic nature of strategy process.

Today, many firms formulate their strategies at the business level combining the positioning and RBV perspectives in competitive advantage (Grant, 2008b). In this context, resources such as for example know-how, patents, or reputation can be used to acquire a cost or differentiation advantage. On the other hand, the capabilities of the firm emerging from the effective utilization of resources will define either or cost advantage by for example delivering a product faster than the competence. Over time, resources and capabilities will define a set of characteristic *competencies* of the firm like its approach or degree of innovation, quality or service. In this context, a firm can formulate its business strategy by managing its assets and capabilities to position itself in the industry with either a low cost structure or a differentiated product. Both cost and differentiation strategies can be formulated for a narrow or broad segment in the market (scope). The combinations arising from cots, differentiation, and scope is what – in the view of Porter – defines the *generic strategies* of the firm. As the ultimate quest in the formulation of these business strategies is yet the creation of value, Porter conveniently illustrates value creation as a quantifiable group of activities named the value chain. At each activity in the chain, the product gains value. Such value at the end of the chain is higher than the sum of added-value of all activities in the chain. The chain entails (Grant, 2008b):

(a) Primary activities:
Inbound logistics > Operations > Outbound logistics > Marketing and sales > services

(b) Support activities:
Administrative infrastructure > Human Resource management > Technology > Procurement

This visualization of value creation is widely used to analyze mainstream and downstream activities that can create competitive advantage. Since the drivers of cost and value can be easily identified for each activity, the value chain analysis has become a common input to the appraisal stage in the strategy process.

During the last decades has been a prominent shift in the strategic approach of firms, particularly in those embracing innovation as a core strategic activity. At the business level, the strategic selection of industry and positioning has been a prevailing umbrella for profit creation and competitive advantage over rivals for decades. However, the globalization of businesses has increased and changed the dynamics of competition. Today, it is not enough to find the right industry to compete in, or strategize for the search of a *safe* positioning in the right market segment. Hence, it is not enough to compete just trying to do better than rivals also do (Grant, 2008b). The RBV approach is acquiring increasing popularity among firms facing tough competition since offers a strategic alternative to positioning. In strategic terms, the main difference between the RBV and classic positioning is that the earlier focuses on *exploiting the differences* between firms while the former focus on *similarities*. If firms can effectively development and use of their resources and capabilities to the point to become unique, then the capability to develop and sustain a competitive advantage (even in tough or saturated markets), increases greatly. The ability to differentiate the firm from competitors due to a unique management of resources and capabilities is to some extent, connected to the firms' capability to learn and apply (Grant, 2008b). Your chance of effective specialization increases with the extent and accuracy of your knowledge about the resources and capabilities you *have* and you *need* to do that you are better at (or it is needed the most). Not only at the business level, but at any of the strategic levels in the firm, the management of resources and capabilities will to some extent influence and be influence by the innovation process. Those, there is an implicit link between innovation and competition. One can say that being innovative increases the chances to develop and sustain a competitive advantage. Innovativeness by itself can be considered a competitive advantage.

11.2.3. Formulation at the functional level

The formulation of strategies at the functional level (commonly but erroneously restricted to the term "operational strategies") focuses on short-term activities (commonly plans) to support the implementation of corporate and business strategies. Although each functional unit commonly have a certain degree of independency over strategic choices, each functional strategy must be *aligned* with the general long-term strategy of the firm. At this level, three aspects such as the short-term character of objectives, the specificity of scope, and the direct involvement of mid-level or operational managers characterize the formulation of strategies. The formulation of strategies at the functional level focuses on performance and performers in a functional unit or a group of them. Thus, these strategies would often guide the development of new or existent key actions and actors in one or more departments within the firm. They will commonly regard functional aspects of strategic relevance such as productivity, pricing, logistics, cost-effectiveness, efficiency, product design, product branding and image, product-life cycle, etc. In other words, they regard the activities at the value chain.

In large firms, functional strategies are commonly organized according to major functional departments such marketing, finance, production (or operations), Research and Development (R&D), and Human Resources strategies. The formulation of strategies at this level therefore, also considers the coordination and alignment of the decision-making process and communication and control systems of all functions or operations within the firm. At this level, strategies define the balance between available and needed resources and capabilities, determining for example the strategic choice of outsourcing of activities.

The formulation of a standard *Marketing strategy* for example, deals with the choice of products and services and their features (including price), and requirements for markets, distribution and promotion. *Financial strategies* will on the other hand focus on decision and actions regarding capital, its acquisition and allocation, and the overall management and policy of investment. *Operations strategies* instead are of a broader scope including decision and actions regarding on haw and where products or services will be manufactured and/or delivered. They also concern the technological choice for production, and the management and logistics of resources, supplies and suppliers. *R&D strategies* commonly regard the approach to technology and innovation in the firm, the degree of centralization of R&D decisions and activities within the firm functional units, and the framework for technology development. *Human resources strategies* on the contrary focus on the acquisition, development and management of the human asset in the firm such as for example policy and framework for personnel recruitment, evaluation and incentive schemes, etc.

In general, the weight of functional strategies is to some extent related to the organization specialization (Grant, 2008b). In high-tech industries, firms will for example give a high weight to R&D strategies, while in service-oriented firms the formulation of Human Resources strategies will be more important. Operations or production strategies are crucial in firms within the retail industry, meanwhile marketing strategies and financial strategies are of relevance to any firm. However, the higher the importance of the function of a unit in the value chain, the lowest its degree of decision-making decentralization. In general, R&D and human resources strategies are formulated with a high degree of top-management involvement.

11.2.4. Choosing among potential strategies

Strategies are often formulated as a set of alternatives. Hence, a formulation process rarely concludes with just one strategy but with a choosing process. Of course, decision-making is a subjective and complex activity and managers often have to rely on their personal experience or instinct. However, literature offers many insights in the issue of strategy choosing since not one but many books have been written on the subject. In this course, we will observe a basic set of criteria derived from the logic statement (or perspective) that "strategy should help to solve problems without to rise new ones", therefore when choosing among alternatives we could at least consider that:

I. The strategy was conceived considering both expectations and facts about internal and external environments, hence it is aligned with resources, capabilities, barriers and opportunities
II. The strategy completely solves the issue in question and it is a permanent solution
III. By solving the issue (or even by failing to do so), the strategy does not produce a new problem,
IV. By itself, the strategy is simple and easy to implement and evaluate,
V. A successful full implementation of the strategy does not require of additional strategies
VI. In any case, the implementation of the strategy does not conflict with ongoing strategies
VII. In the end, the effect of the strategy will not conflict with the basic mission and goals of the organization

11.3. Stage three: Strategy Implementation

Once we have discerned which strategy fits best our goals at the end of the formulation stage, it is time to put the chosen strategy into practice. The execution of a strategy in an organization is the process of *implementation*:

Even a masterfully formulated strategy becomes useless if not well implemented!

Implementation is a determinant of success or failure that is deeply connected to the formulation process, and the functioning and structure of the organization. However, in spite of its relevance, implementation is by far the least studied and documented stage in the strategy process (Hitt et al., 2006). In general, studies in the field place formulation and implementation at the same level in the strategy process, as if being one continuous stage, while evidence (and logic) suggests that although highly intertwined, they are two very different phases.

Literature also suggests that implementation could be a major determinant of the organizational performance (Hitt et al., 2006). We can illustrate this by saying that in the eventuality of two firms implementing the same strategy the resultant performance is likely to be different. This might be explained once again in terms of resources and capabilities, and the uniqueness resulting from their distinctive use and development over time. You can visualize this fact in the form of a domestic activity: cooking! Let us say that two cooks will never obtain the same result while following the same recipe. Although ingredients (resources) might be the same, the resultant dish (objective) will anyway differ in terms of (performance) appearance and flavour, and eventually in terms of quality. Disparities in this case arise from (or are determined by) the different capabilities of the cooks to perform with respect to the same recipe (strategy) and ingredients (resources). Such capabilities are related to personal characteristics – or the individuality of each cook – and not by the recipe itself. In strategy is just the same. A strategy (recipe) produces different performance (flavour) according to the characteristic functioning and structure of the organizations (cooks' individuality) that is determined by its unique use of resources and capabilities (ingredients and talent).

Imagine now a more complex situation where instead of a domestic kitchen we have a higher organizational level: a restaurant. In this case, the elements are just the same: one or more recipes, cooks, ingredients, stove and utensils, etc. A professional kitchen it is quite a complex organizational arrangement that not only depend on the skills of the personnel to deliver a good dish but that also rely heavily on the efficient division and coordination of activities and the decision making process. So how is it influenced the performance of the organization in this case? What makes a restaurant perform better than others do? Are their recipes, their cooks, the ingredients? Probably you will go for guessing that the answer involves a bit of everything and everyone, right? Unfortunately, the issue is a little more complicated than that. In a small organizations (or in a one-person-case), although it is likely that strategies will be formulated and implemented by the same people (or person), success not only depends on the knowledge of what to do, but also on motivation and control. In large organizations on the contrary, the persons that implement the strategy are not usually involved in the task of formulation, and therefore additional focus (and efforts) on coordination and communication mechanisms is necessary.

The implementation of strategies in organizations is a research area that cuts across different fields of the social sciences including strategic management, organizational theory, and organization development. Of course, there are quite a number of theories about such endeavours but not much of an agreement. In this section, we will observe some of the main theories about the implementation of strategies in organizations with aim to define a simplified process.

11.3.1. Strategy Implementation and high organizational performance

Hrebiniak and Joyce (2006), suggests that implementation is not only an important and difficult process but also a complex field of research. Implementation research is miscellaneous, interdisciplinary and particularly concerned with the integration of management disciplines. As a practice, it greatly focuses on the performance of organizations. Based on an extensive analysis of firms exhibiting and sustaining an unusual high-performance and firms able to achieve such a state in the short run, Joyce (2000) identified four key factors influencing high performance:

(i) *Direction*: developing a clear strategic direction
(ii) *Efficiency*: establishing a fast and effective organization
(ii) *Adaptability*: developing an adaptive culture
(iv) *Focus*: Shifting from focus on customer and cost reduction to the broad picture

Only the first of these factors concerns strategy formulation, the rest are directly concerned with the strategy implementation. In this context but also as in general when regarding strategy, implementation deals with *change*. In this case, focus is on the changes caused by the intended strategy, and the projected response of and effect in the function and structure in the organisation. This of course regards the mobilization and coordination of resources and capabilities within the firm. The degree of difficulty while implementing depends on the level of complexity of both the strategy and the organization. Large organizations tend to have complex structures due to their multifunction performance character and they often formulate equally complex strategies. In general, one can say that the implementation process becomes radically more difficult (time consuming and costly) whenever the strategy to implement is complex and or the size of the organization is large.

According to Hrebiniak and Joyce (2006), the people in charge of implementation need both a *sequential* and a *simultaneous thinking*. This particularly applies to key decisions. The *sequential thinking* defines a logical sequence or chain of *causality*, or the relationship between consecutives and interconnected events (cause and effect):

Event (A) -> Event (B) -> Event (C) ---> Event (Z) *Causal chain (sequential thinking)*

To design this chain, a manager should decide on the event (A) or the first action to be implemented. This raises the questions of what are the effects on event (B) and alternatively what are the necessary changes in (B) to support the implementation of (A). This of course implies that the relationship between event A and B must be established. After it will be necessary to discern the link between the following events until the last relationship is established (-Z). Although the utility of such step–by–step analysis is relevant to the rational development of the implementation process, the underlying simplicity and narrowness of scope is not enough. Consequently, the manager will need of an integrative vision of the events, to infer the total or final effect in the function and structure of the organization if each event (from A to Z) is implemented and takes place. This is the need of *simultaneous thinking*.

We can illustrate sequential and simultaneous thinking in the following way. Let us say that the strategy to implement is the "dematerialization" of distribution activities (so to produce more with fewer resources). From the perspective of sequential thinking, the first step or event in the causal chain could be the development of an on-line-sales system (Event A). Event (B) considers the effect that (A) will have in the structure of the organization like the creation of a new division and/or the elimination of an old one (B). Following steps from (C) to (Z), might imply for example the reorganization of the sale force (C), and the effect of such event in the design of work and balance between hiring and firing personnel (D), and emerging financial issues such as personnel salary and budgets (E)…. etc. On the other hand, if we apply some simultaneous thinking to the same situation we could infer that dematerializing distribution might have an implicit negative impact in transportation logistics due to the eventuality of reaching more and distant markets raising the need of newer and additional infrastructure and more complex and specialized operations. This in turn could increase the total amount of CO_2 emissions of the organization due to increased transportation activities. Such a resultant environmental negative impact was not an observed event in the causal chain but depending on the industry, such an omission (or implication) could decrease the competitive advantage of the firm over competitors with higher prices but higher environmental standards or "greener" branding.

Analysis in the implementation process should therefore be conceptually broad and not entirely focused on specific events. Of course, embedding sequential and simultaneous thinking into the decision-making process of organizations is not an easy task, and in some cases, it might be impossible. In general, we would tend to reduce the complexity of problems by fragmenting them into smaller and manageable parts, often at the cost of losing the broader perspective. However, as occurs in the formulation stage, the role of managers and their individual capabilities can provide the necessary combination of specific and integrative analysis. However, an organization must be able to institutionalize key capabilities embedded in individuals in order to sustain functions over time.

Hrebiniak and Joyce (2006) suggest an *"eclectic implementation model"* integrating different managerial perspectives and theoretical viewpoints (Figure 5). The model suggests that a successful strategy implementation is a function of variables that in theory have been developed and studied separately but that in practice must be fully integrated. The integration of such variables defines the implementation process. The degree of usefulness of the process on the other hand is driven by at least six criteria. An implementation process (or model) increases its value if at least it is:

(i) Logic
(ii) Operational
(iii) Economic
(iv) Balanced
(v) Manageable
(vi) Efficient

Logic is necessary to build an implementation process within a rational framework that is meaningful to the organization. Logic also allows deductive construction from which we can derive further implementation activities or sequences. Logic is not entirely based on experience or instinct but also in facts and therefore allows us to develop an implementation framework that combines both theory and practice.

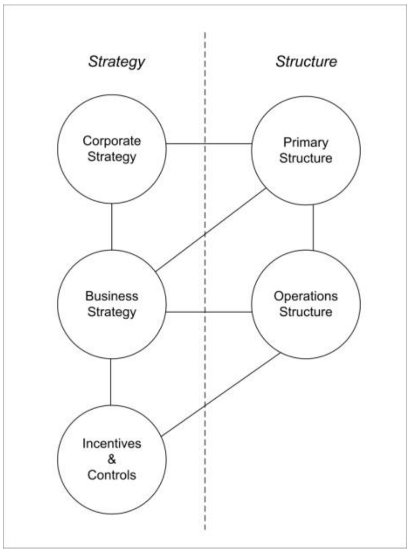

Figure 5. Implementation model suggested by Hrebiniak and Joyce, depicting a logical, serial progression of key implementation decisions in the perspective of strategic management, and organization theory literature (modified from Hrebiniak and Joyce, 2006)

A useful model for implementation should, in addition to logic, be expressed in terms of operational and concrete actions that are tangible and verifiable, or that at least are meaningful and objective. By doing so, the model will allow us to induce greater change (by identifying or solving more issues).

A model will be more useful if can deal with complexity in simple terms. In this context, implementation should be economic or frugal, or in other words, capable to address a complex process with the minimum number of variables.

If the model is also capable to balance theory and practice – as well as facts and assumptions – then it will allow a more accurate implementation. In this contexts model should not be a recipe of what to do but also of about the implications of doing. This regards the balance between the contingency (eventualities) and the prescription (directions) perspective, or in other words the reconciliation between theories and laws.

One of the most difficult tasks when implementing strategies is that decision-making occurs in a context of complexity and uncertainty. Hence, a useful implementation model should be able to make sense of complexity and uncertainty and therefore, to be manageable according to the limitations of our cognitive capabilities.

