Strategy development: past, present and future

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The dynamic environments of today require a more dynamic approach to strategy development

Introduction

The amount of literature available on strategy development is vast and is growing at an accelerating rate. Despite the large amount of research on this subject there is no single definition for strategy development. As a result, a wide range of conceptual frameworks exists for the formulation and implementation of strategies. According to early scholars in this field such as Andrews[1], strategy is a rational decision-making process by which the organization's resources are matched with opportunities arising from the competitive environment. Others, such as Aldrich[2], state that the environment has a strong deterministic influence on the strategy-making processes in organizations. On the other hand, proponents of the resource-based view argue that it is not the environment but the resources of the organization which form the foundation of firm strategy[3]. Despite the differences, all these frameworks have one thing in common which is that they all aim at maximizing the performance of an organization by improving its position in relation to other organizations operating in the same competitive environment. This, however, becomes more and more difficult as the level of competition in different competitive environments continues to intensify.

There is a growing cognizance that in highly dynamic environments, traditional approaches to strategy development often do not lead to the intended results, and that organizations must move towards a more dynamic concept as the underlying conditions change before formulated strategies can be fully implemented[4]. However, the way in which a dynamic approach to strategy development can be achieved is not clear.

Strategy definitions

There are several views on what strategy means. Typical definitions include:

- "Strategy is the skill in managing or planning"[5].
- "Strategy is the primary means of reaching the focal objective. The focal objective is whatever objective is in mind at the moment. Strictly speaking, it is literally meaningless to talk about strategy without having an objective in mind. Viewed in this context strategy becomes an integral part of the ends-means hierarchy"[6].
- "Strategy is the direction and scope of an organization over the long term. It ideally matches its resources to its changing environment, and in particular its markets, customers or clients so as to meet stakeholder expectations"[7].

The reason for the availability of different definitions can be explained through the Greek origin of the term strategy *strategia – the art of war*. In a business environment several dimensions may be associated with this term. Figure 1 summarizes these dimensions and gives examples. The existence of several dimensions is an indication of why so many tools and frameworks exist for strategy.

The variety of so many conceptual frameworks and tools in the area of strategy development cannot be regarded as mutually exclusive but must be seen as mutually supportive. It follows that those definitions which take a holistic approach to strategy capture its meaning better than those which take an isolated view. In this respect, the time at which they were defined is not a factor. The definition offered by Chandler in 1962 is an example of such a holistic definition. It describes strategy as "the determination of the basic goals and the objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals"[8].

The evolution of strategy

Many of the concepts that form the basis of today's understanding of strategy development were developed during the first half of the twentieth century. Examples include Frederick Taylor's work on efficiency, the rapid

