This book will appeal to those managers with responsibility for setting their organisation’s strategic direction, those who influence it and those who aspire to do so.

Setting strategy means addressing perplexing questions and resolving difficult problems in a complex and changing world. Presenting different strategic perspectives from experts in the field, this book is designed to help managers understand the questions they should be asking and the problems they should be considering, and gives ideas on how to go about doing so.

Recognising that setting strategy is not a one-size fits all process, the various perspectives will introduce practitioners to a range of contemporary thinking on the topic and enable them to select those that are most relevant to their organisation’s unique situation.
Key Learning Points

Examples of the ideas and key learning points in this text:

• Firms feel pressure to implement strategies just because their competitors are doing so. Managers must learn to think independently of these pressures, and to balance innovation that will achieve competitive advantage with the risk of stepping too far outside the norms of their own industry.

• Thinking at a global or even country level will be misleading in today’s business environment. It is essential to know the specific regions or towns where the best resources are located and to identify the exact regions where your products and services are required.

• Managers must not only design strategies based on their organisational circumstances, but must also assess how their competitors are likely to respond to each of these if they are to be strategically prepared to move into a competitive position.

• To achieve a sustainable competitive advantage organisations should regularly audit their resources to ensure they are VRIN (valuable, rare, inimitable and non-substitutable).

• Managers should be aware of their personal thinking processes and how they perceive the world so that they can step outside the limitations these impose and develop new strategically-advantageous perspectives.

• In an increasingly inter-connected world, a well-managed network of relationships builds value and long-term competitive advantage.
Institutional theory - “It’s the way we do it in our world”

Organisations are part of a wider industry or institutional environment. This means that all the organisations within a particular industry tend to share a common understanding of how they should behave. The recent trend of high-street retailers and supermarkets advertising their “green” credentials is one example. New managers to an organisation find they are personally expected to act in accordance with these industry norms. Different thinking is usually quickly dismissed as not being workable, and managers can soon find their decision-making becomes aligned with the industry norm without even being conscious of it.

“Competitive behaviour is constrained to conventions of acceptable professional conduct in the marketplace. Not conforming to these norms would be frowned upon even if competitive advantage might be achieved…”

Behaving in a similar manner to the competition has its advantages. It reduces ambiguity and uncertainty because managers can already see what customers like and expect i.e. the spate of loyalty cards to build relationships with customers that emerged in the late 1990s. However it tends to mean there is a lot of imitation throughout an industry in terms of strategies developed.

Undertaking strategies that are significantly different from the norm is risky and it is usually newcomers to an industry who do something novel. This challenges the norms of that industry and can revolutionise it. EasyJet’s entrance to the airline market is one example of such a challenge to established norms of air travel.

Ordinarily norms change more slowly. This too can be risky for established organisations. If they do not read gradual changes in their environment, they can find that strategic drift has occurred and their own strategy is no longer aligned with the industry.
To an extent this was the situation that Marks and Spencer faced in the late 1990s. It had a tried and trusted formula which prevented it noticing customer needs were changing and over-looked the entrance into its market of high-end brands like Kookai and lower-end clothing ranges from supermarkets.

It is at this juncture that managers must re-align their organisation to the new environment and quite radical change can occur.

**A Spatial Perspective on Strategy - “Location, location, location”**

In today’s increasingly globalised and information technology-based world, where an organisation is based (its spatial location) is extremely important. Managers must look around the world for customers, suppliers, employees, skills and knowledge if they are to achieve competitive advantage in both new and existing markets.

“If some companies do not supply demand in China, others will – and will return to compete in traditional markets from a position of strength.”
Non-core activities must be outsourced to the most cost effective supplier, but even core value-adding activities may be better located outside the home market to access the best ideas and skills.

In exploring where to locate the best resources firms should recognise these are becoming increasingly concentrated in specific locations.

‘...the United States does not have human capital advantages in biotechnology; rather the San Francisco Bay area, Austin, Texas, Los Angeles, the Washington DC region, and a number of other closely defined regional clusters do.’

Therefore they should seek the best resources in specific regions and cities, not in countries.

Managers must also be aware of where the resources are required, again understanding the specific location of this demand. This allows the astute manager to source the best from the specific locations in which it originates, and then to apply it in the specific location where it is most needed. As with tangibles such as copper ore or petroleum, demand for ideas, skills and know-how are unlikely to arise in the location from which they are sourced.

By building this awareness managers are able to access world class capabilities, target specific markets across the globe, allow themselves to have more choice of goods and services, and negotiate better prices as a result.