The last criterion for a useful implementation model or framework is efficiency. This implies that decision and actions not only should deal with complexity but also with constraints or limits to available resources and capabilities. In the perspective of efficiency, we can depict at least three forms: economic, cognitive and ethical efficiency. Economic efficiency is the most known of these forms and regards the development of actions with the least financial cost as possible. Implementation always carries additional cost that must be considered in addition to future cost. In general, implementation should not be too expensive or imply considerable (or too many) unforeseen cost in the end. On the other hand, cognitive efficiency regards the efficient use of decision making in the face of limited cognitive capabilities. If a problem is too complex, we could expend unnecessary resources trying to understand what we cannot. An efficient use of our cognition implies to develop awareness about our capability to deal with complex issues. The last criterion for efficiency is ethics. Ethical efficiency is achieved when decision and actions are performed at the lowest possible level of intervention in order to prevent unexpected and harmful consequences for individuals. In the words of Hrebiniak and Joyce:

> *"...The point of these arguments is that when faced with a problem, the organization should respond so as to solve it, but not at unnecessary financial, cognitive, or human cost. Disregard for these considerations results in unnecessary change and potentially negative impact on individuals involved in the implementation process."*
>
> *Hrebiniak and Joyce (2006)*

11.3.2. The role of adaptation and search in a robust implementation

If a firm is capable to develop an implementation model or process taking into consideration the six criteria for higher usefulness, one could anticipate a higher degree of *congruence* between achievements and expectations. A *robust implementation*, or an *implementation with a strong fit*, *should be highly congruent*. In the strategy process, the principle of congruence applies not only to the desirable alignment between expectations and results, but also to the alignment of theory and practice, and of function and structure. One should not forget that after all, the strategy process originates in part from the need to align systematically the function and structure of the firm with changes in the environment. In the overall context of congruence and fit, but particularly in the perspective of implementation, two activities are of great relevance: *adaptation* and *search* (Hrebiniak and Joyce, 2006).

The *adaptation* of organizations to changes in its environments has been the focus of extensive literature during the last decades. From the perspective of strategic management such research broadly focuses on the creation of strategies for efficient adaptation and the reasons why some firms evolve to perform better than others do. Porter for example explains these issues from the point of view of advantageous positioning in markets (competition), while other views emphasize the role of developing specific capabilities (differentiation) as a more effective adaptation mechanism. In spite of such a debate, an additional and very important organizational activity regarding adaptation and change (although less studied) is the *search for information*. This implies the active search for information in order to understand the own and others' behaviour, as well as to identify potential threats and opportunities. In general, a firm that is not efficient or able to search and use information whatsoever is likely to fail while responding to environmental changes. All the same, such a firm will be unable to formulate and implement strategies. From the perspective of our view of the strategy process, search is an activity central –but not restricted – to the appraisal stage. In the implementation stage, search might refer to activities aimed at producing information useful to reach an efficient fit among strategies, the organizational capabilities, resources, and the ongoing and intended practices and procedures.

In general terms, the search in organization is believed to be influenced or driven by few factors. Literature suggests that commonly, a search will be focused on the areas of the firm with a relatively high competitive advantage or on those more competitive resources and capabilities. Conversely, resources that are keys for performance will drive the search towards the ways to enhance their effect over competitive advantage. Past performance is by itself another driver of search. Firms with poor past performance will tend to direct the search towards potential ways to improve performance while firms with a good past performance will tend to search for ways to keep the advantage (e.g. creating barriers to competitors). Another important driver of search is *learning*. When a firm learns that past decisions or actions have been repeatedly and consistently right, then the search will probably focus on such decisions and actions, affecting considerably the strategic direction (and management of the firm). Eventually, from the strategic point of view, all factors influencing or driving the search in the organization are equally important.

11.4. Summary

In this chapter we have defined and described a generic strategy process and the characteristics of its different stages. The process consists of three well-defined, yet highly connected activities such as the Appraisal, Formulation, and Implementation of strategies (see Figure 4). Although the process has been illustrated from a sequential perspective to facilitate its understanding, in practice the process takes place and evolves in a less chronological way. This fact eventuality regards the dynamic and non-systematic nature of strategies themselves, since they can be the result of an induced – rational – process, or emerge over time as the result of changes in behaviour or by chance, as the result of new and unexpected opportunities (see Figure 6).

Another useful visualization of the process regards the focus of each stage (See Figure 7). In most cases the process deal with the appraisal of ongoing strategies and the need to adjust them to changes in the internal and/or the external environments. In general, firms do not use the strategy process to develop new strategies constantly, but to modify existing ones. This fact underlines the complexity of the process, and its apparently costly and time-consuming implementation. In any case, the main role (and objective) of the process is the alignment of both the function and the structure of the organization with the changes occurring in the internal and the external environments. Such environments are dynamic and do evolve, so does the process and the related strategies. In this context, it is argued that over time, most implemented strategies in corporations are not as intended, and therefore that the strategy process is far from being a fully rational or deliberated action. However, the strategy process is still regarded as a core activity of management and therefore, its systematisation and or potential degree of embeddedness depends to some extent on the top-management approach to strategy. Regardless, the process of strategy will always regard people: strategies are formulated and implemented by people not organizations.

Although the strategy process has been relatively well studied and documented, the study of strategy itself – as a trait of human cognition connecting to organizational behaviour – has been rather neglected. This implies that most of research on the subject regards the process from the point of view of practice in (large) firms and not from the perspective of human cognition. Overall, the implementation stage is the least studied and documented part of the process although its weight in the success of a strategy is suggested to be very high. Indeed, it is suggested that even a perfectly formulated strategy will fail if it is not well implemented.

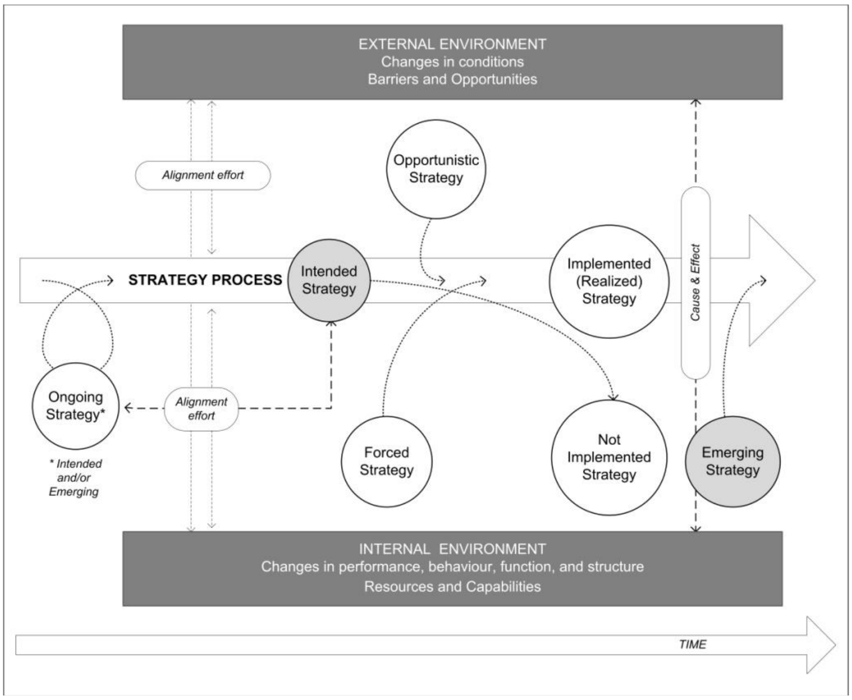

Figure 6. Different strategy forms and their link to the strategy process and the alignment of changes in the environment over time.

Although, at the highest organizational echelon – the corporate level –strategies seem general in scope, they come to define the fundamental objective and mission of the firm, or in other words, they define the business of the firm and its future development. The strategy process at this level regards the basic functions and structure of the organization and the necessary resources and capabilities for each line of business. One level down – at the business stage – the focus of the strategy process –concentrates on resources and capabilities to compete effectively on each business line. Instead, at the functional level, the focus of strategies become specific and regards the operational efficiency of each functional unit in the organization and their coordination as a whole. However, the main objective (or role) of functional strategies is to support the corporate and the business strategy.

In general, corporate strategies are very difficult to formulate and implement since they imply radical changes (or a shift), in the function and structure of the organization, and therefore their practice is rare. On the contrary, business and functional strategies are broadly formulated and implemented in most organizations. Yet, the most common type of strategy will be observed at the functional level. However, it is common that firms will focus functional strategies on short to medium-term plans. Eventually one of the most difficult tasks of managers, or anyone directly involved in the strategic process, is that strategies must be aligned at all organizational levels in order to succeed. All strategies in an organization are to some extent related to each other, and therefore new strategies must be aligned with ongoing ones.

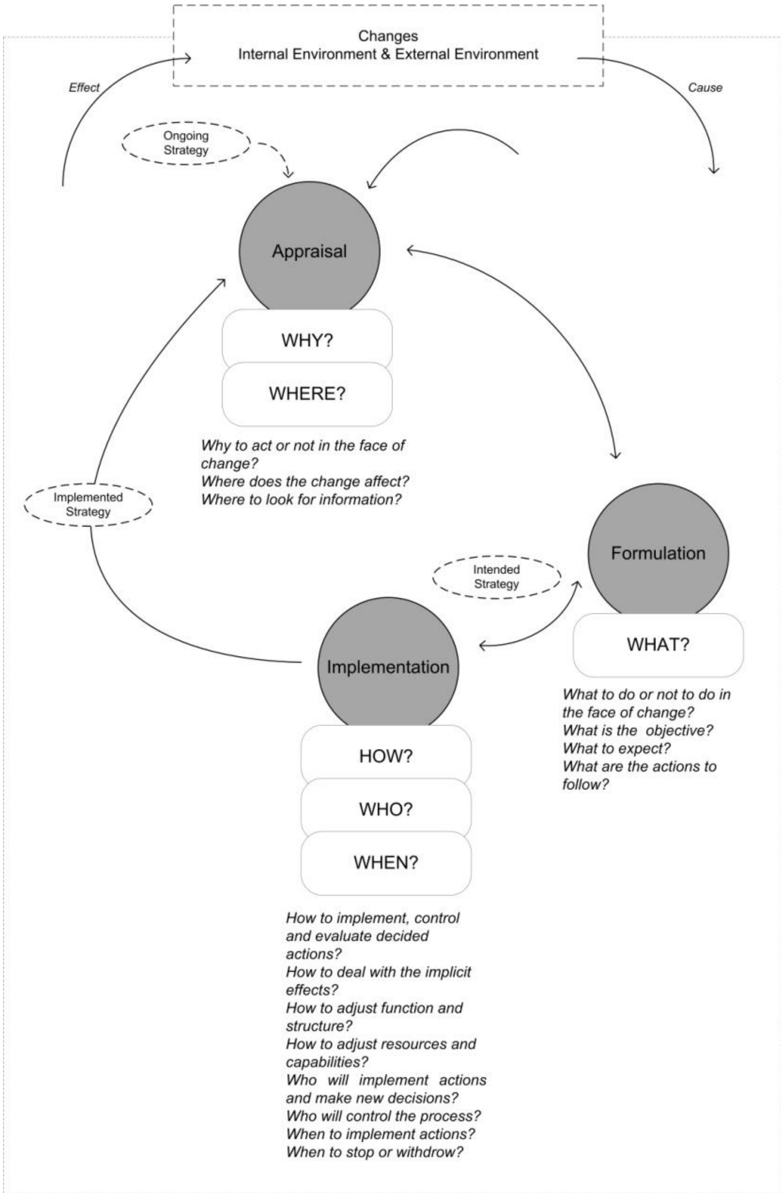

Figure 7. Representation of the strategy process according to the focus of each component with respect to changes in the internal and/or the external environments of the firm

CHAPTER FOUR
Strategy as a Field of Theory and Practice

12. Defining Strategic Management

From the perspective of theory and practice, strategy is directly associated with the management of the business or corporate organizations. *Strategic management* is a relatively recent discipline without a unified theory supporting its increasing practice. Indeed, strategic management is as difficult to define as strategy is. According to French (2009), strategy management was first proposed in early 80s at the *Pittsburgh Conference*, although organized with the specific purpose of defining a new *paradigm for business policy*. The concept of business policy was then rephrased as "strategic management" and defined as:

> *"…A process that deals with the entrepreneurial work of the organisation, with organisational renewal and growth, and more particularly, with developing and utilising strategy, which is a guide to the organisation's operations."*

This rather abstract definition states that as a discipline, strategic management implies both the development and implementation of strategies. Since the word strategy is often employed as a synonymous of *plan*, it should not be a surprise to know that strategic management is commonly used as a homologous of *strategic planning,* and to some extent of *strategic thinking*. However, as French indicates, strategic planning is a rather newer form of what is already known as "Operational Planning" or "OP" that focuses on budgetary plans for operations in the long-term. Strategic thinking on the other hand, focuses on the process of developing (forming) strategies, while being less formal than strategic planning and strategic management.

The field of strategic management has rapidly evolved during the last four to five decades. In a general context, the focus of the field has rapidly moved from the initial "financial budgeting" in late 50s, towards the phenomena of *globalization* and the *learning organization* at present. In 60s, strategic management was more about corporate planning, and therefore about the formalization of the planning process. In 70s, market positioning became a core issue for companies facing greater competence in rapidly growing economies, thus studies and theories back then did broadly focus on market dynamics. A decade later, the focus shifted towards the analysis of acquisition and development of resources and capabilities in firms, and on the probably most common concept in contemporary management, the concept of *competitive advantage*. Since the year 2000, strategy management has broadly focused on the advent of a "new economy" supported by the increasing role of knowledge and communications (technology) in businesses, and therefore it has focused in issues such as *innovation* and *technology change*. Today, French (2008) suggests, the focus is *globalization* underlines issues such as business ethics, standardization, international markets, and on what managers calls the "global-scale strategies". Therefore, one can say that along the development of Strategic management as a field of research and practice, its focus has move from specific "intra-firm" issues towards the broad (and complex) dynamics of systems beyond the organizational boundaries.

13. Strategic thinking: The soft side of Strategic Management

Mistakenly, *strategic thinking* is broadly used as a generic term to name anything without a proper (or clear) meaning within the realm of strategic management, even beyond of what it is the act of thinking (Liedtka, 2006). Logically, strategic thinking regards thinking, but in a characteristic way. The act of *thinking* can be understood as the process by which we formulate and manipulate mental constructions (or forms) arising from the mind's own interpretation of reality, according to personal goals, desires or plans. Thinking is nevertheless *creating,* or in the words of Mintzberg (1998), *"thinking is synthesizing"*. What makes thinking strategic is the focused, rational, and systemic synthesis of thoughts in order to adjust to a change. Hence, in the face of change we do think strategically when our mind focuses on "synthesizing virtual answers", in order to properly adjust and accomplish our objectives. We can think strategically to face, avoid, or even prevent the effects of change. The points of reference to our response are our objective set beforehand and the intensity and length of the change.

In firms, strategic thinking is seen as a process that "fosters the identification of strategy" (Casey and Goldman, 2010). In this context, Heracleous (1998:485 p.) defines the purpose of strategic thinking as "to discover novel, imaginative strategies which can re-write the rules of the competitive game and to envision potential futures significantly different from the present". Although the awareness about the relevance of strategic thinking in firms has increased during the last decades, still there is no agreement on a definition of the concept or on a full description of its process. Indeed, the concept has been often used as a higher category in strategic planning or even as a synonymous of it (Heracleous, 1998). In this course, we consider the perspectives of Mintzberg (1998), Liedtka (1998), and Heracleous (1998), suggesting that strategic planning and strategic thinking are two different processes.

Considering the work and perspective of Mintzberg in strategic thinking, Liedtka (1998; 2006) suggests five (5) elements or attributes that make of strategic thinking a process:

i. Systemic perspective
ii. Intent
iii. Intelligent opportunism
iv. Time consciousness
v. Theory-based

The first attribute – *systemic perspective* – regards the need to think (or perceive reality) in the broadest scope possible. This implies that strategic thinking demands the capability to overview systems, not only processes. At the firm level the view of our thoughts should go beyond the limit of the organization and its industry. As James Moore (1993) suggests, the view of the firm should be constructed in the perspective of a *business ecosystems* – an economic community supported by a foundation of interacting organizations and individuals – within industries that are mutually dependant, and co-evolve influencing each other's capability to innovate and survive. On the other hand, the limits of the managers' view – and therefore the limits of his or her thoughts – are given by his/her particular "images of how the world works", the "images that limit us to familiar ways of thinking and acting" (Senge, 1990). This implies that the limit of our vision of the world is the limit of our strategic thinking. Going beyond that limits systematically is a great challenge to all managers. In the business context, Liedtka (2006) suggests that the "strategic thinker" must be able to "see" the vertical linkages within the system from multiple perspectives. Hence, the manager in this case should be able to see *"the relationship between corporate, business level, and functional strategies to each other, to the external context, and to the personal choices he or she makes on a daily basis. In addition, on a horizontal basis, he or she needs to see the connection across departments and functions and between communities of suppliers and buyers"*. In other words, the manager should have a "mental model of the complete end-to-end system of value creation, and understands the interdependencies within it" (Liedtka, 2006).

The second attribute of strategic thinking or *intent*, regards the shared sense of direction, purpose, focus, and fate by individuals in the firm. For Liedtka (1998), intent "provides the focus that allows individuals within an organization to marshal and leverage their energy, to focus attention, to resist distraction, and to concentrate for as long as it takes to achieve a goal". In this context Liedtka also suggest that "*(...) in the disorienting swirl of change, such psychic energy may well be the most scarce resource an organization has, and only those who utilize it will succeed.*" Strategic thinking therefore, should be driven by and put it to the service of the *common intent* in the organization to induce greater synergy. Ideas that do not consider the common intent in the firm will divert focus and consume much effort and time.