Figure 1. *Dimensions of strategy*
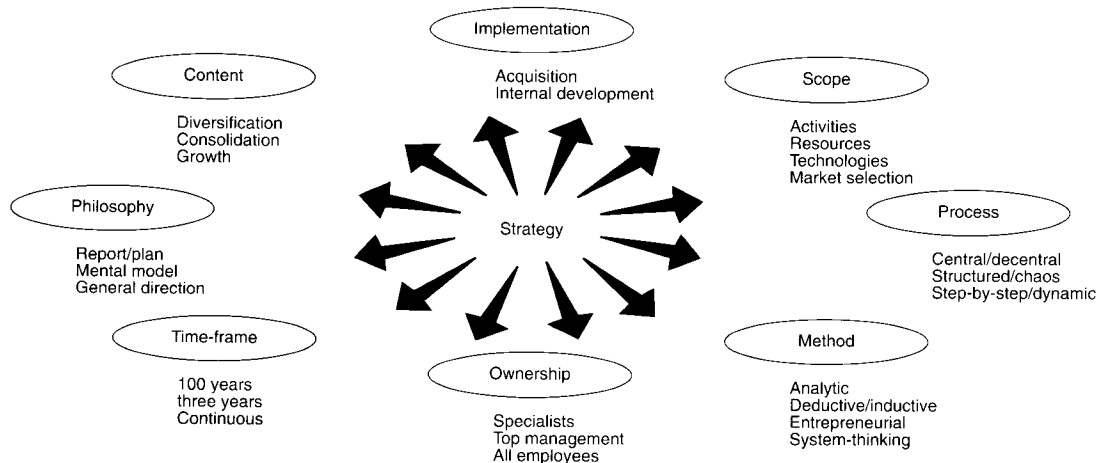
growth of forecasting and measurement techniques during the 1930s and the development of organizational structures and the transformation from production to demand-driven organizations after the Second World War. In 1951, Newman was the first to demonstrate the nature and importance of strategy[9]. His work was soon expanded on by others. In the early 1960s Andrews and Christiansen[10] and Ansoff[11] laid the foundations for strategic planning by demonstrating the need to match business opportunities with organizational resources and illustrating the usefulness of strategic plans. This early phase was followed by a phase of generalization in which researchers attempted to identify common patterns of success. These studies culminated in a large number of strategy tools and frameworks that are still used for analysis purposes today. In the 1980s, the focus shifted from strategic planning towards strategic management[12]. Led by Porter[13,14], a broad range of concepts and techniques evolved which were aimed at building and sustaining competitive advantage by anticipating and exploiting business opportunities. In parallel, increasing attention was given to the issue of strategy implementation. Major contributions which resulted from work carried out on strategy implementation during this time include the value chain concept[14] and the 7S framework[15] which help in developing an understanding on internal issues that need to be addressed in order to achieve the organization's goals. During the 1970s and 1980s researchers increasingly recognized that strategy development cannot be regarded as a simple design mechanism but that different strategy processes may exist in different organizations and that there may be a gap between the intended and achieved strategy. As the speed of change and the level of uncertainty in the competitive environments further increased it was realized that it is

not possible to determine a strategic direction for an organization on a systematic basis but that organizations must constantly adapt to the fast-changing circumstances and hence move towards dynamic strategy development.

Figure 2 summarizes the main stages of this evolutionary process together with examples of concepts and tools developed. This Figure also illustrates that, over time, the complexity of strategy research has intensified. It also shows that strategy formulation and implementation, which were treated as separate entities in the past, have now merged into a dynamic approach comprising both aspects. The main contributions from each of the stages given in Figure 2 are detailed below individually.

Strategic planning
A number of strategy development processes used today by industrialists are based on the pioneering work carried out by Andrews and Christiansen in the 1960s at the Harvard Business School[1]. Using a uni-directional approach (see Figure 3), these processes entail a number of well-defined steps carried out in sequence including data collection and analysis, strategy development, evaluation, selection and implementation. The essence of this approach (which is also known as the "design school" or "fit school"[16] is that strategy is regarded as finding a match between organization capabilities and opportunities within the competitive environment. The SWOT (strength, weaknesses, opportunities and threats) analysis has often been employed for this purpose. Contributors to this school of thought include Christiansen, Andrews, Hamermesh[17], Porter[14], Ohmae[18] and Johnson and Scholes[7]. Figure 4 provides an example of a strategy development process which is

Figure 2. *The evolution of strategy development*
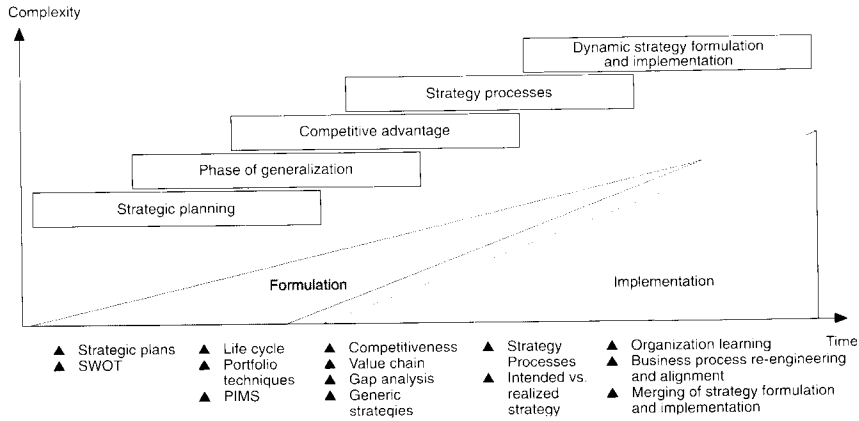
based on the concept of the design school for illustrative purposes. It is increasingly being realized that the main limitations of the design concept relate to its inability to adjust to fast-changing conditions. However, this concept is still widely used and hence forms an important milestone in the area of strategy.

