


2 Lessons from Strategic Choice Led Theories

Arien Wassenaar

No single issue has so dominated the attention of top managers, consultants and management theorist as the subject of corporate strategy. In a vast outpouring of writing on the subject during the last forty years management theorists have come up with many alternative views. Soon after the second world war, when a new class of professional managers began to start for ideas about how to run big companies the original view of strategy was borrowed from the military. Baron von Clausewitz writing his classic work "On War" for the German General Staff stated that the most effective general concentrates his forces on the few significant battles. Managers still talk about attacking markets and defeating rivals.

By the sixties corporate strategy had come to mean a complex plan based on detailed forecasts of economy and specific markets. This approach to strategy fell into disrepute during the 1970's. The two sudden oil price rises also meant that many firms had to tear up their plans and start again. However, this is not to say that forecasting is useless in a world of rapidly changing technology. Forecasting can be useful but only in certain ways -not as a driver of strategy.

Then in 1980's Porter launched his book "Competitive strategy". The structural analysis of industries instead of being a specialised planning tool for forecasting evolution over considerable periods becomes useful as a capability to quickly understand the continuously evolving nature of the industry. He argued that a firm's profitability was determined by the characteristics of its industry and the firms’ position within it, so these should also determine its strategy. Applying the
analytical techniques common to industrial economics, Porter said that a firm's primary task was to impure transparency of markets by creating niches it could defend from competitors, either becoming the low cost producer. Nonetheless his ideas have had limited impact on how most firms go about formulating strategy. Porter's checklists provide little guide to what firms should actually do or avoid doing. Every firm likes to be in an industry with high barriers to entry, weak rivals and high profits. But few are so lucky.

At the same time Quinn (1990) published the results of studies about how (big) firms actually went about formulating strategy. Quinn found that they proceeded by trial and error, constantly revising their strategy in the light of new experience. He called this "logical incrementalism". The qualitative nature of uncertainty has changed in one further important matter. Industry dynamics have become increasingly non-linear as waves of technological change have swept across industries. For example, the basic model for technology diffusion —the learning curve— is the classic example of non-linear relationship that can exhibit chaotic behaviour. Under conditions of non-linearity, cause and effect are not proportional and strategic responsiveness of organisations is the watchword. Traditional industrial analysis is similar to taking a snapshot of a moving target.

Further, Quinn is raising in his publication the "Intelligent Enterprise" question marks on the concept industry of Porter, usually described as being composed by firms producing products that are close substitutions. However the boundaries of industries are seldom clear and are changing over time. There is a movement toward disaggregation where large multipurpose organisations are broken up in networks of specialised units. Hamel and Prahalad (1990) stressing the expansion of a firm’s core capabilities made the most influential strain of theorising about theory in the 1980’s. Their message was that in an era of rapid technological change and resultant unpredictability, sustainable advantage is far more likely to come from organisational resources, capabilities or competencies than from formal long range strategic planning.

Drucker (1988) envisioned a future wherein „business will integrate themselves into the world economy through alliances“. One of the reasons is that information technology is moving so quickly that it is impossible for businesses to keep up without forming strategic alliances with other businesses as well as with other non-commercial entities as universities.

He notes that in the future work will move to where the people are, rather than people will move to where the work is, and therefore business have to farm out to concentrate on their own unique core competencies. This farming out is termed by Quinn and Hilmer (1994) as „strategic outsourcing“ so managers can leverage their firms’ resources and skills for increasing competitiveness. Their message is in line with Hamel and Prahalad’s ideas.
Conclusions

Despite the changing fashions, decades of theorising have not been entirely useless. How a company views strategy does depend largely on its circumstances. Big companies, having a dominant market position, may find Porters industry analysis illuminating for matching their resources with its opportunities and for influencing external industry forces. Other companies may find Hamel and Prahalad’s theory useful to set goals that stretch a company beyond what most of its managers believe it is possible. All firms should try to exploit and hone their skills.

In strategic choice led managerial theories change is considered as a top down strategy driven transformation process often by pursuing co-operative advantages in partnerships and strategic alliances in a world of electronic business. These theories are in general dominated by a proactive management attitude (Wassenaar, 1996). Based on Konsynski and McFarlan (1990) and Wassenaar (1995) these theories can be summarised in lessons for improving organisational virtualness in electronic business.

1. **Partnering companies have a clear vision (shared destiny) and focussed market strategy supported by involved top management.** It is a key factor for success in electronic business: there are business objectives whether it be cost reductions, obtaining new markets or cross-selling services elaborated in key performance indicators to measure progress. These objectives have to be agreed by all internal and external involved partners.

2. **Companies have not only to focus on commanding a higher profit margin but they have to erect barriers to affect competitive forces.** Competition increasingly takes place among networks and not atomic firms based on platforms like the Intel/Microsoft based network currently competes with the Apple/IBM/Motorola based network. Therefore common platforms are locking in their customers by high switching costs and are creating high entry barriers for new rivals.

3. **Companies together have a focus on complementary competencies:** internally on developing „best of world“ capabilities around a few activities —the company competencies and externally (partners) on managing a rapidly changing network of „best in world“ partners for its other needs. It is important they improve their competences by continuous improvement based on common assessments, learning mechanisms and intensive relationship with other institutions like universities.

4. **Companies have (reciprocal) skills and competencies in information and communication technology.** (Partnering) companies work better when they possess the necessary skills to manage the complex information technology that may be involved. These companies have to develop (complementary) core competencies especially in the field of information and communication technology. Attention has
to be given to develop and organise data exchange systems in a way it is useful for the partners.

5. Companies have concrete flexible implementation plans based on step by step projects and if possible starting with early successes. These plans have to be managed by inter-company task forces responsible for executing projects and coordinating (and developing) common electronic business policies and standards for financial, marketing, quality, logistic and information systems. It is important, that plans are flexible in order to face changing circumstances or surprising new developments and opportunities.

References


3 Lessons from Improvisation or Market Led Theories

Elisa Moreno Bragado

Hayek (1945) described the market as a discovery process, where new opportunities and innovations are relentlessly found out and the news of such findings are transmitted instantaneously through the price system. The market constitutes the framework in which organisations perform their activities from two different perspectives (Ciborra, 1997a):

- In first place, the requirements of the market outline the goals, plans, strategies etc. that the organisation is willing to achieve; the achievement of certain goals and objectives is called the „in-order-to“ motives of action.
- At the same time, past experiences when trying to reach those objectives also determine the kind of actions to perform; this frames the „because-of“ component of action.