The third attribute or *intelligent opportunism*, regards the openness to strategic *opportunities* within the intent-driven focus of the firm. In the view of Liedtka, intelligent opportunism is the condition of being aware of any opportunity that might not only represent the chance to strength ongoing strategies but also a chance to open to new and unforeseen strategic moves more suitable to the environment's condition of the period. A firm should be able to adjust to its changing environment without to exclusively rely on the capability of its top-management to foresee changes but also on their capabilities to consider and take unforeseen strategic opportunities. Managers will be aware of such opportunities by being conscious of what they have experienced and understand of the system and the firm's intent. To some extent, intelligent opportunism regards what Mintzberg (1998) refers to as *emerging strategies*.

Time consciousness – the fourth attribute or element of strategic thinking – is the continuous awareness and use of the strategic relationship between past, present and future. In this context, it is argued that strategic thinking observes three principles. The first one is that *future emerges from past*, the second is that *the present events that really matters for the future are those that depart from past trends and patterns*, and finally the third principle implies a *continuous and cyclic comparison of present and future*. This suggests, that strategic ideas based on the solely characterization of the present or a vision of future, without to include the learning from past experience, are likely to fail.

To some extent, the last attribute of strategic thinking or the *theory-based* element, mirrors the scientific method, since it also deals with the systematic formulation and testing of hypothesis. Liedtka (1998; 2006) argues that due to the increasing volume of data and information in contemporary firms, and the decreasing amount of time available to process them, the capability to formulate and test good hypothesis efficiently has become critical to managers. The scientific method in this case, couples both the creative and the analytical thinking in a sequential and iterative cycle of hypothesis formulation and testing. As Liedtka (2006) suggests:

> "Hypothesis generation asks the creative question "what if…?" Hypothesis testing follows with the critical question "If…, then…?" and brings relevant data to bear on the analysis, including an analysis of a hypothetical set of financial flows associated with the idea. Taken together, and repeated over time, this sequence allows us to pose ever-improving hypotheses, without forfeiting the ability to explore new ideas. Such experimentation allows an organization to move beyond simplistic notions of cause and effect to provide on-going learning."

Finally, strategic thinking considers the integration of the five attributes described above. Then, in the words of Liedtka (2006), the "strategic thinker" can be defined as:

> "(...) someone with a broad field of view that sees the whole and the connections between its pieces, both across the four vertical levels of strategy (corporate, business, functional, and personal) and across the horizontal elements of the end-to-end value system. This view includes a sense of the future that drives the institution, including a sense of both where that future connects and disconnects with the past and demands anew in the present. The process toward which an institution moves into that future is an experimental

one, that makes use of creative thinking to design options, and critical thinking to test them. Finally, the strategic thinker remains ever open to emerging opportunities, both in service to the defined intent and also in question as to the continuing appropriateness of that intent."

The purpose of strategic thinking is in the end, the creation of value wherever and whenever possible. This purpose can be explained in terms of a classic view focused on *competition* or from a more contemporary perspective regarding *change* and *adaptability*. From the viewpoint of competition, the objective of strategic thinking is to generate ideas to increase the competitiveness of the firm, ideas that are difficult to imitate (by competitors). In the view of change, the objective of strategic thinking is to increase the firms' capability to adjust to its changing environment, internally as well externally. In other words, the objective is adaptability.

14. Strategic management in a basic taxonomy

Mintzberg et al. (1998), suggest that the theory and practice in strategic management observes three main perspectives (or "streams") entailing ten different schools of thought. The three streams are:

(i) The "Prescriptive" perspective
(ii) The "Describing" perspective, and
(iii) The "Configuration" perspective

Each stream entails a number of schools of thoughts. The *prescriptive perspective* focuses on how strategies should be formulated. Instead, the *describing perspective* focuses on illustrating (or describing) how is that strategies are made. Finally, the *configuration perspective* focuses on the *integration* of the previous views and therefore, it focuses on how strategies are formed and how they work.

In general, each school within these three perspectives has followers and detractors among scholars and practitioners. The main theoretical difference between schools emerges from their particular understanding of what strategy is, and what is useful for. Considering this milieu, Mintzberg suggests that there are five basic perspectives or positions to approach strategy (Mintzberg et al., 1998):

(i) As a plan
(ii) As a pattern
(iii) As a position
(iv) As a perspective
(v) As a ploy

As a *plan* strategy is a guide or future course of action with a well-defined goal and deadline. As a *pattern*, strategy is the result of a repetitive behaviour over time, a particular *way to do* things that *emerges* from the past. In contrast, as a *perspective* a strategy represents the way we naturally do the things. As a *position*, strategy strives to find the best place in which to position your-self and operate. Finally, as a *ploy*, strategy is the action or *manoeuvre* by which we can take advantage over, or defeat a competitor.

15. Schools of Strategic Management

Each of the five approaches to strategy we have mentioned earlier, has a specific meaning in management and business and implies a distinctive process of strategy formulation. The following chapter will introduce and briefly discuss each of the ten schools proposed by Mintzberg et al. (1998):

Mintzberg's taxonomy of Strategic Management Schools

Perspective	*School*
Prescriptive	Design School Planning School Positioning School
Describing	Entrepreneurial School Cognitive School Learning School Power School Cultural School Environmental School
Configuration	Configuration School

*15.1. The Design School: Strategy as a process of conception**

(Adapted from Mintzberg et al., 1998:p. 23-45)

**Conception: something conceived in the mind: a concept, plan, design, idea, or thought*

Mintzberg suggests that the design school is still the most influential perspective in contemporary strategic management. Its view and concepts are present in all strategy courses in MBA programs, and are very familiar to scholars and managers. The basic concept of the school is a centralized strategy formation process that although simple, looks for developing and implementing an entire business model and the overall perspective for the firm. In the design school, "*the idea comes before the action*", ideas are taken by the leader (brain) and actions implemented by the followers (muscles). In this approach, internal and external factors are contrasted in order to identify opportunities according to capabilities and constrains. A common example of these popular concepts is the popular SWOT analysis or the "Assessment of Strengths and Weaknesses of the Organization in light of the opportunities and Threats in its environment", a strategic planning tool used to evaluate a project or a potential business venture. SWOT therefore, involves specifying an *objective* and identifying the *internal and external factors that might help or hinder* the achievement of that objective.

Hence, in a simple view, the design school proposes a model of strategy-making that seeks a match between internal capabilities and external possibilities. In other words, scholars of this school suggest, "Economic strategy will be seen as the match between qualifications and opportunities that positions a firm in its environments".

In academic terms, the Design School find its origins back in late-fifties – early-sixties. Two influential books – *Leadership in Administration* by Selznick (in 1957) and *Strategy and Structure* by Chandler (in 1962) – introduced some of the fundamentals principles and concepts of the school such as the idea of "distinctive competence", the firm's "internal State" and "external expectations", and the process of "implementation" based on the idea of building "policy into the organization's social structure". This aided the introduction of the notion of *business strategy and its relationship to structure*. By mid-sixties, a crucial publication on *Business Policy: Text and Cases* by the Management Group at Harvard University became an emblematic management textbook postulating the motto "find the fit" (between internal and external factors).

The basic model of the Design School implies two different but interconnected appraisals – internal and external – amid which a strategy is created and thereafter implemented (in a separated process). The external appraisal focuses on the idea that a firm operates in an environment that poses *threats* and *opportunities,* and that hold the keys to success. The chance of success of such a firm regards its own organizational *strengths and capabilities* – the internal appraisal – and that eventually define its *distinctive competences*. Figure 8 illustrates the model.

A good example of what an external appraisal might be is the question, *what is the structure of the industry in which the company compete?* Another basic question is *how changes in politics, laws, social preferences or structures can affect the firm?* External appraisal is therefore, the view and consideration of all those factors beyond the organizational boundaries of the firm influencing it. Commonly, such factors have a political, economic and/or social connotation (e.g. stability of the politic environment, social preferences, religion, entrepreneurship, and education system), and are dynamic (they evolve and therefore change: e.g. social preferences and political trends). The model consider at least two other factors (see figure 8) that might affect the strategy formation process: *Social responsibility* (external) and *Managerial values* (internal). The ethics of the society in which the firm is immersed (social responsibility) and the preferences and values of those how lead the firm (managerial values) might influence the design of a strategy, in some cases, decisively. However, it is important to remark that some scholars do not believe that ethics and values are important at all (Mintzberg, 1998).

Since a firm will probably find more than just one possible strategy, due to the potential diversity of factors, the next step in the model is discriminating among possibilities through *evaluation* and *choosing*. A coherent evaluation should then consider the following (modified from Mintzberg et al., 1998:p. 27-28):

By:	*The strategy must warranty that:*
Consistency	Goals and policies are mutually consistent (no conflict)
Advantage	A certain competitive advantage is achieve, increased or sustained
Consonance (response and *adaptation*)	It is in line with changes and trends occurring in the external environment
Feasibility	Available resources are enough and no other (unsolvable) problems are created

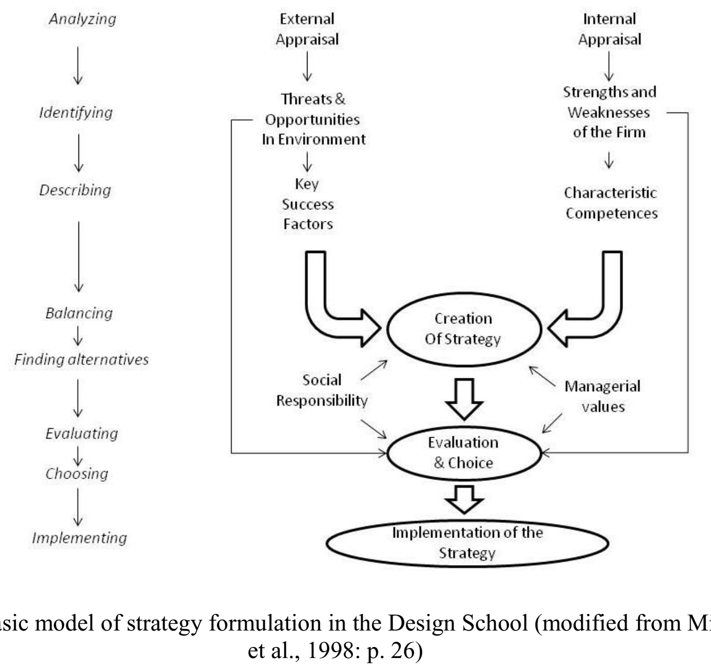

Figure 8. Basic model of strategy formulation in the Design School (modified from Mintzberg et al., 1998: p. 26)

When evaluation is over, the strategy must be *implemented*. Implementation is another process with many possibilities and steps. In the design school, several methods to implement a strategy can be fund. Although it is indicated that the overall SWOT methodology – entails formation and implementation, the design school does not contribute considerable to the theory and practice of implementation. An example of such practice is the *checklist* of *environmental variables* and of *strengths and weaknesses*. See Table 1.

The design school has a number of basic premises or basic assumptions that make the body of its theoretical development. The postulates are not only the base for the characterization of the school among others but also the origin of criticism. A set of seven basic premises is as follow:

1. "*Strategy formation should be a deliberate process of conscious thought*" (you know what you are really doing);
2. *"Responsibility for what control and consciousness must rest with the chief executive officer: that person is the strategist"* (the leader leads);
3. "The model of strategy formation must be kept simple and informal" (keep it simple, don't be that serious);
4. "Strategies should be one of a kind: the best result from a process of individualized design" (one specific solution for a specific need)
5. "The design process is complete when strategies appear fully formulated as perspective" (the strategy becomes the overall concept of the business);
6. "These strategies should be explicit, so they have to be kept simple" (a strategy brings simplicity to a complex organization) and;
7. "Finally, only after these unique, full-blown, explicit and simple strategies are fully formulated can they be really implemented" (think first, then act)

Main critics to the Design School argue that a "strategy that positions a firm into a niche can narrow its own perspective" (mintzberg et al., 1998). This critique implies that strategy formulation, analysis, choice and implementation can overlook opportunity if they just concentrate on a limited set of factors either internal or external, and only depends in just one architect such as the chief executive. This in turns implies that the design school tends to deny the role of incremental (and opportunistic) change in organizations and the role of human resources, other than the manager, in the decision making process. This last point suggests that in this "style" of strategy formulation, the role and "weight" of actors is primarily divided into "thinkers" and "doers". Thinkers have the role of formulating the strategy and doers have the duty of implementing it. Such a division of roles implies that "thought is independent of action" and that strategy formation is a process of conception (purposeful creation), rather than one of learning. We can see this point illustrated in the following question: can an organization be certain about all its strengths and weaknesses?

Another important aspect is that in this school, *strategy controls the organization's structure* and can even determine it (e.g. a new manager will conceive a new strategy and the structure of the organization will be adjusted or completely changed to that end). On the other hand, when a strategy becomes too explicit it loses flexibility. In real life situations, a firm might be sure of what it is needed, however, there is always a certain degree of uncertainty about how things will really happen. Hence, a strategy should allow changes when changes take place.

In spite of such criticism, the Design school has been a dominant architect of contemporary strategy management. Its focus on simplicity and on a centralized (unilateral) decision-making process has helped many firms to strengthen their market position. However, this "easy to do and implement" recipe requires of certain conditions to succeed: the person ("brain") taking the role of strategist, should be able to handle efficiently all needed information. Only then, she or he becomes capable to understand and manage the situation in detail. This implies that the required knowledge should be in place before the strategy is implemented. However, to be implemented successfully, a strategy that is centrally conceived must be adopted and supported by the entire organization. In general, Mintzberg suggest that this type of strategy process (formulation plus implementation) fits better organizations amid a period of turmoil and one of operating stability.

Table 1. Checklist of environmental variables and of strengths and weaknesses of firms
(Modified from Mintzberg et al, 1998: p.29-30)

Environmental variables checklist		*Strengths and weaknesses checklist*	
1. Societal changes	Changes in customer preferences and population trends affecting product demand, design and distribution	1. Marketing	Product quality, number of product lines, product differentiation, market share, Pricing policies, Distribution channels, promotional programs, customer service, marketing research, advertising, sales force
2. Governmental changes	New legislation and legal priorities affecting product cost and demand, and capital investment	2. Research and Development (R&D)	Product and process R&D capabilities, and pilot plant capabilities
3. Economic changes	In personal income and interest and exchange rates affecting national and international demand	3. Management Information System	Speed & responsiveness, quality of current information, expandability, User-Oriented System
4. Competitive changes	new technologies, competitors prices and products affecting production, distribution, prices, market share, and product quality	4. Management Team	Skills, value congruence, team spirit, experience, coordination of effort
5. Supplier changes	Changes in input cost and supply chain affecting production, distribution, cost and price	5. Operations	Control of row material, production capacity, production cost structure, facilities and equipment, inventory control, quality control, energy efficiency
6. Market changes	New uses of products, new markets and product obsolescence affecting distribution, demand and prices	6. Finance	Financial leverage, operating leverage, balance sheet ratios, stockholder relations, tax situation
		7. Human Resources	Employee capabilities, personnel systems, employee turnover, employee morale, employee development

15.2. The Planning School: strategy formation as a formal process

(Adapted from Mintzberg et al., 1998:p. 48-79)

The Planning school was born together with the Design school at a time in which the emerging trend on procedure formalization was permeating businesses, education and governments. However, at the beginning, the idea of "strategic planning" at the core of business and decision-making, was not as successful as the attractive simplicity of the Design School rationale. Afterwards, the central message of the Planning School found a better fit among managers and scholars fond of rigorous procedure, numbers, and accountability.

Although the theoretical production of the School during the 70s was considerable, publications did lack of quality and depth. However, the idea that *strategic planning* was necessary was fervently encouraged, together with an enormous amount of models to apply in all kind of organizations and situations. Nevertheless, the attempt to study and eventually understand the *process of planning* in real life was feeble. Ironically, the conceptual development of this school gave origin to the term "strategic management", and later on it opened an opportunity for its formalization as a field of theory and practice.

The models developed under the Planning School share in principle, a basic idea taken from the Design School: the SWOT analysis. A basic strategic plan is formed therefore, on the base of a SWOT model is divided into carefully defined steps, and supported for numerous checklists. Particular attention is given in the model to the setting of objectives and the creation of supportive budgets and operational plans (backups). Figure 9 gives one example of such models.