Phase of generalization
In an attempt to identify the drivers that maximize performance, a large amount of research has been directed at quantitative studies such as the PIMS (profit impact of marketing strategy) project[19] which aimed to identify the relationship between organization characteristics and business performance and research into the development of conceptual frameworks, the application of which could be used to explain organization success. These research activities have

resulted in a number of analysis tools and portfolio approaches that are still commonly applied today. Analysis tools include the widely used Boston Consulting Group's market growth/market share matrix[20] and the McKinsey's market attractiveness/ strategic position matrix[15] but also a number of less commonly used tools such as the ADL life-cycle matrix[21], Lorange's divisional planning matrix[22] and the Harrigan-Porter end-game analysis[23]. Figure 5 shows a selection of these tools for illustrative purposes.

Another major body of research work in the field of strategy has concentrated on identifying universal rules and concepts. For example, Porter[13] has presented three generic strategies (see Figure 6) for improving the competitive position of an organization: cost leadership, differentiation and focus.

Figure 3. *Origins of strategic planning*
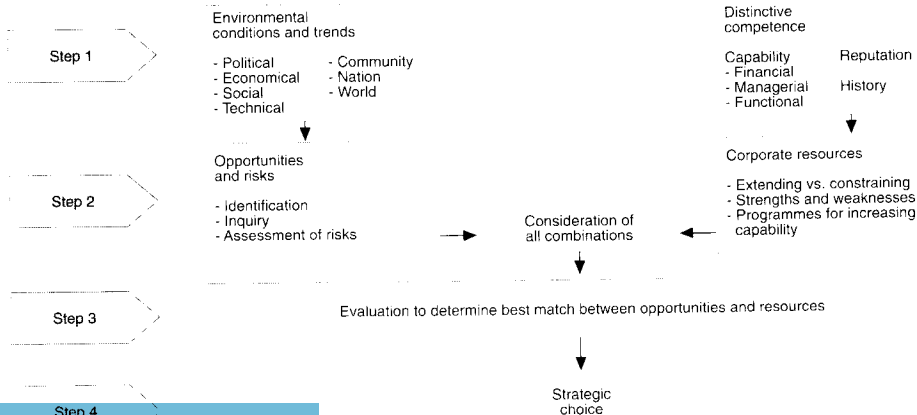
Porter argues that an organization will have to make a choice between these generic strategies if it is to achieve a competitive advantage. This is to say the organization will either have to keep its costs lower than its competitors or differentiate its offerings so that they are perceived as providing higher value when compared with offerings of competitors. The focus strategy means that the organization should concentrate on a certain customer segment, product range or geographic market. Although recent research disputes the mutual exclusiveness of these strategies[4], this classification of generic strategies has formed the basis for a whole body of research directed towards the development of more generic strategies[e.g. 24].

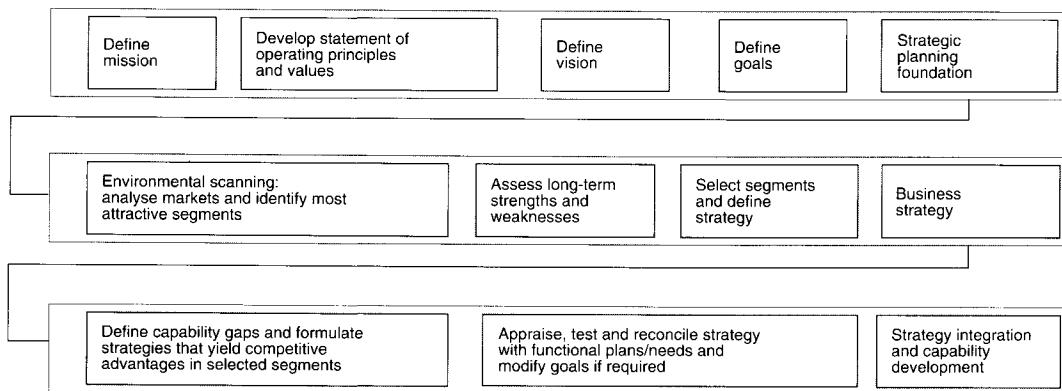**Figure 4.** *Strategy formulation and implementation based on the design school*