Game Theory Perspective - “What are our competitors up to?”

Managers do not set strategy in a vacuum; therefore they must take account of their competitor’s likely reaction to any strategic direction. This is a challenging and complex task which Game Theory can help to simplify. Game theory is a structured, mathematical tool which suggests that managers
should base their strategic decisions on what they believe their competitors will do. For example in the supermarket industry Tesco should consider how Asda will react before it lowers the price of its products.

Having reviewed competitors’ likely reactions, and the impact on their own organisation of these, managers face a strategic dilemma: whether to compete or co-operate with other firms in their industry.

Informal conjecture about how one rival may respond to another is not what game theory does; (it) quite rigorously reduces the possible sets of actions the players may reasonably be expected to demonstrate.’

A fictional game tree is shown below. This shows two bakeries. Each bakery has three strategies they can follow for how much bread they bake: low (180 loaves), medium (240 loaves) and high (360 loaves). There are nine possible outcomes. The numbers at the ends of each of the nine branches are the £ payoffs to each bakery from the combination of strategies; the first number in each row is firm 1’s payoff, and the second is firm 2’s. Therefore, if firm 1 produces 180 loaves, and firm 2 also produces 180, they both receive £64.80; if firm 1 produces 180 while firm 2 opts for 240, then firm 1 will lose out receiving only £54.00. The worst possible outcome is for both firms to make 360 loaves – in that case neither firm will benefit.
Managers using this tool can list all the possible scenarios based on strategic decisions their organisation faces. It allows managers to determine the most rational way to behave, because they can assess their competitors’ response to their actions, and the impact of each of these.

**Resource-Based View of the Firm - “What's our field of excellence?”**

To achieve a sustainable competitive advantage, managers need to identify what their organisation does better than their competitors. One way to do this is to concentrate on the link between the internal resources in a firm and its performance. A resource can be:

- Tangible: the physical elements such as a machine or access to a naturally occurring mineral.
- Intangible: such as an experienced group of employees or the firm’s reputation.

To identify their competitive advantage, managers should audit their firm’s resources to determine whether they are VRIN. That is:
• Valuable: resources that allow the firm to improve its efficiency and effectiveness
• Rare: the resource is possessed by only a few firms in the industry
• Inimitable: other firms cannot copy the resource
• Non-substitutable: there are no other resources that can be used to achieve the same end

If managers identify that one or more of their resources have such attributes they are well positioned to use these to build competitive advantage because they have something that only a few, or perhaps none, of their competitors possess.

Assessing a firm’s resources can also highlight strengths and weaknesses in relation to planned strategies and managers should devise strategies that play to their unique strengths.

‘If firms adopt strategies that are not based on its VRIN then they have to expect to only be able to realise short-term returns at best. If it is not based on VRIN resources the advantage is going to be short-term (and not sustainable) because it is likely to be quickly competed.’

Building awareness of resources that bring competitive advantage helps ensure they are protected. For example a resource may come from the interaction of a team of creative scientists in an open plan lab; not understanding this could lead to them being moved to single offices on the wrong assumption that they would be more creative if they had their own working space.
The Cognitive Perspective - “I did it my way”

Managers must become aware of their own thinking processes and perspectives so that they do not get trapped into always thinking in the same way. Failing to achieve this awareness can lead to organisational disaster.

“In recent years a number of ... researchers have argued that one possible source of (extinct organisations) is the ‘cognitive inertia’ often found among key individuals and groups in situations where there is clearly an urgent requirement for actors to radically alter their thinking and behaviour.’

Thoughts are subjective and based on an individual’s expectations, experiences, learning and memory. If managers are aware of their own perspectives and recognise how these filter the way they interpret the world, they can challenge themselves and hence find new and creative ways of thinking or acting.

Awareness of the managers’ own thinking processes and perceptions can also help to build greater appreciation of the diversity of views that exist in an organisation. For example, the Chief Executive of a retail organisation will have a different view to a shop assistant in that organisation. Bringing these different views together can lead to building one shared view. Building on this shared view can highlight new opportunities not identified when the situation is examined from just one perspective.

Cognitive mapping is a process that managers can use to build awareness of the way they think and explore others’ perspectives (see example of a map below). This process surfaces assumptions and gives clarity on how to act by examining the same situation from different perspectives. It enables managers to re-frame how they see things, and is a practical means for facilitating strategic conversations throughout the organisation.
The arrows show the direction of causality; managers create the maps by asking what is causing something to happen. In the example above the manager begins with what ‘causes’ profit.