In practice, the strategy formation process is guided and executed by a number of highly trained *planners* acting at a *specialized strategic planning department* in a firm. About the model, we can say that in principle, a strategic plan consist of at least six stages (Mintzber et al., 1998):

(i) Objectives setting
(ii) External audit
(iii) Internal audit
(iv) Evaluation stage
(v) Strategy operationalization

The *objectives setting stage* is about qualifying and whenever possible, quantifying the goals of the organization. Here therefore, goals or objectives are quantifiable and not mere abstractions such as values (as in the Design School). This of course poses an additional challenge: how to formalize a goal or a value? Experience indicates that this is a difficult task. Hence in such context, strategies such as "increasing the number of production lines" are considered as goals (e.g. increase the sale of products). Certainly, the difference is almost a rhetoric matter.

Once the objectives are set, the following step is to formalize the internal and external conditions of the firm. The second step is therefore an *external Audit*. At this stage, the "planners" identify external factors with focus on future conditions –forecast– commonly using an extensive number of checklists of varied complexity. This allows a firm to "predict and prepare". Nowadays this practice has evolved into the popular *scenario building* method. A third stage the *internal Audit*, would formalize the strengths and weaknesses of the firm through checklists (of considerable less complexity than the ones employed in the external audit). Having set the objectives, identified and quantified internal and external conditions, the planner moves to the *evaluation stage.* At this step, the planners will evaluate different strategies to fit objectives with internal and external conditions. Ironically, this implies that many possible strategies are delineated (proposed) rather than evaluated. In general, the strategies derive from financial analysis (e.g. investment return, risk analysis, or value curve) in the search for the highest "value creation" and assuming that "you can make money by managing money".

Once the winning strategy is chosen, the *strategy operationalization* stage begins. Here the model pays a lot more of attention to details and the strategy is divided into parts, as a major plan is divided into sub-plans. This, according to some scholars, is because "all strategies must be broken down into sub-strategies for successful implementation" (Mintzberg et al., 1998). At this stage, the fragmentation of the strategy gives rise to a new set of hierarchies at different levels and perspectives within the operations of the firm. Objectives, for example, belongs to a hierarchy in which "long-term strategic plans" (often 5-years long) are at the top of complementary (subordinated) "medium-term plans" that in turns entails several plans in the "short-term". Other hierarchies can include for example budgets and action programs. In a sense, the whole model outlines a "master plan" that works on the base of many other plans (See Figure 10).

Although the effort of creating a "master plan" is aimed at attaining a better implementation process, it is argue that the real objective of exhaustive planning is the gain of *control*. By reaching every far end of the organization and determining budgets, sub-strategies, programs and positions, the planner gains control over all actions, since all divisions of the organization must carried out the plan as specified. In the next stage, (6) the "scheduling of the whole process" each specified step in the process and the timetable to carried it out must be defined. Some call this a "plan to plan".

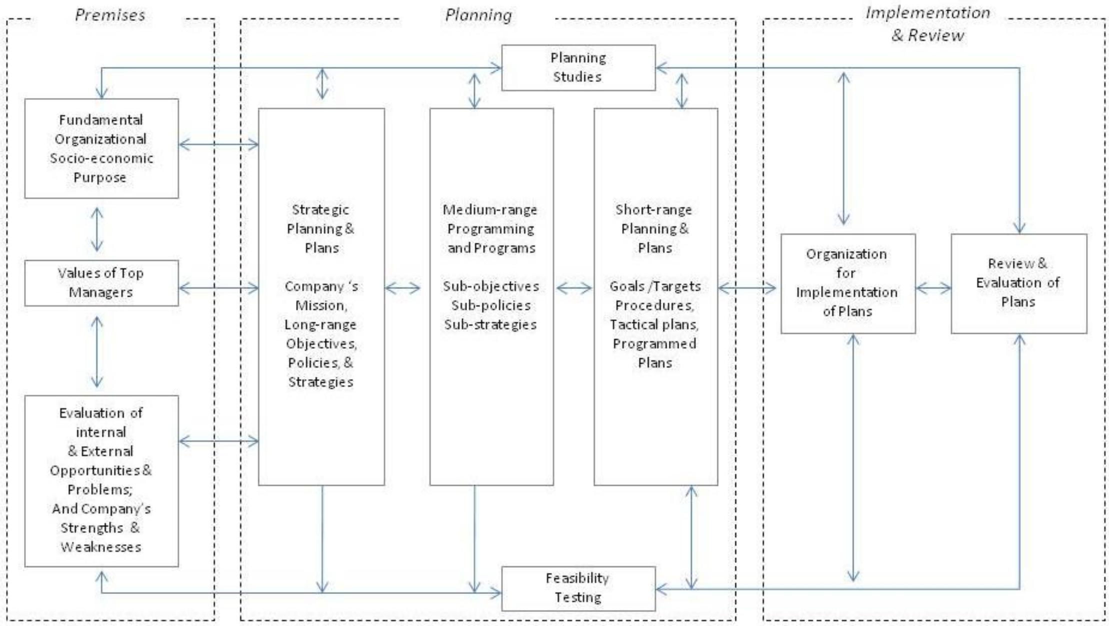

Figure 9. The Steiner Model of Strategic Planning (Modified from Mintzberg et al., 1998: p. 50)

Considering the previous "basic model", it is easy to see that the Planning School is just a mere formalization of the basic strategic outlook developed by the Design School. Hence, both schools share several fundamental premises. An important difference is that in the Planning school although a top manager is yet the architect of the strategy it is the planner the real designer and implementer. Hence, I this school, top management is relegated to approve rather to design. In general, we can summarize the premises of the Planning School as Follow: (1) Strategies results from a controlled, conscious process of formal planning, divided into different steps delineated by checklists and supported by techniques. (2) Responsibility for the overall process is on the chief executive's hands, while in practice the responsibility of execution is on the hands of planners. In addition, (3) strategies appear completely developed after the planning process so they can be implemented through a strict control and execution of diverse objectives, programs, budgets and operations.

Nowadays, two important trends within the school have become popular among planners and managers. They are *Scenario Planning* and *Strategic Control*. The first is a tool to particularly aid planners in the search for flexible long-term plans, and it is broadly based on military intelligence techniques. The second, strategic control, is a *strategy-making style* in which the organization tries to keep on their intended strategic tracks.

The main critic to the Planning School is that strategic planning does not generate a new strategy but rather provides useful means to implement one. In fact, it is argued that the whole idea about a strategy being developed in a structured, formalized process is a fallacy (myth). There are particular critiques to the fact that strategic planning is strongly based on the assumption of a future scenario might never occur. This problem rises from the very rational nature of planning, and therefore from the need to plan and program on the base of certainty and stability. A scenario of future provides a static possibility in an unchanging environment. However, in real life, future is far more dynamic and unpredictable than the most complex scenario ever conceived. A final critique to the school is the assumption that "innovation can be institutionalized" and that the "genius" and inherent "spontaneity" of *entrepreneurship* can be replicated by rigorous (strategic) planning and analysis. However, in practice innovation is far from being "planned" or programmed. In fact, the dynamics of innovation are not yet fully understood, and therefore its systematic synthesis is still far from possible.

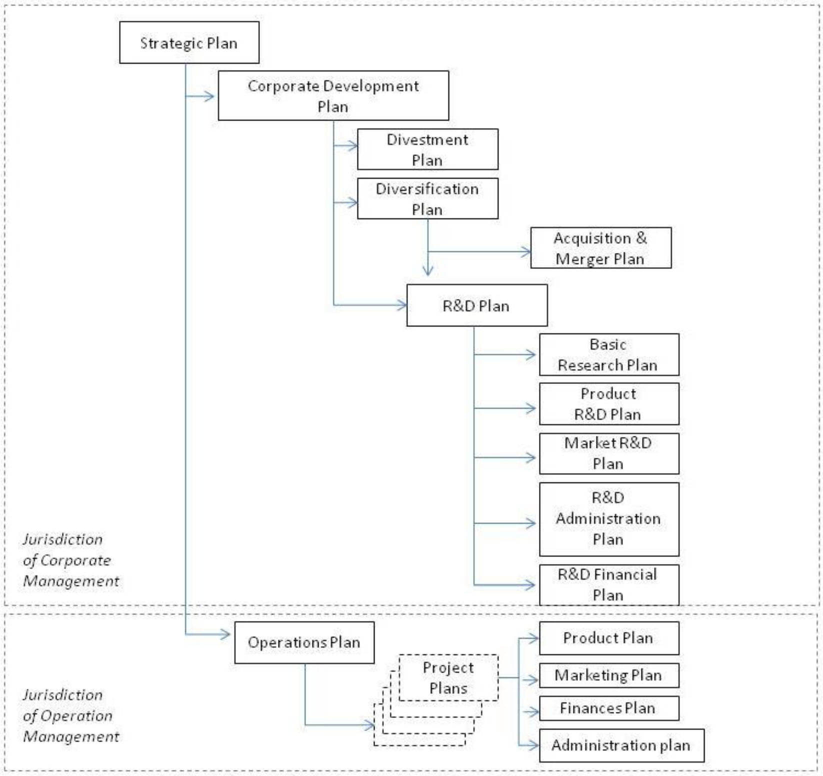

Figure 10. "System of Plans" proposed by the Stanford Research Institute, US
(Modified from Mintzberg et al, 1998:p. 54)

15.3. The positioning school: Strategy formation as an analytical process

(Adapted from Mintzberg et al., 1998:p. 82-122)

The Positioning School rises on 80s capturing some of the premises of both the Design and the Planning schools but adding some new perspectives and contents. The emerging school did emphasize the role and importance of strategy itself beyond the mere process of formulation. Such a new focus, on the content of strategies, encouraged a completely new line of studies among scholars and practitioners starting the "take off" of what we know today as "strategic management". Probably the most influential scholar in this trend in Michel Porter, the author of an iconic book titled *Competitive Advantage*. Porter suggested a new theoretical framework for strategic management detached from the Design and the Planning schools. Competitive advantage rapidly captured the attention and favour of practitioners and scholars, and paved the way to the positioning perspective to become the most dominant school in the field.

However, the premises of the positioning school do not greatly differ from those of the Design and Planning schools, a fundamental point of departure is the fact that in the positioning view, a limited set of strategies can fit *any* given firm. In the Design and Planning perspective, there was no limit to any possible strategy in any possible case. The idea behind the Position premise of a limit number of strategies is based on the theory that for a given firm there are just a few positions to its advantage in the market place. Such positions can be "defended" from existent and potential new competitors. If the position requires a low defence, it means that, the firm holding that position is more profitable than its competitors. This in turns allow the firm to "keep" and eventually "accumulate" resources that can serve to the purpose of consolidating the position or even expanding it. Such a logic is no other that a military logic, of which the Positioning school has taken a great deal of maxims. Books such as the Art of War written by Sun Tzu have been notably influential within the Positioning School theoreticians. Take for example a Tzu's maxim about the numerical strength in battle (Tzu, 1910):

> *"…When ten to the enemy's one, surround him… When five times his strength, attack him… If double his strength, divide him… If equally matched, you might engage him… If weaker numerically, be capable of withdrawing… And if in all respects unequal, be capable of eluding him…"*

Other important strategic concepts generated from the Positioning School for example "the first mover advantage" also are based on war strategizing and Tzu maxims: "Generally, He who occupies the field of battle first and awaits his enemy is at easy; He who comes later to the scene and rushes into fight is weary…"

We can summarize the basic premises of the Positioning school as follow:

I. Strategies are *generic*, specifically common and identifiable *positions* in the Market Place (the Battleground!).
II. The Market place is economic and competitive.
III. The strategy formation process is only a matter of selecting any of the generic positions of the firm in the market place, based on analytical calculation.
IV. Although the analysis process is fundamental, the top manager has the control over the choices (results).
V. After the analysis and choice, the strategy is ready for implementation. In general, is the market structure that drives position strategies and therefore, it is the market that also drives the organization's structure

As we mentioned earlier, Michel Porter's concept of Competitive Advantage is an icon of the Positioning School theoretical viewpoint and development. An important conceptual framework based on such an idea, is the Porter's model of Competitive Analysis (See Figure 11).

The model identifies (only) "five forces" coming from the environment surrounding the organization, and that are capable to affect the capability of such an organization to compete. These forces are:

(i) Threat of new entrants
(ii) Bargaining power of firm's suppliers
(iii) Bargaining power of firm's customers
(iv) Threat of substitute products, and
(v) Intensity of rivalry among competing firms

The characteristic of these forces with respect to the firm and its current position in the market, will determine the adoption of any particular strategy. Although the combination of the five forces could in theory result into a large number of potential strategies, Porter suggests that only a few generic strategies would survive to competition in the long-term. Further, in his assumption, Porter identifies only two factors that can determine the competitive advantage of a firm:

(i) Low Cost, and
(ii) Differentiation

Considering that different firms will have different competitive scopes (broad or narrow), but only two factors driving their competitive advantage (cost and differentiation), then only three generic strategies can be generated (See Figure 12):

(i) Cost leadership: a*n strategy aiming at being the producer with the lowest cost in the industry*
(ii) Differentiation: the strategy of developing a unique product or service, and
(iii) Focus: aimed at concentrating all efforts in a narrow market segment (niche)

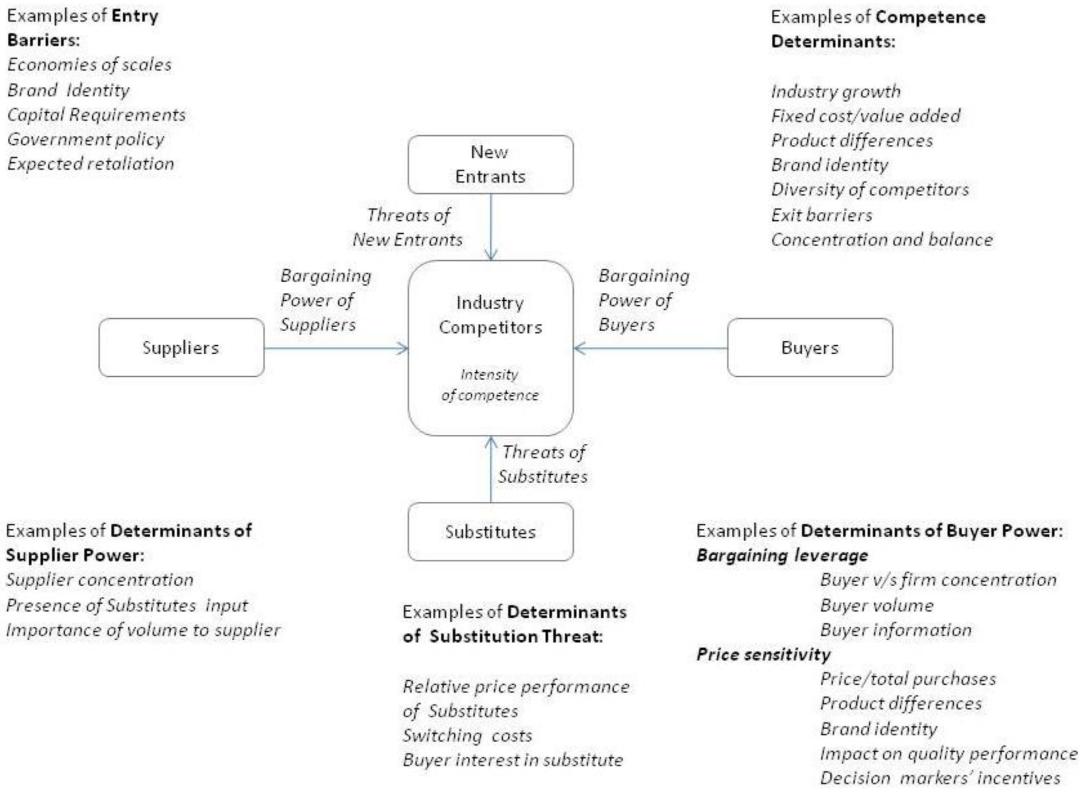

Figure 11. Porter's Model of Competitive analysis
(Modified from Mintzberg et al., 1998: 101)

Another emblematic strategic outlook of the Position School is also given by Porter's work: the so-called *Value Chain*. In 1985 Porter suggested that operations at any firm can be divided into two mutually supportive activities: *Primary Activities* and *Support Activities*. The fist of them, regards the flow of products towards the customer including inbound logistics, operations, outbound logistics, marketing and sales, and service. The second group of activities, considers the solely support to the primary activities, and includes procurement, technology development, human resource management, and the firm infrastructure (e.g. general management, finances, etc.). The particular coordination and management of primary and support activities – the value chain – determines the margin of profit the firm can obtain (Figure 13).