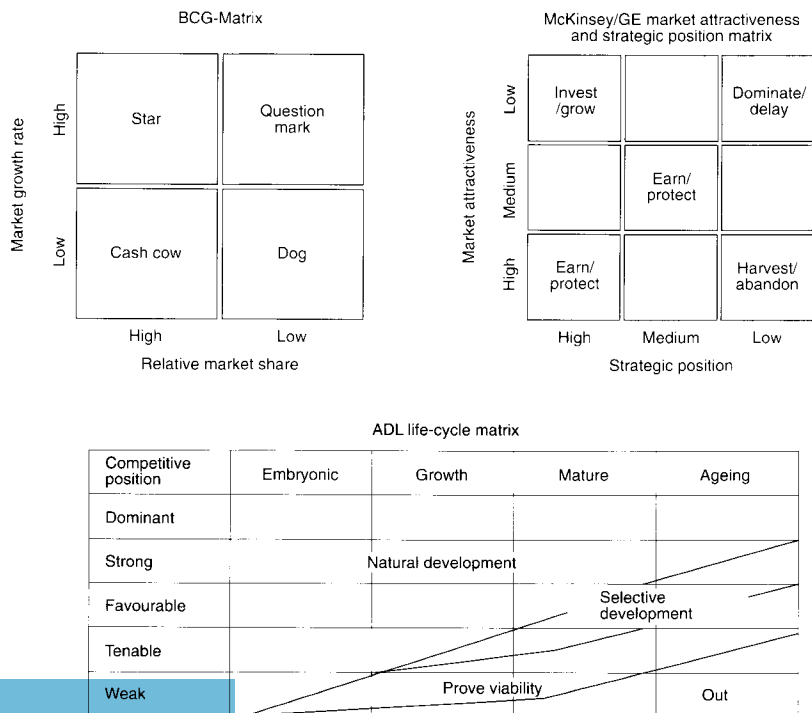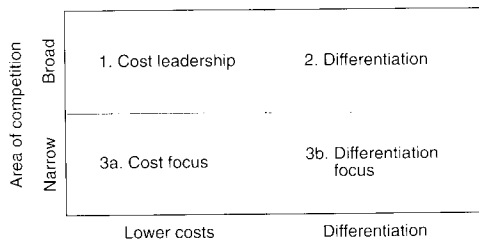**Figure 5.** *BCG-matrix, McKinsey/GE and ADL matrices*

Figure 6. *Generic strategies*

By introducing the concept of industry analysis (see Figure 7)[14] Porter further provided insight into structures within different competitive environments. This concept assumes five competitive forces which determine the attractiveness of a given industry. These are:

(1) Barriers of entry into the industry.
(2) Threat of substitute products.
(3) Bargaining power of buyers.
(4) Bargaining power of suppliers.
(5) Rivalry among existing competitors in the industry.

Other research activities have concentrated on analysing organization structures and values in order to identify reasons for superior performance[25]. Mintzberg[26] isolated a number of forces within organizations that interact dynamically, moving an organization into different directions. Based on these forces a number of principal organization structures have been developed. It has been shown that the structure of organizations has a direct impact on the way in which strategies are formulated and implemented.

The concepts and frameworks thus far developed in the phase of generalization that have attempted to identify generally valid drivers of performance may seem oversimplified in today's competitive environments. However, they have provided a better understanding of strategy. The tools and frameworks developed can still be employed for generating knowledge which may be used in the formulation and implementation of strategies. Figure 8 summarizes the phase of generalization.