**Network Perspective - “It’s not about what you know, it’s about who you know”**

Networking is usually seen as an essential tool in any career-minded individual’s skillset. However, it is less well recognised as an important way for organisations to build a unique competitive advantage.

As organisations do not exist in isolation its network of relationships should consciously be managed and developed to build value and profitability.

Networking can lead to
outperforming others in the same industry even if those competitors develop ties with the same companies.

‘...a firm usually creates its relationships in an idiosyncratic and path-dependent way, which is difficult to replicate by its competitors, at least in the short to medium run. It is not only the network creation that is hard to imitate. So are the capabilities and experience a firm develops in building the network and managing and creating value through it.’

By building its unique network, an organisation can:

- Improve its competitive strength
- Gain access to new opportunities
- Have access to partner’s resources and skills, and benefit from the integration of these with its own resources and skills
- Build high levels of learning and create knowledge and products that would not be possible without the partner
- Achieve economies of scale or scope
- Share the uncertainty and risk of working on new opportunities
- Speed up or enhance innovation

As networks build and become more complex to maintain, managers need to constantly review which to abandon, which to nurture, and those to be established.

In becoming involved in a network managers should consider their:

- Position in the network: are they at the core of the activities or the periphery? If the latter what can they do to become an intrinsic part?
- Partner’s resources and reputation: do they add value?
- Ability to integrate and exploit the resources of the partners: are they able to take value out of the relationship?
Strategic challenges – Cosworth Engineering and a turbulent racing industry

Cosworth Engineering began in 1958, as a British-based joint venture between racing driver Mike Costin and engineer Keith Duckworth. They set up the business because they ‘thought it must be possible to make an interesting living, messing about with racing cars and engines’. In the late 1990s Vickers, the defence-based organisation, sold it to VW for £120 million, who in their turn divested the business of the racing arm to Ford.

In the intervening 30 years, Costin and Duckworth had built an innovative and leading organisation in the Formula 1 racing industry, working in conjunction with Ford to produce Grand Prix winning engines.

They faced tough challenges from competitors including Ferrari and Renault, and built successful partnerships with organisations ranging from household names such as Lotus and Alfa Romeo to locally-based SMEs. Changing industry regulations were successfully managed, although an industry-wide freeze on engine design in 2007 was a key factor in the organisation making redundant 40% of its U.K. staff.

There were failures along the way.

‘..in 1969 they had tested their first (and last) attempt to build a racing car, ..., which was shelved before it could be raced; a foray into motorcycle engines and F1 automatic transmissions were also aborted.’

As the business grew, it changed hands several times, with Ford selling the racing side of the business to the US Champ Car series in 2004. Over the years business growth and development moved the firm away from Duckworth’s original vision which was to run a debt-free, low red tape organisation.
A sample of the text’s case study questions:

1. What were the major events in the development of Cosworth Engineering?
2. What is the competitive nature of the industry in which Cosworth operates?
3. How would you describe Keith Duckworth’s cognitive map for running Cosworth?
4. Does Cosworth have any VRIN resources?

In summary

These extracts give a flavour of the diversity of the challenges discussed in the text and that managers face when setting their organisation’s strategy. The theories on which they are based are designed to give guidance about setting strategic direction, why and when different approaches should be considered and, equally, when they should not. They will challenge thinking and bring valuable new perspectives for the practising manager.

‘Theories cannot give solutions or definitive answers but they will inform management judgement and decision-making. They help managers think, and applying different theories to a situation or problem broadens and further informs this thinking.’
MARK JENKINS is Professor of Business Strategy and Director of Graduate Programmes at Cranfield School of Management. Prior to joining Cranfield he held positions at Nottingham University Business School, Massey Ferguson Ltd and the Lex Service Group. His teaching and consulting activities focus on the areas of competitive strategy, knowledge management, teamwork and innovation. He is author of a number of books on strategic management, has published numerous journal articles, is on many journal editorial boards, and is the Chairman of the European Case Clearing House. He is currently researching the role of knowledge and innovation in the development of Formula 1 motorsport.

VÉRONIQUE AMBROSINI is a Senior Lecturer in Strategic Management at Cranfield School of Management. Her research interests include the resource-based view of the firm, tacit knowledge, organisational routines and competitive advantage. She has had numerous journal articles published and is the author of a number of books.

NARDINE COLLIER is a Research Officer in Strategic Management at Cranfield School of Management. Her research interests include organisational clusters and innovation, and she has had many journal articles published on topics such as the resource-based view of the firm and strategy processes.