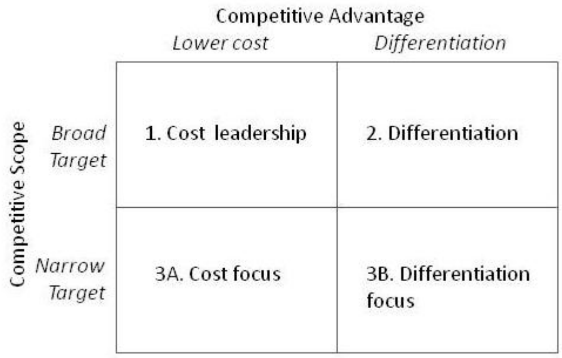

Figure 12. Porter's generic model of strategies
(Modified from Mintzberg et al., 1998: 103)

In porter's view, the value chain can be employed to better understand and analyze all activities in the firm, and therefore it can be used as an important analytical framework to support strategy formulation. However, Porter remarks that a strategy must consider the entire value chain in order to be successful. For example, a firm with good marketing and sales strategies is forced to produce and distribute faster, but any potential gain in competitive advantage will be feeble if operations activities (and available resources and capabilities) do not match the challenge of a sudden increase in demand (you cannot offer more than you can really produce).

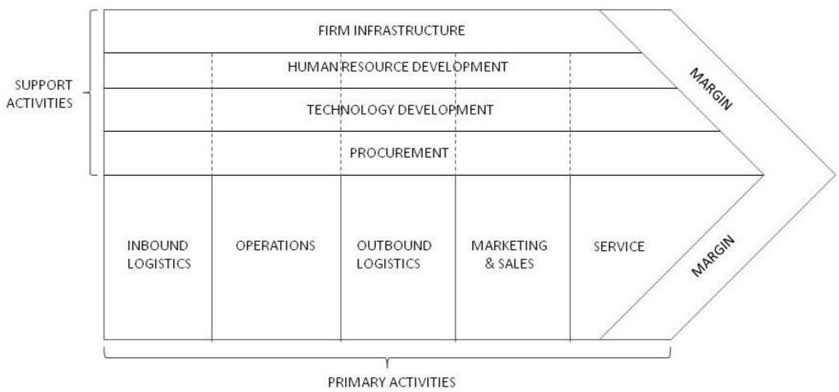

Figure 13. Porter's Generic Value Chain Model
(Taken from Mintzberg et al., 1998: 105)

Although influential, the Positioning School has many detractors. Main critiques are the same that for the Design and the Planning School: The strategy formation process separates thinking from doing, giving to the top management total control over the strategy formulation. In addition, the School heavily rely on analysis and data for present and future conditions. Such a deliberate development process might narrow the possibilities of strategic learning (learning by doing). Particular critiques regard the excess of focus on market disregarding the role of social and political aspects in strategy, and the lack of interest on studying the strategic process in small firms. Large companies will produce more data and have greater analytic power than small companies with fewer activities in the value chain. On the other hand, the Planning School proposes an "in-house" approach to strategy formation, based on a strong analysis and calculations of what happens inside the firm rather than in the totality of the system (the outside). Hence, the firm acts according to a few possible strategies developed in consideration of a few variables. Such an approach, in view of many, does not encourage creation and breakthrough motion but imitation and passivity.

Besides critiques, the Position school has made important contributions to the contemporary strategic management. A contribution of significance has been its interest in the strategy itself beyond the process of formulation.

15.4. The entrepreneurial school: strategy formation as a visionary process

(Adapted from Mintzberg et al., 1998:p. 124-147)

As its predecessors, the Entrepreneurial school also recognizes the top manager as the natural architect of strategies. However, a fundamental distinction is that this school includes into the strategy formulation process the role of mental attributes such as for example intuition, wisdom, judgement, and experience. Hence, in this School strategy becomes a perspective or a vision in the mind of the architect. This vision can be understood as an inspiration (a path to follow) rather than a detailed plan. Here strategy is both *deliberated* and *flexible* since it does set directions that can change or adjust according to the leader experience (and vision).

As the Positioning school, the entrepreneurial viewpoint is inspired by economics. Often entrepreneurship is a concept learnt together with capitalism. Indeed, economics suggests that entrepreneurship is the engine of capitalist economies. Hence the core function of entrepreneurship – the practice of starting new businesses organizations or revitalizing them, in response to new opportunities – is seen as a driver of western (capitalist) economic models. In this model one person – the entrepreneur – has the capability to identify the opportunity to transform something ordinary into something different. That capability is what we can call the *vision*. For the influential economist and scholar Joseph Schumpeter, the capability to present "new combinations" or "the doing of new things or the doing of things that are already being done in a new way" is the key roles of entrepreneurship.

In a contemporary approach, the conceptual value of entrepreneurship is associated with a personal capability – or characteristic – defining a leader. Hence, leadership – and visionary leadership – play an important role in the strategy process of this school. The acknowledgment of "strategic" leadership allows the existence of entrepreneurial organizations, and not only entrepreneurs. The main premises of the school regarding the strategy formation process are:

(1) Strategy exists in the mind of the leader as a long-term perspective, or vision
(2) Strategies are born from a semi-conscious process based on the experience and intuition of the leader,
(3)The leader promotes the strategy fervently, and keeps tight control over it in order to allow adjustments if necessary
(4) The vision, and consequently the strategy, are flexible and can change over time
(5) As a consequence, the organization requires flexibility to enable the leader to move at will
(6) The entrepreneurial strategy often considers specializing (differentiation) in a niche protected from hard competition

The main contribution of the Entrepreneurial School to strategy formation is the role of personalized leadership and strategic vision, thus, the role of mind attributes. This rescue the importance – and strategic value – of factors in the organization such as vision, direction, identity and integration that cannot be easily formalized and quantify. This is particularly meaningful to the strategy process in small businesses, where the role of a leader is more decisive than in larger firms. However, main critiques also arise from this rather "behavioural" strategic outlook: Personal attributes such as leaderships cannot be easily replicated or institutionalized. Therefore, the systematization of such strategies is very limited. A leader brings to the firm a vision and wisdom that is solely his or her. If the leader departs, the organization might be (strategically) blind.

Although the contribution of the School to the strategic management practice is large, its contribution to the theoretical development of the field is rather poor.

15.5. The cognitive School: the strategy formation as a mental Process

(Adapted from Mintzberg et al., 1998:p. 150-173)

The Cognitive School focuses on the strategist's mind and on the understanding of the creative process from which strategies emerge. In this school, the manager (the strategist) creates strategies based on his own experience and perception of life. As knowledge and experience are acquired, the strategist mind forms its own structures for thinking and doing. The school suggests that experience shapes what the strategist knows, and that knowledge influences what the strategist does. The endless cycle described by knowledge and experience is at the core of the school theoretical foundations. However, the Cognitive School does not account for any particular line of studies in the field, but for a compilation of different works in the area of cognitive psychology. Notably, the work of the school has been very prolific in the study of *strategic groups* (e.g. business partners in the airline industry) and *strategies of divestment* (the opposed to "investment" that in business means the reduction/elimination of an asset in a firm for ethical or financial reasons: e.g. the sale of a business – division – that was not fully related to what the organization does better). The production of the School is steadily growing, and some scholars believe that this work will change the way we now see and practice strategic management.

The main premises of the Cognitive School reflect the evolving nature of its perspective:

I. *Strategy formation is a cognitive process* that takes place in the mind of the strategist.
II. Hence, *strategies become perspectives* (e.g. concepts and schemes) that influence (or drive) the way people deal with their environment.
III. The *inputs from the environment are mere interpretations in the mind of the strategist* according to her/his perspective or perception: the world we see (perceive) can be modelled and framed… it can be constructed.
IV. As concepts, strategies are difficult to accomplish in the beginning and sub-optimal when they are finally attained. *Strategies as a concept are difficult to change once they are no longer necessary*.

Since the studies conducted under the theoretical umbrella of this school are diverse (there are many ways to approach human cognition, it is difficult to point at a particular and emblematic piece of work. However, there are interesting studies on cognition as an *information process*. For example, studies focusing on the complex dynamics of strategic decision-making: In an organization the flow of information is fundamental to decision-making however, information is often distorted by each of the participant in the flow and their particular "understanding" and "assumptions" of the piece of information they hold, and the system they work at. In large companies, the volume of information can be overwhelming, originating the need to deal with information in a systemic way. The *information system* in this case is essential for the coordination of management and operations (thinking and doing). It is a common task for senior managers to dedicate an important part of their time to process a vast amount of information and deal with distortions and loses. In many cases, the managers will not be able to cope with anything else than to process information, becoming unaware of the external reality.

Some scholars of the Cognitive School suggest that individuals and organizations deal with information under the same basic principles. Information always begins with *attention*, followed by *encoding*, *storage and retrieval*, and ends in *choice* and the *assessment of results* (outcomes).

Attention determines what information will be processed and what will be ignored (we keep what we choose to keep). During the *encoding stage*, we give meaning to the information according to a sort of classification, in which we find a match between the information and any existing category. The information then is available for *storage* or *retrieval*. In individuals, memory is what provided the storage for information, meanwhile in organizations is the formalization of information through rules, forms, procedures, etc. The availability of information at any time allows its *retrieval*. In firms, the memory of individuals and the formalization of information are linked through a process called *socialization* (when an employee memorizes a rule, a routine is established and the information is not lost and can be retrieved, since it has been embodied). Although we exercise a certain degree of resolution along the entire process, *choice* is the part of the procedure in which information goes into action or more information is gathered. Once a choice for action has been made, the impact of the results (*outcome*) will initiate a new wave of information than need to be processed into a new cycle (it goes back to attention). Figure 14 shows a *model of strategic decision-making* based on such rationale. The model adds on the basic information process including organizational and individual outcomes to generate strategic information.

Another interesting stream of work within the scope of the Cognitive School, regards the study of human cognition as a process of *mapping*. This underlines the existence of an important prerequisite for strategic cognition: the need of mental structures to organize knowledge. Although such structures refer to any concept, scheme, plan or mental model conceived at the mind of the strategist, nowadays the understanding of mental structures is mainly associated with the concept of *map* – and *mapping* in the sense of a process. A map gives a metaphoric sense of *guidance* to navigate through the unknown. In management, there all sorts of maps like for example a list with detailed information about the profiles of main competitors; or a chart with all potential suppliers. This type of information helps manager to identify factors relevant to strategy with easy. However when there is too much information at hand, it is complicated to gather a mental image quickly. Maps presenting the information organized at different levels of knowledge, can make decision-making easier.

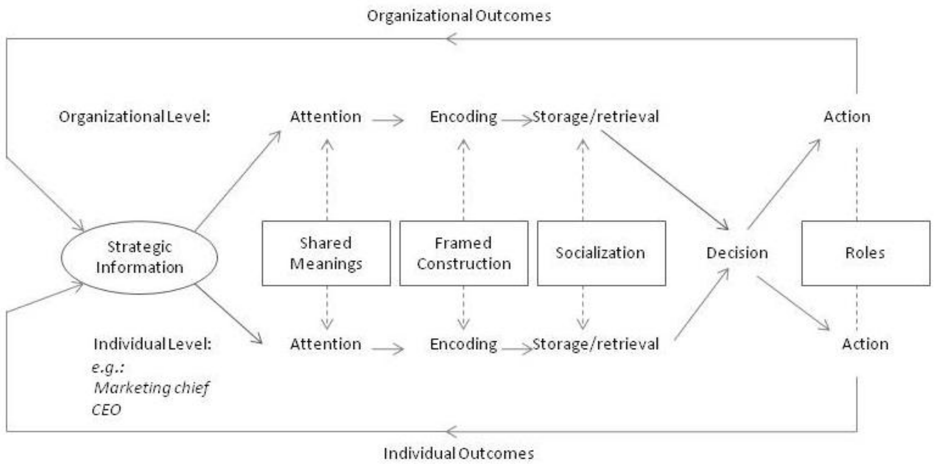

Figure 14. Example of a Process Model of Strategic Decision Making
(Modified from Mintzberg et al., 1998: 156)

However, in management is not only necessary to have a "quick mental reference" of external factors but also an idea on how those factors interact within them and with internal ones. Thus, managers also have the so-called casual maps, or mental models that suggest actions under certain circumstances (e.g. competitor's actions as a response to price cuts). Such "mental models" can be very detailed, entailing the relationship between many variables such as supply, demand, cost, price, time, etc. They can have a considerable impact on the behaviour of the manager and can become a decisive map of action in times of uncertainty (you stick to the directions in the map no matter what).

Mintzberg (1998:p. 159-160), quotes an old anecdote to illustrate the intrinsic influence of maps as a guide of human behaviour. This traditional tale of the Hungarian military says:

"…several military units were having a training session in the Alps when the weather turned bad and they were forced to return to the base and to safety. One unit was unable to return in time and was trap in the mountains. The storm went for two more days, at the end of which the unit was completely lost. At the third day, the unit returned to the base. One of the men told how just in the moment they thought they were lost forever, somebody found a map on his pocket and that calmed them down. They settle a camp and wait for the storm to pass and found their position on the map and the way to base". Amazed with such a lucky strike, the lieutenant in command borrowed the map and studied it in detail. He discovered, to his astonishment, that the map in question was not a map of the Alps but of the Pyrenees". The moral of the story is that "when you are lost, any map will do". The soldiers saw in the map what they expected to see, their perception of reality changed as closer as possible to that shown by the lines in the map. However, the map was just a metaphorical reference, a psychological support to organize the knowledge and information they already have. As occur with managers, the soldiers used the map to guide their own experience.

It is suggested that the contribution of the cognitive school to strategic management has been more potential than concrete. In the field however, it has been important the claim that strategy formation is also a mental process, and that the dynamics of such process are complex and so far unknown. This has point out the need to further study human cognition, and cognition psychology. Under this perspective, understanding the human mind and the human brain is important to comprehend strategy formation. In management however, the role of human cognition and psychology as a conceptual foundation is yet poor.

15.6. The learning School: strategy formation as an emergent process

(Adapted from Mintzberg et al., 1998:p. 176-231)

The previous schools depicted a rather complex vision of strategy and its process. In spite of their different viewpoints, all these schools have suggested that strategies arise from a linear, purposeful process. The Learning School in contrast, sees strategies as the result of an evolving – emergent – process, driven by *learning*. In here, strategy emerges when people – individually or collectively – come to learn from a situation and from the particular way the organization uses resources to deal with it. Eventually, common patterns of successful behaviour will emerge and converge, paving the way to *common learning*.

The premises of the school can be summarized as follow:

I. The complex and unpredictable nature of the organization's environment and of knowledge diffusion is an impediment to purposeful control.
II. The organization should learn collectively, and not only through a set of selected individuals (managers), in order to not miss the appearance of any potential strategist.
III. Learning does not follow a pre-established path since it can arise in totally unexpected ways. In spite of this unpredictable behaviour, successful initiatives always create streams of experiences that can converge into patterns that become emergent strategies that once recognized, should be purposefully formalized.

IV. Therefore, the role of leadership in this context is not to deliberately create strategies but to manage the process of *strategic learning* from which new strategies can arise.

The theoretical foundations of the school can be traced back to the late 50s, when a series of studies argued that policymaking and management where not controlled processes, but chaotic ones in which practitioners will be always trying to cope with a too complicated world. Later on, some of these studies went into the stream of strategic management proposing for example, concepts like *logical incrementalism*. The theoretical developments of this school have added to an unsettled debate on fundamental questions such as: Who really is the architect of strategy? Where in the organization does the strategy formation process take place? Is the process fully conscious and deliberated?

Nevertheless, the Learning School has questions of its own. A very important one deals with the organizational role in strategy formation. *How does strategy actually form in organizations?* The Learning scholars indicate that in average only 10% of formulated strategies are actually implemented and that failures at the implementation stage are the direct result of failures in formulation. This is, they say, the results of an excessive emphasis on searching for "smart strategies" rather than for effective ones. Management is usually blamed for the wrong search, remarking the fact that conventionally management (the formulation) is delinked from operations (the implementation). However, the scholars noticed that effective strategies at institutions are not the result of a planning effort or the merit of managers, but the convergence of a variety of actions initiated by all sort of people within the organization. Such array of small actions and decisions – often born out of chance – over time become major drivers of change in the strategic direction of the firm. This implies that any well-informed individual in an organization can decidedly contribute to the strategy formation process. This indirectly suggests that in an organization, formulation and implementation of strategies are not isolated events. People do think and act simultaneously, sometimes against management plans, imposing their own strategy to "do what they know or do best". Such autonomy of choice can have unforeseen consequences to the strategy formulation (and implementation) process. Such assumptions have been important to change the perspective (and focus) of contemporary studies on strategic learning. "The learning organization", evolutionary theorizing, "knowledge creation", "the dynamic capability approach" and the "chaos theory" are some examples of emergent fields associated with the new direction of strategic learning.

Learning as knowledge creation, has become a popular concept among managers and scholars during the last decade. In the study of knowledge, we differentiate within the tacit and explicit form. *Tacit knowledge* – the inherent inner knowledge we cannot easily formalize (transcript) and share – has an important role in strategy formation over the *explicit knowledge* (the codified form of knowledge we can share). In management, the conversion of experience and wisdom of the strategist into a codified (transmissible) sort of knowledge is crucial to the sustainability of the strategic process. Middle managers in large organizations, play a key role converting the tacit knowledge of workers and top managers into meaningful codes to incorporate into new products and technologies. Figure 15 illustrates the Nonaka and Takeuchi "Knowledge Spiral" depicting the different degrees of conversion between tacit and explicit knowledge.