Competitive advantage

During the 1980s researchers and industrialists realized that superior performance could not be explained through generic strategies or organization characteristics alone. According to Kay[27]:

> there are no recipes, and generic strategies, for corporate success…there cannot be, because if there were their general adoption would eliminate any competitive advantage which may be derived.

The focus of research therefore shifted towards the identification of sources of competitive advantage. Competitive advantage is a factor or a combination of factors which make an organization more successful than other organizations in a competitive environment[28] and cannot be easily emulated by its competitors. Researchers differentiate between short-term competitive advantage and long-term sustainable advantage. Over the years a number of sources for competitive advantage have been identified. These include: organization resources and capabilities; excellence in strategy implementation; quality; time; and innovation and creativity.

Proponents of the resource-based theory[e.g. 29] to strategy formulation regard resources and capabilities as the main source of competitive advantage. They argue that strategies should be based on what the organization is best at rather than focusing on the external environment. Resources and capabilities can originate from different areas of the organization and it is the task of strategists to identify those which can be used to
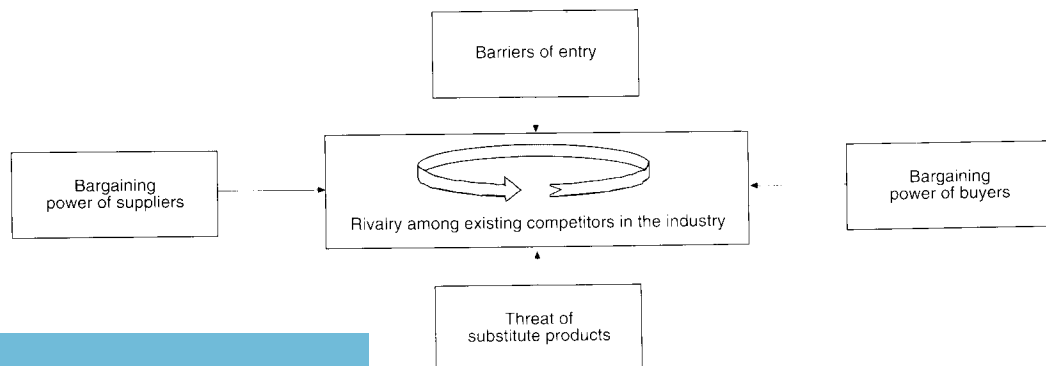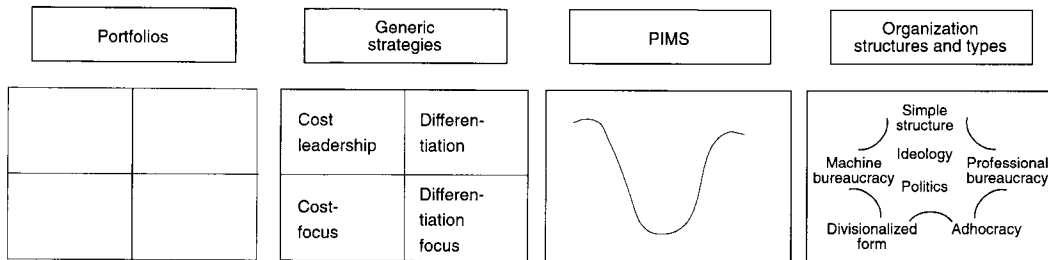
Figure 7. *Industry analysis*

Figure 8. *The phase of generalization*

differentiate the organization from its competitors. These include resources which:

- improve the organization's competitiveness through cost advantage (e.g. manufacturing capacity, process technology, access to raw materials, etc.);
- can be used for differentiation purposes (e.g. marketing experience, distribution channels, brand names, etc.);
- make it more difficult for others to enter the market (e.g. patents, market share, etc.);
- have an influence on the bargaining power in the industry (e.g. firm size, financial capabilities, etc.).

Figure 9 presents a framework describing the resource-based approach to strategy formulation in a graphical form[3].

