Theme of the Book

This book focuses on the challenges faced by managers who are expected to contribute to strategy debates within their organisations. Combining practical techniques with theory, it aims to provide a structured approach to the process of strategising.

The four key issues addressed are:
- the process of deciding strategy
- gaining competitive advantage
- key competencies and sustaining advantage
- managing strategic change.

Each chapter concludes with a section that addresses the practical implications of the chapter from an executive's point of view. Illustrations from the world of business further support the practical perspective.
Key Learning Points

- it is more important to have a shared understanding of the strategic direction a firm is taking than to have an excellent planning document

- a lively debate is essential for effective strategy formulation

- the debate must be fuelled by realistic analysis based on good information

- the future is unknown, you can never get information and it is impossible to craft the perfect strategy; more important is developing energy and commitment amongst the management team around a broad understanding of where the firm is going

- involvement in the process is essential to implementation, even if that means a trade off in the quality of strategy content

- strategy will evolve as it is realized, it needs to be flexible enough to allow for the unexpected and for new ideas

- self-confidence will come from the quality and robustness of the debate.
1. A Sense of Strategy

Well thought-through and debated strategy is important because, although the future is uncertain, it provides a way of managing today’s activities based on a shared view of where the business is trying to go.

The book aims to help a team debate their strategy. It distinguishes three types of strategy: corporate, business and operational and focuses the first seven chapters on business strategy, looking at issues of corporate strategy in the final chapter. Strategy is complicated and there are no ‘right’ answers, but five questions are used to guide the process:

1. **What markets should we be trying to compete in?** - What segments of those markets should we be clearly focusing on?

2. **How should we try to compete in those segments?** - How do we think we can gain and sustain a competitive advantage?

3. **What key competences do we need to build to realize this competitive strategy?** - And how should we organize the business?

4. **What do we look like now?** - That is, in relation to what we need to look like in order to successfully implement this strategy?

5. **How can we move forward?**

Successful implementation depends upon how the strategy is arrived at. Genuine involvement in the strategy-making process helps a team gain confidence and, through that, to make operational decisions. It may be desirable to trade off some quality in the content of the strategy in order to improve the commitment to change. Effective strategy discussions can be
challenging, which means executives must be ready for uncomfortable debate.

2. The Customer Matrix

The customer matrix plots the competitive positioning of a company's product in the eyes of a target customer segment.

A firm seeking competitive advantage has two basic options: either compete on price or add 'perceived use value'. Competing on price requires a sustainably lower cost base than competitors, otherwise a price war will force the firm out of business.

Firms can only add perceived use value if they are clear who their target customers are and what their needs are. Use of a customer matrix forces the management team to recognise when they lack reliable and comprehensive information about their target customers and their competitors. To construct a customer matrix, the team needs to:

- clarify the target market
- identify dimensions of perceived use value
- rank the dimensions of perceived use value
- rate competing products on each value dimension
- calculate the overall perceived use value score for each product
- plot the products on the matrix.

All firms should strive to be the lowest-cost producer compared with firms the target customer perceives it to compete with.
3. **Sustaining Advantage**

Changes in customer perceptions are what determine movements in the customer matrix and firms can seek to reposition their products to gain advantage.

In order to affect the firm's perceived use value and price position it needs to have appropriate core competences. These are made up of activities which are bundles of resources, systems and know-how.

But for advantage to be **sustainable**, those core competences need to be as unique and inimitable as possible. Frequently managers are more comfortable debating imitable resource or systems issues than the intangible (and less imitable) sources of advantage such as know-how.

Constructing a 'means-end' chain identifies activities that combine to deliver perceived use value to customers and can help identify intangible, cultural sources of advantage. These need to be protected from over-zealous cost cutting.

Identifying the causes of current success is particularly important when the firm is serving a range of market segments.

The customer matrix recognises that all product markets are dynamic and that actions are likely to provoke reactions from competitors.

4. **The Competitive Environment**

Looking at the competitive environment first helps to provide focus for a broader environmental appraisal. Two basic issues to be addressed by segmental analysis are:
1. *The nature of the effective demand.* What is the nature of demand in the segment? What are the needs of customers? What is the volume of demand? Is demand growing or shrinking?

2. *Competence imitability.* How easy is it for firms to replicate the key competences required to meet the demand?

Three techniques are introduced in practical detail to help with this analysis:

- Porter's Five Forces
- Competitor analysis
- PEST analysis.

Bowman says that all of these are helpful but none addresses the question of demand and imitability directly.

However they do help structure and broaden strategic discussions and they also highlight the need for managers to try to gather better quality information on their competitors.

5. **Strategy, Structure and Process**

The strategy-structure relationship addresses two issues:

- specialization - a focus on particular activities by individuals and groups
- co-ordination - the linking of activities through organizational processes.

Organizational processes are not separate dimensions that can be changed or manipulated independently, but play a role in bringing about specialization or co-ordination within a particular organizational configuration.

‘A relatively neglected area in competitive strategy is the link between product/market strategy and the structure of the firm. I believe that imaginative approaches to organizational structure can help a firm both gain and sustain advantage.’
Structure sets out how the overall task facing the firm has been broken out into specialised jobs, it sets out responsibilities and accountabilities. These should be driven by the firm's strategy and separated activities must be co-ordinated.