In the knowledge spiral, *socialization* implies the implicit sharing of tacit knowledge, usually without the need of oral language (e.g. experience is the prevailing form of knowledge in the Japanese corporate behaviour). *Externalization* implies the conversion of tacit into explicit knowledge commonly through metaphors (images or descriptions) and analysis (e.g. special form of language). *Combination* on the other hand, the preferred form in Western corporations, implies the combination and transference of formally codified knowledge, from one person to another (e.g. training at a MBA course). During the *Internalization* stage, explicit knowledge goes back to a tacit stage, and occurs when people internalizes knowledge by applying it ("learning by doing"). This not only regards ideas (experience), but also skills (practice).

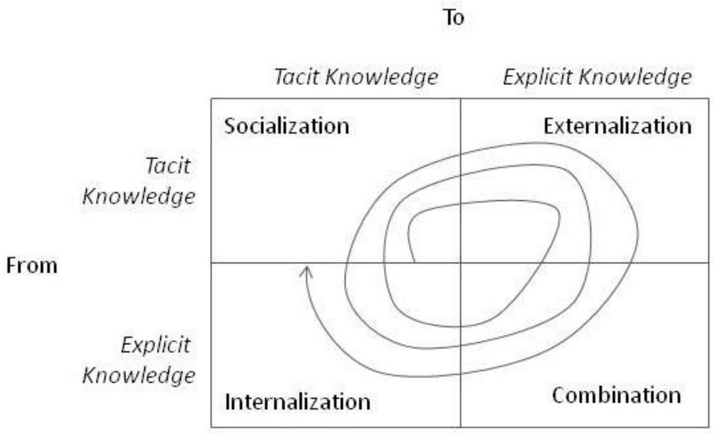

Figure 15. The Nonaka's Knowledge Spiral Model (Modified from Mintzberg et al., 1998: 211)

The rationale of Nonaka's model is based on the idea that "…the essence of strategy lies in developing the organizational capability to acquire, create, accumulate, and exploit knowledge" (Mintzberg et al., 1998). However, if we assume that "knowledge is only created by individuals" the role of the organization becomes the facilitation of learning, by supporting and increasing individual learning, embedding it into the group through dialogue, discussion, sharing experiences and notably, through observation.

A prominent contribution to the concept of organizational learning is the so-called *unifying framework* by Crossan et al. (1997),that suggests "organizational learning is the process of change in individual and shared thought and action, which is affected by and embedded in the institutions of the organization". The framework consists of three levels (individual, group and organization), four different processes (Intuiting or sensing, interpreting, integrating, and institutionalizing), and a number of possible inputs and outputs to those processes (See Table 2).

Table 2. Unifying framework for organizational learning
proposed by Crossan, Lane, and White (Taken from Mintzberg et al, 1998:213)

Levels	Process	Inputs/Outcomes
Individual	Intuiting	Experiences Images Metaphors
	Interpreting	Language Cognitive Map Conversation/dialogue
Group	Integrating	Shared Understanding Mutual Adjustment Interactive Systems
Organization	Institutionalizing	Plans/Routines/Norms Diagnostic Systems Rules and Procedures

The capabilities of an organization might influence and condition the learning process of individuals. Nowadays, many practitioners believe that strategy depends on learning and that in turn, learning depends on capabilities. If true, under this approach strategic management becomes a "collective learning process" aiming the enhancement and exploitation of particular capabilities –

competences – that are difficult to imitate. Such capabilities make the organization unique and therefore, competitive. This of course, focuses on the "invisible" or intangible assets of organizations, and particular on the aggregated value of the human capital. In contrast, the previous schools do predominantly focus on the strategic role of quantifiable assets, often with a clear economic value or meaning. Nevertheless, recognizing the value of resources and capabilities implies that organizations also should pay attention on what they lack. A common strategic approach in this aspect is to learn *how to leverage a limited resource base*. Common strategies include:

(i) *Concentrating* resources around an strategic goal
(ii) Accumulating resources by maximizing learning from your own experience and that of other companies
(iii) *Complementing* different resources as much as possible in order to aggregate value
(iv) *Conserving* resources (and energy) whenever possible, and
(v) *Recovering* resources (from the market) as soon as possible (re-capitalization)

However, doing the most of limited capabilities will not always suffice to succeed over competitors. When companies are pushed to the limit of their capabilities, and yet they continue to lose ground in the market, managers can think on "breaking the rules of the game". Then, strategies become groundbreaking, and companies use them to change radically the basis of competition in the industry they play at. Such strategies commonly have a strong component of wisdom, and appeals to the very character and vision of their architect. However, Hamel, a prominent writer of the Learning School, suggests that conventional wisdom can be "undermined" by three competition myths when the strategist attempt to break the rules of the game (Mintzberg et al., 1998: p. 221):

> Myth (1): *Industry analysis is key to strategy*. The strategist should (must) know that it is becoming harder to define were a industry begins and ends, and therefore, that to define in which industry you are in, and what is your role and position are very difficult tasks. Under such conditions, analysis becomes complex and worthless.
>
> Myth (2): *You should focus on your direct competitors*. Nowadays it is just too difficult to say who the real competitor is, as well as to distinguish between collaborators, suppliers or buyers. In a time of intensive and intricate networking, it has become hard to distinguish between the "good" and the "bad" guys.
>
> Myth (3): *In strategy, it is you against the world*. Managers usually overstate the effect of their strategies. However, strategies have a limited effect over the whole value chain. A single strategy might not change the rules of the game in a significant way.

The boundaries of organizations and those of the industry they play at are becoming increasingly blurry. Hence, the manager should consider that the firm does not control completely all assets required to succeed (e.g. if a firm outsources an activity, the control over that activity is limited). Therefore, the strategist not only should be aware of what is under his/her control, but also of what is beyond that control and yet, is relevant for the firms' operations.

In the perspective of ever-changing conditions, unclear boundaries, and increasing complexity, an institution might see its learning capability limited. Learning requires of certain conditions to take place such as for example, a certain degree of environmental stability, and the steadiness of trends. If things change too fast, the organization might not be able to cope with the increasing and faster flow of new information. However, scholars suggest that in chaotic conditions, strategic learning is still possible. This regards the so-called *chaos theory* – originally proposed by physicists –attempting to understand complex systems and situations. In management, the chaos theory is exactly the opposite of organization, planning and order. It implies dynamisms and unpredictability, and ultimately, the acknowledgement that in dynamic organizations, equilibrium is not an everlasting condition, but a temporal stage as a *consequence* of change. In this context, strategies would arise from the learning because disturbances in operations caused by crisis or unforeseen changes. Some scholars, fond of this theory, argue that disturbances in operations can be intentionally induced by management in order to increase the creation of new knowledge and therefore, of learning. In other words, "order can produce chaos and chaos can produce a new order". In the creation of such new orders (e.g. production schemes or methods, products, technologies, services, resources, and assets) there is an implicit strategic advantage.

Critics argue that, although the logic importance of strategic learning is undeniable, an excessive focus on learning might eventually induce the disintegration of strategies. Learning is incremental and requires time to be acquired and of certain degree of formality to be embedded into the organizational system. Yet, learning emerges spontaneously and therefore, a manager cannot rely upon it in certain cases. Crises are probably the most evident of these situations. In a situation like this, the strategist cannot wait for new learning to emerge at the required moment. During a crisis, a firm requires of decisive actions often preconceived in the particular vision of the leader. Often, actions do not account for a full strategy but rather for a *contingency plan* to save the firm.

On the other hand, over emphasising learning can also weaken strategies that are perfectible viable. Often, people in organizations move away from the path of a good strategy (this is called *strategic drift*), due to their effort to incorporate new or interesting knowledge. In here, excessive learning might blur the sense of (right) direction.

The excess of learning might not only induce a strategic lack, but also can lead to the implementation of unwanted strategies. Wrong strategies can emerge one-step at a time, from a cumulative set of wrong decision and actions. This is the result of an underestimation of the effect of minor changes and actions can have on the strategic direction of the firm in the end.

Although learning might become a powerful strategic asset, organizations and people should use it carefully. In the opinion of some critics, learning can distract us from what we are supposed to do efficiently. The accumulated learning should be applied wisely and not be dismissed because a constant search for new knowledge: There is a time to learn and a time to apply what we have learnt. Nevertheless, the contribution of the school to strategic management is considerable:

"Strategy is in fact a learning process, individual and collective"

15.7. The Power School: strategy formation as a process of negotiation

(Adapted from Mintzberg et al., 1998:p. 234-261)

The role of power and politics in strategy is not considered at all by the previous schools. In the Power School, however, politics and power receive all the attention, and are used to negotiate strategies that are favourable to particular interests. Consequently, for this school the strategy process is an obvious process of *influence*.

Power is the exercise of influence beyond the solely economic ground, bringing it closer to politics. However, as in politics, the use of influence to the mere organization's benefit becomes a matter of illegitimacy. Thus, this implies the use of undercover moves to weaken competitors (e.g. a "cartel"), or open ones to reach cooperative agreements (e.g. alliances). The political game in organizations implies the acknowledgement of individual characteristics such as for example emotions, dreams, fears, jealousy, hopes, and ambitions. Although the role of such attributes in the process of forming and implementing strategies is obvious, their theorization is a major contribution of the school. The premises of the Power School entail:

I. Strategy formation is shaped by power and politics, whether as a process inside the organization, or as the behaviour of the organization in its surrounding environment.
II. Strategies emerging from that process tend to evolve, and take the preferred form of "positions" and "ploys". Power as a game of influences, for strategic purposes, takes both a micro and a macro form.
III. Micro power sees strategy as an interaction, through direct or indirect persuasion or bargaining between the interest of the firms and partners.
IV. Macro power instead, sees the strategy as the capability to promote the organization's own welfare, by controlling or cooperating with other organizations, and by conducting strategic manoeuvring within networks and alliances.

In the context of micro power, there are all sorts of "political games" that people at organizations can play. Some common games are (modified from Mintzberg et al., 1998: p. 237-238):

Name of the game	***The purpose***
Insurgence	Played to resist authority and exert power through unity, particularly those in the lower ranks of the organization
Counterinsurgency	A "retaliation game" played by the authority in order to achieve certain political gains. Sponsorship: Played to build up a power base by engaging into an "alliance" with a superior in the hierarchy
Alliance-building	Played among peers, usually managers or experts, who negotiate supports contracts for each other, in order to build power bases and advance in the power line of the organization. Empire-building: Played by line managers in order o build power bases not with peers, but with subordinates
Budgeting	Played with clear rules in order to build a power base, not in light of achieving a higher position but more resources (similar to the empire-building game)
Expertise	Played to build a power base in light of knowledge, by becoming the unique who knows or better does
"Lording"	Played to create a power base by employing legitimate power in an illegitimate way against those with less or no power at all
Line versus staff	A game of rivalry commonly played by line managers against staff-advisors in order to gain power, and eliminate opposition
Rival camps	Played to defeat an emergent rival power block. The blocks can emerge from other games such as "alliance" or "empire-building" (e.g. marketing v/s production)
Strategic candidates	Played to promote change in the organization, by individual or groups with particular political interests
"Whistle-blowing"	A brief and simple game played by an insider (with low rank) in the organization to induce change. The insider has privileged information to be use against the organization by any outsider with considerable influence and particular interest in the issue
"Young Turks"	Played by groups of people close to, but not at, the centre of power. The objective is to reorient the organization's basic strategy by displacing somebody from power, replacing his/her prevailing culture, or getting rid of his/her leadership

The adoption of political strategies in organizations during the last decades has grown steadily. New intended strategies are not only guides to change actions, but also signals of shift in power relationships. When in a decentralized organization a strategy acquires high relevance, the chance of political manoeuvre to arise is considerable. Often, the ploy itself would compromise the integrity of the strategy, since political interests might blur the strategic direction. Politics in organizations can be seen as a set of actions or situations, in which individuals and groups interact to fulfil ambitions, resolve disputes, or simply exert their will over others. Such actions commonly imply the formation of coalitions around a common interest. The coalition however, is formed on the base of differences: each member has a different (ultimate) objective. Most important decisions in this context (the coalition), are taken in order to allocate a resource (determining who gets what). The differences among members in terms of objectives and resources encourage the search for power within the group (who gets more). Goals and decisions as well as actions, will be determined by negotiation and bargaining (using what you have to get more). This will eventually change the roles and positions in the coalition in a dynamic fashion (shift of the power balance).

A very interesting characteristic of power and politics in organizations is that they involve all individuals and groups within the organization no matter their position in the hierarchy. Hence, everybody can gain and exert power and play a political role. In strategic management, this mean that strategy formation is not a straightforward process, solely taking place in the mind of the architect, or a dedicated group of planners. In the context of power and politics, strategy emerges from the interaction of several individuals and coalitions pursuing their own interests and agendas. The Power school also suggest that the power of subordinates groups (bellow the managerial rank), can play a decisive role in the formation process and even distort strategies. Another important consideration is that such strategies are not optimal since they often represent the "winning" interest of a particular group (or individual). Hence, the emerging strategy might not represent the collective interest, but the interest of the most powerful group(s) in the organization.

If we accept that power and politics games in organizations are the drivers of the strategy process, and that the process is spontaneous and unpredictable, then the following question arises: *Can the organization make significant strategic decisions deliberately?* In the view of the power school the answer is no. Organizations in this context, can only take decisions, they cannot make strategies. Thus, the school assumes that all strategies emerge from a process of evolution derived from the constant bargaining and negotiation of resources. Strategies emerging from a political process are *positions* rather than *visions*. They set directions and actions to consolidate a shift of power, and eventually consolidate new goals, a new culture, o simply a new leadership. Although in reality strategies do not only emerge from the political process, it has been suggested that the "use of politics" in the strategy process is important. Some clear advantages on its use are:

I. Exerting pressure and legitimizing positions looking to correct irresponsible or inefficient behaviour (of groups or individuals)
II. Ensuring that only the strongest individuals in the organization will reach positions of power and leadership ("natural selection")
III. Promoting a broader debate over an issue ensuring all concerned parts reach an agreement (democratic decision-making)
IV. Promoting a change that is necessary, even against the will of authorities (the formal power)
V. Politics can easy the path for the execution of changes (use of influence and power to implement them)

In the context of *macro power*, beyond individual and groups, the strategic outlook emerges from the interplay among organizations and their environment. Here, suppliers, buyers, investors, competitors, and an increasing number of players associated with the organization's functioning, are seen as "pressure groups". The firm in turn, is part of a pressure group in the activity field of other firms. In this context, strategy focus on:

(i) Managing the demands of the players, and
(ii) Selectively making use of the players to the benefit of the organization

In theory, the school suggests that organizations can adapt and change to fit environmental requirements, or can try to modify such environment until it fits their capabilities. Based on this assumption, we can depict three basic strategies an organization can employ:

I. An organization can deal with each demand as they arise: you deal with each problem one at a time

II. An organization can make a strategic use of information: the knowledge of what each group or player does and gets, is used to your advantage. You let them know only what they *need* to know
III. An organization can play a player against another: You can reduce the threat (influence) of a player by turning it against another player with conflicting interest

In general, organizations tend to search for a lower dependency from other players and the environment (e.g. forming monopolies). Sometimes, organizations will group making a common cause with their environment (partnerships). The environment can be for example a national market, in which organizations try to position themselves competing or collaborating. The government will set conditions or warranties to the organizations. Companies will adjust to that environment or eventually attempt to change it, individually or in groups. Often, organizations will use their "political influence" – power – to do so (e.g. promoting, suggesting, or supporting the enforcement of a law or normative that opens new market opportunities, or decreases the competitiveness of the rivals). It is suggested that the most effective way to control the power of external players or pressure groups, is by controlling their behaviour. This is the main objective of the so-called "strategic manoeuvring". Of course, this implies the use of politics, but as means of accomplishing goals without the need of physical (and destructive) confrontation. As an example of such manoeuvres, we can recall the work of Bruce Henderson on Corporate Management (1979). He depicts five *competitive manoeuvrings* (modified from Mintzberg et al., 1998: p.254):

I. You must know (accurately) what your competition has to lose or win in the contact with you. Conversely,
II. The least your competitor knows about your capabilities (and interests) the smaller the advantage he has over you
III. To negotiate with advantage, you have to know about the character, motivations and behaviour of your competitor
IV. When negotiating, the more subjective your demands are, the better your competitive position becomes (looking imprecise and undecided shows no particular emotions)
V. The lees arbitrary you seem, the more arbitrary you become

The previous set of manoeuvres is of a competitive nature, however in macro power, organizations also can set collective and collaborative strategies through networks, collective strategizing, joint ventures, strategic alliances, and strategic sourcing.