A second body of research regards the ability to implement a formulated strategy as an equally important source of competitive advantage[30,31]. One of the first frameworks for strategy implementation and organization development was McKinsey's 7S-framework, which laid the foundation for a wide range of similar concepts[15]. It identified seven factors that are essential for strategy implementation and managing successful organization change (Figure 10). The framework is based on the assumption that a change of strategy will require a change in the organization's skills and shared values. This in turn will determine the requirements for the remaining factors.

With the increasing level of competition in many competitive environments, new sources of competitive advantage have been identified. These include a strong focus on quality, speed and fast cycle time capabilities[32,33] and a high degree of innovation and creativity[e.g. 34]. Many researchers today argue that the only source of sustainable competitive advantage lies in the ability of an organization to learn[35].

Strategy processes

In their search for sources of sustainable competitive advantage, researchers and industrialists have realized that business performance depends not only on the formulation and successful implementation of a
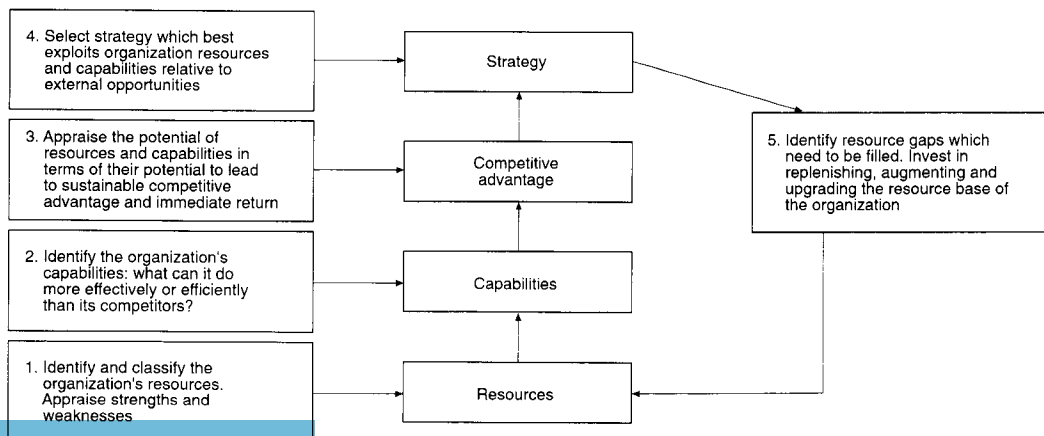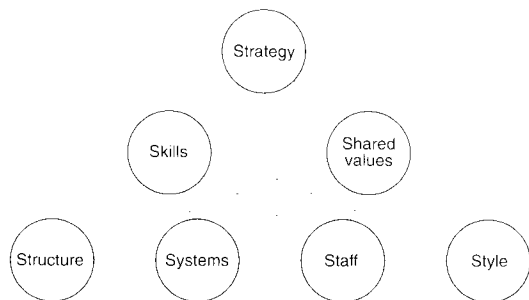
Figure 9. *Resource-based theory to strategy analysis*

Figure 10. *McKinsey's 7S-framework*

given strategy but also on the process by which competitive positions are created or maintained. While the strategic content explains superior performance at a given moment in time, the process by which organizations formulate and implement strategies is a prerequisite for a sustainable high level of business performance.

Mintzberg was one of the first to point out that the realized strategy of an organization can strongly differ from the intended strategy and that the extent to which an intended strategy can be realized is closely related to the strategic processes that exist within the organization. Figure 11 illustrates the differences that exist between intended and realized strategy[36]. In his early work, Mintzberg identified three main types of strategy processes: planning, entrepreneurial and learning-by-experience. Figure 12 summarizes the three main types of
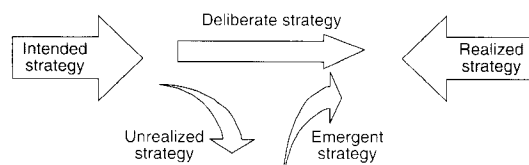
Figure 11. *Intended versus realized strategy*

Figure 12. *Main types of strategy processes*

Planning	Entrepreneurial	Learning-by-experience
- Fully conscious and controlled thought process	- Semi-conscious process	- Strategy is evolutionary process of repetitive nature
- Results relatively standardized	- Long experienced and deep insight enable formulation of visions and strategy	- Pattern of impulses from inside and outside during implementation of strategy
- Fully developed strategic plans are followed by timed implementation	- Vision informal and personal to preserve flexibility	- Arise from dynamics of organization and directly influence behaviour

strategy processes together with a summary of their key characteristics.