Many senior managers avoid structural change. However delay in realigning structure behind strategy can build up stresses that result in poor performance. There is no ideal structure - any solution is always a compromise, which means that most structures can be made to work if people want them to work.

6. Strategy and Culture

Organizational culture affects both the formulation and the realization of strategy and may be a source of advantage or disadvantage. Thus it is important to understand a firm's culture in order to avoid, at least, inadvertently destroying a source of advantage.

To do this, underlying assumptions and beliefs need to be brought to the surface and challenged. Bowman uses a simple model to disaggregate cultural processes into distinct categories.

Under organizational processes he includes: grouping, power, controls and rewards, management styles, routines, stories and symbols. Routines preserve stability and, like know-how, can be a source of inimitable advantage.
Next he explores cognitive processes, i.e., the beliefs, assumptions, attitudes and values held by individuals, which contribute in particular to concepts such as the ‘industry recipe’ and the organization’s ‘recipe’, or paradigm.

Behaviour - what people actually do - is influenced by what they perceive as important, influenced by the external and internal organizational and cognitive processes. It is behaviour that determines the realized strategy.

It is particularly important to be aware of the role of culture in success, particularly when one firm is considering acquiring another.

7. Managing Strategic Change

Incremental changes can be too easily absorbed into the existing culture, which leads to no real change. Commitment to change stems from belief in the need for it and in the path to follow.

‘In the absence of a perceived crisis to provoke change, and where there is no ready-made strategic recipe or solution to hand that can be easily adopted, a top team can comfortably avoid addressing the firm’s strategic agenda.’

Thorough and open debate supported by good analysis based on decent information can generate both belief and confidence in a new strategy. But current structures and processes are unlikely to change the status quo, in particular to effect significant changes to routine behaviour.

The chapter looks at a range of practical process interventions that can help bring about significant change:

- the mission statement - typically loved or hated, this should be an internal working document that summarizes the output of an extensive
process of strategic thinking rather than one that confirms the legitimacy of the status quo

- change processes - including competence champions, project management, cross functional teams and reorganizing the structure
- identifying barriers to change - a good mission statement can help identify these, while force field analysis provides pointers to overcoming them
- prioritizing and ownership - actions derived from the previous point must be prioritized, or a sub-set of actions could be tackled first, choosing ones that will provide quick wins and have powerful symbolic qualities. Bowman uses a model by Gleicher to help illustrate the issues involved:

\[
\text{Dissatisfaction with status quo} \times \text{Vision} \times \text{First steps} > \text{Costs}
\]

The model is multiplicative. No change will occur if any of the items to the left of the sign (>) are zero.’

- building experience and self-confidence - self-confidence comes from experience, which is why cost-cutting is often the first response to a crisis. A new CEO will bring self-confidence based on past experiences, perhaps a formula or recipe from another organisation. One firm taking over another may have confidence in its post-takeover corporate routines. The greatest confidence comes from understanding the detail of driving through a new recipe.

‘Real strategic change is felt in the fundamental routines of the organization. Thus, if change is to happen, it is at this very basic level that it has to take place. This requires an understanding of the detail of the change. Can this be generated inside the organization?’

In this case, a pilot scheme may be the answer, starting to build confidence and belief in the change as well as a tangible symbol to others. Or spontaneous developments taking place in pockets of the organization may be used as ‘experiments’ to be learned from.
'We can now be more specific in defining "strategy". I believe that a sense of strategy means knowing what to change in the organization, and, more importantly, knowing what to change it to. This also means that we need to understand what should not change.'

8. Corporate Strategy

The main areas of corporate strategy:

This is all about the logic of the organization, the point of collecting all the businesses under one corporate roof. Lurches in strategy indicate a lack of such logic.

SBU managers should be asking how belonging to the corporation helps them to compete more effectively. There may be different ways:

- stand alone influence
- linkage influence
- functional and service influence
- corporate development activities.

Selecting

Corporate development activities involve the selection of business units and recognising, against the need for growth, the increasing risks posed by moving away from existing competences and markets to diversification.

Resourcing

Moves can be made by internal development, by alliance or by acquisition. The second and third are highest risk but the first is slow and there may be resource deficiencies.
Acquisition has some theoretical advantages over internal development and alliances that make it a popular strategy for ambitious companies intent on fast growth, however in practice these can be difficult to substantiate and acquisition should be approached with caution.

**Controlling**

The overriding logic or rationale for the corporation should determine the role of the corporate centre in controlling SBUs. If there is a synergy logic, then a substantial range of activities may be performed centrally at corporate HQ and the centre can help identify and achieve synergies between the SBUs. This will not be possible where SBUs are diverse and self-contained businesses.

This book focuses on private sector firms. But strategy is even more important in not-for-profit organisations, where, without a single measurable profit objective, the top management must provide clarity of purpose themselves. The tools and techniques explored in this book have been developed in the private, profit-oriented sector. Bowman suggests that an equivalent range of tools is required for not-for-profit managers.
CLIFF BOWMAN is Professor of Strategic Management at Cranfield School of Management. He has expertise in teaching strategy across MBA and Executive Programmes. His research has addressed issues of strategy process, top team commitment, competitive strategy and corporate advantage. He has published nine books and many articles.

He has undertaken strategy development assignments for a wide variety of organisations in Europe, USA, South America, South East Asia and Australasia.