These relatively recent concepts for strategic collaboration, rescue the strategic value of negotiation over persuasion. Here, the organization negotiate through a network of relationships in order formulate a collective strategy that would not be possible acting alone. The *principles of collaborative advantage* according to Hamel and collaborators (1989) are (Mintzberg et al., 1998: p. 259):

I. Collaboration is competition in a different form: firms cannot forget that new partners are yet competitors, thus, it is essential to enter to the alliance with a clear strategic purpose you keep from beginning to end

II. Harmony is not the most important measure of success: conflict in fact might be a clear signal that partners remain competitive, and yet searching for mutual benefit

III. Cooperation has limits: a strategic alliance evolves on the base of constant bargaining and negotiation, and often goes beyond the original legal agreement. The firm must defend itself from excessive compromise

IV. Learning from partners is fundamental: The alliance is a (open) window to the partner's capabilities. You can build up on the base of such learning in areas even beyond the limits of the formal agreement.

Strategic alliances can vary in form and length according to their purpose. Here some types and some examples of them (Adapted from Mintzberg et al., 1998: p. 257):

Alliance types	*Examples*
Collaborative advertising	American express & Toys 'R' Us for cooperation on TV advertising and promotion
R&D Partnership	Cytel & Sumitomo Chemicals to develop new generation of biotechnology drugs
Lease service agreement	Cigna and United Motor Works to provide financing services to foreign (non-US) firms and governments
Shared distribution	Nissan & Volkswagen to distribute each other products in Japan and Europe
Technology transfer	IBM & Apple Computers to develop next generation operating systems software
Cooperative bidding	Boeing, General Dynamics, & Lockheed to cooperate in advanced (military) tactical fighter contracts
Cross-manufacturing	Ford & Mazda to share design to use same assembly lines
Resource venturing	Swift Chemical Co., Texasgulf, RTZ, & US Borax to form a Canadian-based venture on natural resource mining
Government-Industry Partnership	DuPont & the National Cancer Institute developing and testing technologies for cancer treatment
Spinoffs	Cummins Engine & Toshiba Corporation to create a new firm (and market) on silicon nitride products
Cross-licensing	Hoffman & Glaxo to allow Hoffman-LaRoche to sell "Zantac" (anti-ulcer) drug in USA

The main critique to the Power School is an obvious one: the school does overstate the role of power and politics in strategy ("strategy formation is about power but not only about power"). By emphasizing on the role of ploys, games, and manoeuvres, the strategy process does not allow room for deliberated strategizing. However, the use of politics in strategizing is particularly useful on the following situations:

I. During a period of major change where significant shifts in power and positions rise conflicts
II. In large and mature organizations
III. In complex and highly centralized organizations of experts such as universities
IV. During of period of lethargy, when legitimate power (the authority) does not let change to take place
V. During periods of instability, when decision-making becomes erratic, and the organization is unable to set a clear direction

15.8. The cultural School: strategy formation as a collective process

(Adapted from Mintzberg et al., 1998:p. 264-283)

Opposing the Power school, strategy formation in the Culture School does not look at the self-benefit, but to the collective one. Strategy formation in here is based on the social force of culture, a force that is shaped by individuals and the aggregation of their particularities. Such a force can influence strategic stability, and that sometimes, can actively oppose strategic change. The school suggest that culture is everywhere, but in the same time, it is unique. Thus, culture affects everything and everyone making of each organization something unique. Contemporary strategic management acknowledges this dual nature of culture.

The School starts at some point in the 80s, when culture became meaningful to management. By that time, Japanese companies where quite successful in the international arena, and their way to do things differently, were seen as the result of culture. Many concepts and ideas based on "culture" where developed, and consultant and practitioners notably in America, brought the word culture to almost every aspect of management. However, such an effort did not account for a considerable contribution to the understanding of strategy. Culture in this context did only focus on organizational motivation. Paradoxically, the Learning School would better understand the role of cultural differentiation later on, through studying the capability of Japanese corporations to encourage social learning (a cultural difference with Western firms).

In general, the premises of the Culture School suggest that:

I. Strategy formation is a process of social interaction based on the belief and perceptions shared by the members of an organization
II. Individuals acquire such beliefs through a process of socialization that commonly is tacit and non-verbal, and sometimes is directly influenced by doctrines. As a consequence,
III. The members of the organization are able to only describe part of the belief shaping their culture
IV. Therefore, strategies take the form of perspectives rather than of positions. The perspectives are rooted in the collective purpose and reflected in the way resources and capabilities are protected or used for competitive advantage. Strategy here is always deliberate, even not being fully conscious
V. Finally, culture – and particularly ideology – does not encourage strategic change, but the continuation of existing strategies. In the best of scenarios, culture will promote a shift of positions within the organization's overall strategic perspective

Considering these premises, one can say that culture and strategy interact in particular ways. Culture can influence the organization's style of thinking and analyzing things; hence, *culture influences the decision-making style*. Conversely, before a new strategy is developed and implemented in the organization, the old culture or way to things, should be totally replaced and forgotten. However, *culture* in organizations naturally *resists strategic change*. When a "way to do things", a style, or belief is shared by the organization's members, the organization develops a consistent behaviour – a culture – that is difficult to be replace (without a good reason to change, or the need of, we would continue doing what we believe is the *right* thing to do). It is suggested that a corporation does not have a culture, since the corporation is the culture. That is why, in the view of Karl E. Weick, it is so difficult to change. In this context, a manager can be impeded to see the need of change due to the organisational cultural settings. Even if the manager is able to "see" beyond the cultural barrier, she or he will probably face the changes according to her/his organizational culture. Hence, managers tend to stick to those beliefs that worked well in the past. Thus, change (strategic or not) is resisted by culture.

Can we overcome the resistance to (strategic) change? The culture school has devoted attention to this question, and explored the ways an organization can overcome strategic inertia. The answer they suggest is – yes – organizations can (willingly) embrace change if certain conditions are observed. One (initial) condition is that top managers should accept *innovation* and *flexibility* as a major part of the organization's culture. To do so, several actions can be taken, like for example having a top manager "without portfolio", so without any particular project, but to rise questions, new ideas, and perspectives. Another strategy to induce flexibility and innovation is the s*ystematic rotation of managers* among the different functions and businesses in the organization, encouraging learning and a broader "view" of the organization's functioning and capabilities. Consequently, strategic changes can be naturally resisted or willingly accepted by the organization's culture. However, when the needed change is radical, only an equally radical change in the organization's culture will allow that change to take place. Bjorkman (1989) suggests that such a change occurs in just four phases:

(i) Strategic drift
(ii) Braking-down of the current culture
(iii) Trial and re-formulation
(iv) Stabilization

In the *first phase* before a radical change becomes evident, there is a widening of the gap between the organization's basic beliefs and the characteristic of the environment surrounding the firm. The strategic perspective or position of the firm (emerging from the prevailing culture), is not currently efficient to adapt to external changes (the firm's environment). Culture, strategy, and environment are in disarray.

In the *second phase* and in most cases, the *strategic drift* leads to financial decline and eventually to the perception of a *state of crisis*. At this stage, the prevailing beliefs of the organization are questioned and challenged, resulting in the breakdown of harmony and homogeneity. The culture of the organization is bound to change.

In the *third phase*, as embedded beliefs change (they are "forgotten"), the organization often undergoes a period of confusion. At this stage, new strategic visions (perspectives) are more likely to emerge and be embraced. The new strategic decisions would commonly arise from a period of trial (experimentation) of old and new ideas. When some positives results arise and the collective sense of consistency increase, the commitment to the new way of doing things also increases. Finally, at the *fourth phase*, a positive feedback on the implementation of the new strategic outlook will encourage the commitment towards new beliefs. A different organizational culture has allowed a major strategic change.

Over time, the success of a firm can be driven by the "dominant values" in the organization – for example commitment to service, quality, or innovation – defining its competitive advantage. Such idea is often associated with the term "excellence" (e.g. excellence in quality and service), where the strategic goal becomes the development of an organizational culture in which the key dominant values (service and quality) are deeply embedded. Companies therefore, can develop a "strong culture" based on those values. In strategic management, the strategic merge of companies often focuses on a common perspective on product or market issues, not properly considering the weight of culture and the possibility (often high) of problems arising from conflicting values. Such conflicts are the result of a "*cultural clash*" in strategies of merger, acquisition, and joint ventures. Organizations with strong culture, will try to impose their dominant values. When firms have similar cultural settings and commitments, they will struggle to keep their unique organizational cultures. Therefore, successful strategies will overcome or avoid any actual or potential cultural clash by aiming at the greatest fit or harmony possible.

From a pure economic sense, culture regards the competitive advantage of organizations. In this context, culture is not only about a group of people interacting though social activities, but also about the interaction that takes place between them, and the resources they employ. This is known in management as the "material culture", or the culture that regards resources that are tangible (e.g. a computer) or intangible (e.g. scientific know-how). Beliefs and values create objects, and objects create and shape values. This can be illustrated by the historical race to lead the automobile production. The car was created in Europe, as a handcrafted luxurious machine built by skilled artisans for the privilege of the rich-class. The Americans took the same idea but remake the concept. For them, a car should be a rather affordable machine, built in a low-price standardized process by an unskilled (large) labour force

This outlines a basic cultural difference: Europeans have a long tradition of craftsmanship, while Americans were increasingly fond of mass-production. Eventually, this started a race for supremacy. European tried to reproduce the American system but it did not work although materials where the same, and skills were even superior. However, the entire functioning of the system (the recipe of success) remained unknown. Later on, the Japanese tried to do the same but rapidly gave up. They understood that the American model did not fit the Japanese culture, and developed one of their own. In 80s, the Japanese model took the lead over the American supremacy in the car industry. Since then, American manufacturers (not only from the automotive industry) did pay a lot of attention in the "Japanese way" to organize production.

The way organizations develop their own particular capabilities and resources is the result of a particular cultural background, a particular social setting that conditions our way to understand and do things, and therefore, the way we manage available resources. This, in the end, implies that companies developing unique products can also develop unique organizational characteristics, capabilities, and resources. An interesting question arising from the cultural school is *how to know what resources are of strategic value*? The answer comes with the analysis of four basic criteria:

I. *Valuability:* a resource must be valuable to be strategic since it must increase the efficiency and effectiveness of the firm
II. *Rarity:* a resource is strategic if it is rare and in high demand
III. *Inimitability:* a resource not only should be valuable, rare, and in demand, but also difficult to imitate (it takes to much money, time and effort to replicate)
IV. *Substitutability:* a resource may be rare and imitable, but with no strategic value if competitors can find a substitute for it.

Then, culture can be considered as a key resource since:

* *Culture encourages the production of unique results*, and
* *Culture is ambiguous* and therefore difficult to understand and imitate

The simple logic of the school premises, although valuable to management, has been criticized for its lack of conceptual clarity. Encouraging a strong culture can deny the chance to a necessary change to occur. On the other hand, changes can take place even against the cultural will to change. Furthermore, even cultures with sound dominant values will eventually face stagnation, to finally decline. Culture, after all can encourage and resist change.

Another critique to the school regards the role of uniqueness in competitive advantage, and the idea that to some extent if a firm is successful, it is unique. In real life, uniqueness is an important strategic advantage, but in an economy, not all businesses can be unique: many firms might just encounter strategic advantage on doing just the same others do, but in a more efficient way. In the theoretical context, the school's contribution is considerable in terms of "what we know" about culture as a strategic driver, however its contribution is less considerable in terms of "what we should do" with culture to improve the strategic performance of organizations.

15.9. The Environmental School: strategy formation as a reactive process

(Adapted from Mintzberg et al., 1998:p. 286-300)

In this school, environment is not a mere external force, but the main factor influencing the strategy process. In this perspective, the organization is rather passive, while the environment sets the strategic direction. In an extreme position, the school suggests that strategists are at the mercy of external forces and therefore, their capability of strategic choice is limited (if not denied at all). In a moderate perspective, the external context of an organization presents different dimensions in which the strategist can base a strategy. The theory of the Environmental School derives from the "contingency theory" – a behavioural theory suggesting that there is no *best way to organize a corporation*, to lead a company, or to a make decision. The theory postulates that on the contrary, the optimal strategic approach is contingent, or dependent upon the balance of internal and external situations. In the vision of the school, the more stable an environment remains, the more formalized the internal structure of the organization becomes. The firm would "naturally" find its position (niche) in the environment. In this "natural order" if a firm does not find the right niche is "selected off", as would occur in an ecosystem due to a process of natural selection.

The premises of the environmental school entail four basic assumptions:

I. The environment, a set of general forces, is the central actor in the strategy-making process
II. The organization must respond (react) to this forces or else be "selected off"
III. In this perspective, leadership becomes passive and its main role is to identifying the acting forces, assessing their impact, and preparing an adequate adaptation of the organization
IV. Finally, organizations group together into different niches or positions, where they remain until resources decrease, or competition becomes too hostile. Then the organizations die.

The environment of an organization can vary on its degree of stability, complexity, diversity, and hostility, given rise to a variety of combinations. Strategies – as an answer to the acting forces in order to adjust properly – will vary according to the characteristics of the environment (combinations). For example, it is suggested that more aggressive (risk-taking) strategies will emerge as a response to more dynamics environments (e.g. higher market diversity and complexity). The almost organic view of the environmental perspective has encouraged the introduction and adaptation of concepts and theories coming from *ecology*. Among them, the influence of the "ecology of populations" is notable. Accordingly, the work of the school also focused on study and adaptation of concepts such as "selection", "carrying capacity", "variation", and "punctuated equilibrium", among others. These works have been broadly criticized since it is argued that ecology of populations considers an evolutionary long-term process that goes beyond the real spam of any social or business organization.

Max Weber, the so-called father of "*organization theory*", saw organizations as being shaped by the endless advance of technical and managerial logic. As the logic increases, the bureaucracy also increases in an endless process. Contemporary scholars developed the ideas of Weber further on, and proposed an "*institutional theory*" focusing on the institutional pressure that an organization encounters in its environment. The pressure in this theory comes from other organizations, and from the self-pressure of being an organization. In this vision, the environment is the store for two types of resources: economic and symbolic.

Economic resources are tangibles such as money, land and machinery. Contrarily, s*ymbolic resources* are intangibles like for example prestige and fame. Strategy in here focuses on finding the best way to acquire economic resources and to transform them into symbolic ones, and the other way around. The aim of such strategic outlook is to protect the organization as much as possible from the uncertainty of its environment.

In real life, the environment entails suppliers, consumers, competitors, and regulatory public agencies. In due course, the environment becomes more complex because the increasing number (and power) of norms regulating the practice. To be successful, the firm is compelled to meet and master the norms. In the end, all organizations in the environment will adopt similar structures and practices due to the normative pressure. This resultant process of *increasing convergence*, is driven by *imitation* of practice and behaviour, and is called in institutional theory, the *institutional isomorphism*.

Accordingly, there are three main forms of isomorphism:

(i) *Coercive*,
(ii) *Mimetic*, and
(iii) *Normative*

Institutions become alike by *coercive* pressure emanating from standards and regulations (e.g. safety regulation in airlines). In the *mimetic* isomorphism, companies imitate and borrow procedures from successful *benchmark companies*. This implies the "copy" of *best practice* methods employed by leading companies. Finally, the *normative isomorphism*, results from the strong influence of professional expertise. Experts can influence decision making by exerting pressure to make their *own norms* prevail.

In a more moderate environmental perspective, strategies can be a rather active answer to pressure in a variety of ways:

(i) *Acquiescence* (fully accepting the pressure)
(ii) *Compromise* (partially acceding to the pressure)
(iii) *Avoidance* (avoiding the need to accept the pressure)
(iv) *Defiance* (actively resisting the pressure), and
(v) *Manipulation* (attempt to change the pressure)

For each strategic response to environmental pressure, there are three possible tactics to consider (Modified from Mintzberg et al., 1998: p296):

Strategies	***Tactics***	***Example***
Acquiesce	Habit	Following taken-for-granted norms
	Imitate	Imitating institutional models
	Comply	Obeying rules and norms
compromise	Balance	Balancing expectations of various stakeholders
	Pacify	Conciliating institutional elements
	Bargain	Negotiating with stakeholders
Avoid	Conceal	Disguising inconformity
	Buffer	Relaxing institutional attachment
	Escape	Changing goals, activities or domains
Defiance	Dismiss	Ignoring norms and values
	Challenge	Challenging rules and requirements
	Attack	Attacking the sources of pressure
Manipulate	Co-opt	Importing influential elements
	Influence	Shaping values and criteria
	Control	Controlling elements and processes

The main critique to the environmental school is the idea that organizations do not have strategic choice. The supposed environmental "imperative" of this view, totally override the capability of organizations to choose a direction or position. In real life, the role of environment although acknowledged, is believed to be less determinant. In fact, in contemporary management, the boundaries of environments are less evident due to the increasing occurrence of merge and networking. In such cases, to define the boundaries and the components of the environment is almost impossible. In strategic management, the relationship between organization and environment is rather reciprocal, and not unilateral as proposed by the Environmental School.