Over the years, researchers identified more and more strategy process types through both empirical and theoretical research, culminating in a wide range of strategy-process models and typologies. Most of these strategy-process models and typologies stand by themselves and lack a common basis and vocabulary. However, more recent work has been directed at integrating the existing frameworks into a more coherent and holistic approach[37]. Figure 13 provides a selection of different strategy process models which have been developed over the years[37-45].

Dynamic strategy formulation and implementation

There is now a growing cognizance that no single strategy process or single strategic capability will lead to a sustainable competitive advantage. Organizations are increasingly having to adjust dynamically their characteristics to the requirements of the environment by constantly changing their strategies and strategic capabilities. Recent research has shown that organizations achieve superior results if they can select from a wide range of strategic capabilities rather than concentrating on a single capability or process[46].

The focus of strategy research is once again shifting away from identifying drivers of organization success towards maximizing the change potential of an organization. Mintzberg argues that the role of strategists has to change from that of planners and strategy creators to that of strategy finders, knowledge generators and catalysts of change, and that strategic planning must be replaced by strategic thinking[46,47]. Ansoff, on the other hand, stresses that the classical understanding of strategic planning must be replaced by a more dynamic understanding that focuses on strategic issues[48], and Sokol calls for a simplification of the strategic planning process[49]. This implies that strategy formulation can no longer be separated from strategy implementation because of the speed which is necessary to exploit opportunities in the competitive environment. Bhide[50] points out that "too much analysis can be harmful...by the time an opportunity is investigated fully, it may no longer exist", and proposes an entrepreneurial approach even for large corporations which should be based on the following guidelines:

(1) Screen opportunities quickly and eliminate unpromising ventures.

(2) Analyse ideas parsimoniously. Focus on a few important issues.

(3) Integrate action and analysis. Do not wait for all the answers, and be ready to change course.

Other researchers highlight that superior performance does not originate from strategies which have been

Figure 13. *Selected strategy development process frameworks*
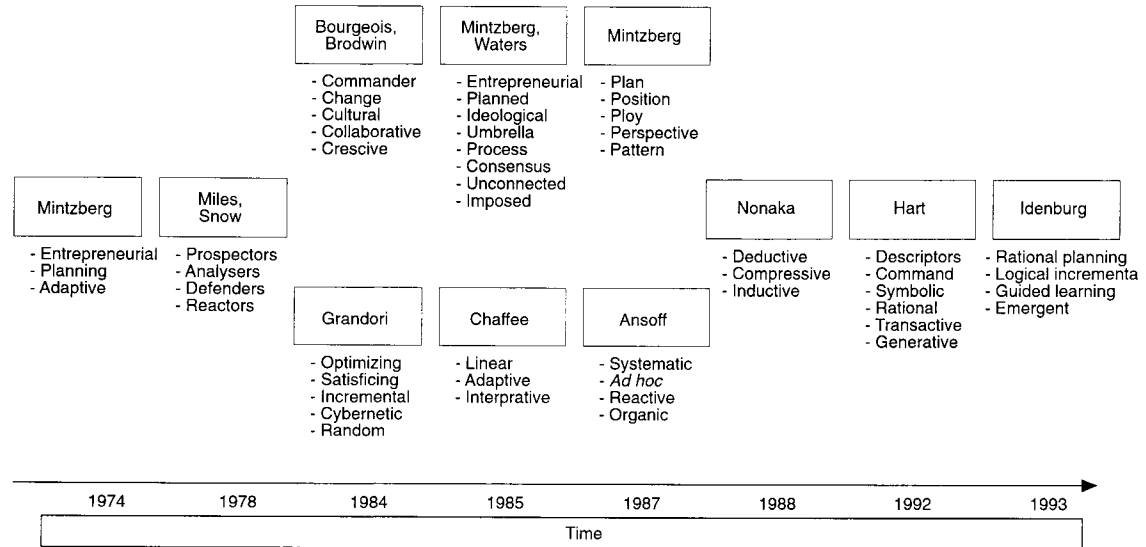
successful in the past. Successful organizations are those organizations which focus on new concepts, creativity and strategy innovation[34,51]. Such an approach in turn requires the involvement of a large number of individuals, strategic knowledge generation throughout the organization and the application of a systems thinking approach to strategy development[52]. This change in the understanding of strategy formulation and implementation is also reflected in the increasing amount of research that is directed towards organization learning[35,53], the emergence of new organization structures[54] and the importance given to the redesign of business processes in the context of strategic change[55].