15.10. The configuration school: strategy formation as a process of transformation

(Adapted from Mintzberg et al., 1998:p. 304-347)

This school builds its perspective on the premises of the other schools:

I. Usually, an organization can be described in terms of a particular state of stability regarding its configuration. Thus, in a particular moment the organization adopts a particular form and behaviour that matches a particular situation. In such times, particular strategies will arise too.

II. These periods of stability are occasionally interrupted by a process of transformation that eventually will move the organization to another state of configuration.

III. The periods of stability and change alternate into consecutives successions, forming their own distinguishable patterns (e.g. life cycles of organizations).

IV. Therefore, *the key to strategic management* becomes the *capability to sustain stability.* This implies the *need of periodic transformation without to destroy the organization* in the process.

V. Consequently, the strategy formation process in the Configuration School can take the form of a conceptual design or a formal plan, a systematic analysis or a vision of leadership, a cooperative learning or political gaming, either focusing on individual cognition, collective socialization, or becoming a simple response to forces of the environment.

VI. As a consequence, the resulting strategies can take the form of plans or patterns, positions or perspectives, or even ploys. Whatever the form, the strategy must be applied at its own time and in its own context.

In 70s, following the path of the Configuration School, the Canadian McGill University started a project to track down the strategy of several companies for a period of 30 to 50 years. This project took therefore a historical perspective on the path of change of organizations. They focused on the identification and characterization of periods of stable strategy and of transformation. Fundamental research question entailed, *which are forces driving strategic change? How do different strategies connect to each other?* In addition to, *how do strategies emerge?*

The results of the McGill project indicate that strategies took the form of patterns through a defined period, defining particular stages in the organization history. Some of the observed stages were:

I. Stage of *Development* (e.g. establishing systems and consolidating strategic positions)
II. Stage of *Stability* (refining strategies and structure)
III. Stage of *Adaptation* (minor changes in the strategic positions and structure)
IV. Stage of *Struggle* (looking for a new sense of direction by any means)
V. Stage of *Revolution* (rapid transformation of characteristics taking place simultaneously)

Overtime, the sequence of stages can follow different patterns. The results of the McGill project suggest that there are four of such patterns:

I. Periodic bumps: Very common in conventional organizations and characterized by long periods of stability interrupted by short periods of revolution.

II. Oscillating shifts: A period of adaptation towards stability is follow by a period of struggle

III. Life cycles: A stage of development is follow by one stage (period) of stability
IV. Regular progress: Relatively sustained adaptation overtime

This type of research did focus very much on the process of change and certain theories were elaborated. Among them, the *Quantum change*, proposed by Miller and Friesen (1980), suggests that the change of elements occurs at the same time and not step by step. Although that change is rapid, it unfolds gradually. Hence, in the view of the quantum change theory, a company constantly faces two opposing forces – change and continuity – and resolves any conflict attending first to change and then to continuity. This implies that, strategies will be always changing marginally and not radically. Therefore, companies would often stick to their strategic positioning and vision, while allowing minor reorientations. This suggests that success is not achieved by changing an already ongoing strategy, but by exploding it efficiently. This can bring the company to a steady condition of equilibrium.

However, the environment in which the firm is immersed will eventually change, and then the equilibrium will be lost. At this stage, it is said that the *configuration* of the firm is out of synchrony with its environment, and at the edge of a revolutionary change. For this reason, in order to survive, the firm will look for a new set of strategies, structure and culture. In other words, it will look for a new *configuration*. On the other hand, when new strategies emerge spontaneously, the quantum theory advocates that they are kept in *some place* within the organization to be employed at times of revolutionary change. This by itself, is and strategic advantage, since in times of change a company do not need to form strategies from scratch, or copy what the competition does, but to follow its own strategic patterns.

Although the *Quantum Theory of Change* seems to fit particularly well to large-production-companies, in which stability runs along long-periods and procedures are highly standardized, it does not satisfy the dynamics of smaller and active firms. In small firms, change is not revolutionary, but rather *incremental*. In the field of strategic management, the debate among scholars taking either position for change – revolutionary or incremental – is yet very active (and inconclusive). The reason for such a disagreement is that the nature of change is too closely related to the point of view of the observer. A change in a point of history could look revolutionary is the scale of time is small, but the same event in the perspective of 1000 years might just look as an incremental change.

Another perspective of the configuration school is that configuration itself, could become the "essence of strategy". In this view, success is closely related to the particular configuration or organization of the firm. In such case, success can be determined by the simple mind of a competent manager, able to bring the company into a perfect strategic track. This rather simplistic (though logic) perspective finds many detractors among the same school. Simplicity in this context as suggested by critics implies that a firm could emphasize too much on particular skills reducing its own capability to respond to changes (by not matching those skills). The advantage and danger implicit in simplicity becomes a paradox, called the *Icarus Paradox* (named after the Greek tragedy). As an example, four simple trajectories that could bring firms from success to failure are presented as follow:

I. *Focusing trajectory*: Techno-oriented firms with masterful engineers and solid operations that succeeded on innovation turn personnel into compulsive "thinkers". The firm bothers customers with "perfect" but *irrelevant* products.
II. *The venturing trajectory:* Transforms growth-oriented firms lead by entrepreneurial builders, into impulsive imperialist, that steadily expand into a business they do not really know.
III. *Inventing trajectory:* Transforms pioneering firms with excellent R&D departments, think-tank operations, and state-of-the-art products into utopias.

The firms become "cults" for a few and follows hopeless futuristic inventions.

IV. *Decoupling trajectory:* It transforms firms that excel sales through unrivalled marketing skills, known brand names, and broad markets, into erratic vendors of "me-too" products. Firms sacrifice design, quality and prestige.

One can say that firms do follow alternating trajectories of success and failure, growth and decline as individual do. This cyclic view, is to some extent suggested in the work of David Hurst, a prominent executive and practitioner interested in organizational change. Hurst describes organizational change as an "ecocycle model" of crisis and renewal (See Figure 16).

The idea of such a model is based on the ecological cycles or "ecocycles" observed in a forest where the phases of growth and exploitation alternate constantly (colonization, growth, conservation, destruction by fire or human intervention, colonization, growth, etc). In organizations, entrepreneurial action leads to conservation through the establishment of procedures. Such procedures induce confusion and crisis. Consequently, they induce an active and creative response, eventually starting a new cycle. The first loop (on a continuous line), is the usual cycle in which strategic management plays a role. On the contrary, the cycle in dashed lines, represents a less frequent loop of learning, in which firms face critical choices challenging its configuration. In the learning-loop, charismatic leadership plays a fundamental role over strategic management.

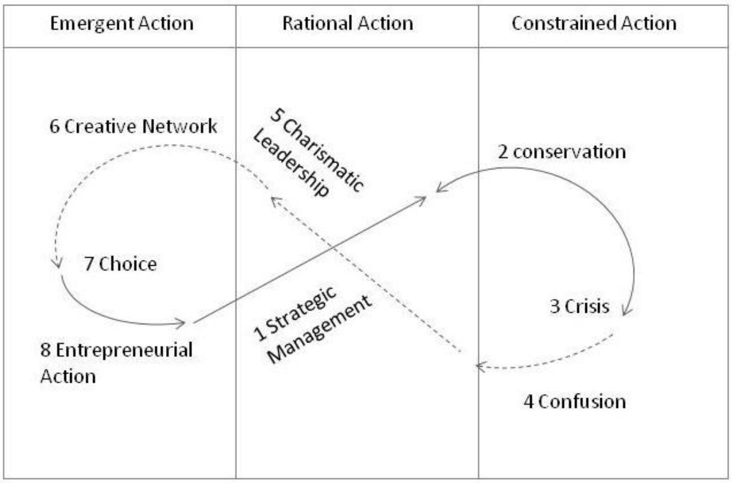

Figure 16 The Hurst's Organizational Ecocycle Model
(Modified from Mintzberg et al., 1998: p. 323)

An important question that the Configuration School tries to answer is *what does change really means for an organization?* We often understand change as a concrete action such as a new product, a new venture or as a more abstract objective, like revitalization or cultural change. In the perspective of configuration, change is a matter of strategy and structure – erroneously – thought under control. Although change can be ignored, resisted, avoided, or accepted, it cannot be managed. Mintzberg represents change in organizations as a cube, where change takes different strategic dimensions regarding both strategy and structure (See Figure 17).

Examining the cube of change, we can deduce that an organization can easily change a product or personnel (people), but it cannot easily replace its vision or structure. The most difficult task, as suggested by the cube, is the change of culture. Nevertheless, whatever the level of change you go for, you might observe (or consider) that everything below that level must reciprocally change. A change in structure for example, would be senseless if systems and people do not change too. Equally, a change in strategy, such as vision, might not be effective whatsoever if strategic positions, programs, and products do not change accordingly. Eventually, a radical change in an organization involves all concerned actions and actors within its strategy and structure.

As changes take place, whether small or large in magnitude, they can be mapped. Mintzberg suggests a map in which two dimensions of change – micro and macro – are contrasted with three basic approaches to change. Figure 18 depicts a generic map depicting different methods firms do employ to cope with changes at different scales.

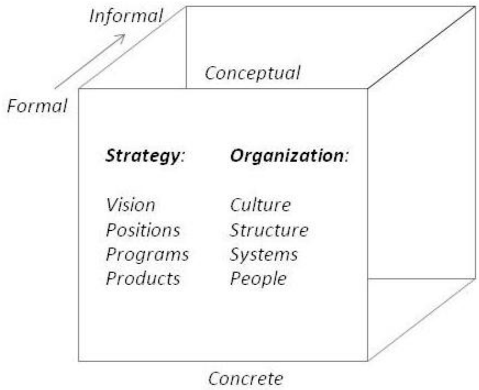

Figure 17. The Mintzberg's Change Cube
(Taken from Mintzberg et al., 1998: p. 326)

In this map, *micro change* focuses on any part/function of the organization (e.g. creating a new product or changing a production line), while *macro change* does focus on the organization as a whole (e.g. renewing all facilities, or changing position in the market). On the vertical axis of the map, *planned change* (first from top to bottom), refers to a programmatic approach or answer to a change defined by the procedures to be follow. *Driven changes* on the contrary, refer to an answer determined by individuals or small groups with authority (they see the change coming and they make it happen). Finally, the *evolved approach* does spontaneously emerge as an answer among people without absolute power, and unfolds even against managerial control.

Even major changes can be induced by the single choice of individuals with enough power (e.g. the corporation's CEO). Such changes are usually implemented by means of "programmes of comprehensive change" involving both the strategy and the structure at the organization. Although there is no unique and unbeatable formula, the Configuration school suggests a few strategies to achieve a comprehensive degree of organizational change:

I. *Evolutionary/ institution building*: gradual reshaping of values, top-level (managerial) structures, and performance and control systems in order to allow managers to drive change
II. *Jolt and refocus:* a change in the focus, attitude, and style of management to redefine a new direction
III. *Follow the leader:* The leader initiates major changes from top to bottom in order to achieve immediate results
IV. *Multi-front focus:* Change is driven by dedicated task-teams with a wide focus
V. S*ystematic redesign:* In order to improve performance, task teams drive changes and plan the core process redesign in parallel

VI. *Unit-level mobilizing:* Change leaders designates task teams to induce change within a unit, focusing on middle managers and their subalterns

These strategies focus on changes at either the *top* or the *bottom* level of an organizational hierarchy. In some firms, such changes run along the hierarchy affecting the organization as a whole. They are not exclusively top or bottom changes but rather *Top-down or Bottom-up transformations.*

An example of strategy aiming a successful transformation of a firm from a <u>*top-down perspective*</u> of change considers:

I. *Establishing a sense of urgency* (identifying crisis and opportunities)
II. *Forming a powerful coalition* (forming a group with power enough to drive the change)
III. *Creating a vision* (establish a vision to be follow and the strategies to do it).
IV. *Communicating the vision*
V. *Empowering others to act on the vision* (getting rid of any obstacles to change)
VI. *Planning and creating short-term wins* (plan, execution and reward of achievable performance and practice)
VII. *Consolidating improvements and producing more changes* (using achieved credibility to materialize the vision, and finding new ways to bring it further)
VIII. *Institutionalizing new approaches* (making evident the links between success and the new vision and behaviour, making them a tool of leadership and management)

From a <u>bottom-up perspective</u> of change, there are at least six steps to effectiveness:

I. *Mobilize commitment to change through joint diagnosis of business problems* (shared role in the problem and the solution)
II. *Develop a shared vision of how to organize and manage for competitiveness* (share new roles and responsibilities)
III. *Promote consensus for the new vision, the necessary competence to attain it, and the cohesion (unity) to walk along the way* (promote the shared benefit and the challenge)
IV. *Spread revitalization to all departments without pushing it from the top* (let them find the way and reorganize themselves)
V. *Institutionalize revitalization through formal policies, systems and structures*
VI. *Monitor and adjust strategies in response to problems in the revitalization process* (share the responsibility to learn from the change)

Although the Configuration school has succeeded on presenting a simpler and rather conciliatory view of strategic management, detractors argue that configuration is a simplistic and flawed view of reality. In reality, they say, organizations are far more complex entities, and their response to changes is therefore not straightforward. Firms, often deal with change in a flawed way, since managers usually work with flawed strategies. However, the contribution of the school is considerable, particularly about its vision and interpretation of change. Simplicity is necessary in order to establish a strategic base. After all, our logic is rather simple, and our imagination limited.

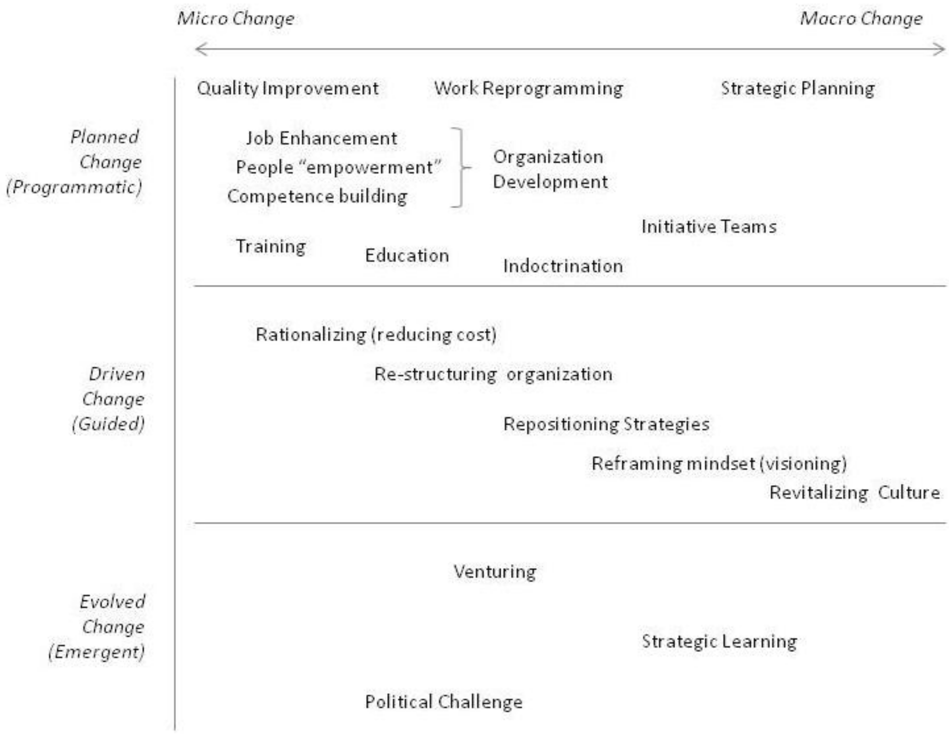

Figure 18. The Mintzberg's Map of Change Methods
(Modified from Mintzberg et al., 1998: p. 328)

17. Recommended Reading

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This work is the result of an ongoing study on the patterns and trends on both the theory and practice in the field of strategic management carried out at the Section of Innovation Systems and Foresight. The report focuses on different issues regarding the broad topic of strategy in organizations, but special attention is given to three relevant issues regarding the current diversification and fragmentation in the field of strategic management:

- The lack of a universally accepted definition of what strategy is,
- The multi-disciplinary nature of the field, and
- The development and evolution of our knowledge on human cognition and organizations' behaviour.

These issues are addressed from the perspective of influential scholars and practitioners of different disciplines, yet they are discussed from the angle of business organizations.

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DTU Management Engineering
Department of Management Engineering
Technical University of Denmark

Produktionstorvet
Building 424
DK-2800 Kongens Lyngby
Denmark
Tel. +45 45 25 48 00
Fax +45 45 93 34 35

www.man.dtu.dk