Despite the increasing awareness for a more dynamic approach to strategy formulation and implementation, research up to date provides little guidance on how such an approach may be realized. Only a small number of concepts have been proposed which sketch out the basic parameters for a dynamic approach[e.g. 56]. The remaining part of this article discusses how a dynamic approach to strategy formulation and implementation may be realized.

Moving towards dynamic strategy development

In order to achieve a dynamic approach to strategy development, strategy must be treated as part of individual responsibilities throughout the organization as opposed to a central function. By transferring the ownership of strategy in this way the quality of knowledge used for strategy formulation will be substantially improved, while potential conflicts and the

timeframe for strategy implementation will be dramatically reduced. This in turn will have five implications for organizations as detailed below:

(1) Distributing the ownership of strategy formulation and implementation throughout the organization requires the consideration of a wider value system. With the dynamic approach, organizations can no longer aim at maximizing the values of customers and shareholders alone. The values of other stakeholders such as employees and society will become equally important. This is because the value system in which organizations operate is likely to change owing to an increasing awareness of the detrimental effects resulting from the vicious circle of competition. Those organizations that take a proactive approach to shape future value systems are more likely to succeed in the long run.

(2) In highly dynamic and uncertain environments, competitiveness must be regarded as a multi-dimensional construct comprising customer values, shareholder values and an organization's ability to act and react[4]. Each of these dimensions must be looked at in relative rather than in absolute terms. Organizations can only remain competitive if they maintain a careful balance between all the dimensions affecting their competitiveness.

(3) A dynamic approach to strategy formulation and implementation requires an internal environment that provides a high degree of stability while at the

same time offering a high degree of flexibility to respond quickly to change[57].

(4) The quality of a formulated strategy depends on the quality of knowledge used[58]. This in turn hinges on how effectively the process of knowledge gaining is managed within the organization. In dynamic environments, underlying conditions often change before a strategy can be fully implemented. Strategy formulation and implementation must therefore be regarded as a constant learning process and the quality of strategy directly depends on the quality of the organization's cognitive and behavioural learning mechanisms. Performance measurement systems can provide the necessary feedback loop within this learning process provided that design encompasses all stages of the strategy formulation and implementation process and the organization's value system[59].

(5) The speed at which strategic change can be realized depends on the speed of strategy formulation together with how well strategies and activities are aligned throughout the organization. Organizations can quickly change their strategic direction in line with changes in the competitive environment when they are able to create a large number of strategic options through a combination of imaginative and inductive processes. For speedy implementation, a process of horizontal, vertical and cross-alignment is also necessary to ensure that, overall, operations and supporting strategies are aligned[60].

The achievement of the above items requires organizations to apply a structured framework to strategy formulation and implementation which enables the realization of the following:

(1) Goal setting.

(2) Goal communication and negotiation.

(3) Dissemination and application of strategic knowledge, both internal and external.

(4) Gaining commitment by transferring strategy ownership.

(5) Formulation of strategies at that point in the organization where optimal strategic knowledge exists.

(6) Performance measures that are constantly aligned with the organization's value system, goals and objectives.

(7) Alignment of strategies to:
   ● eliminate or reduce goal conflicts between entities;
   ● minimize strategy overlaps and redundant efforts;

   ● co-ordinate activities which span over several business entities or regions; and
   ● maintain the same overall direction and focus.

The requirements concerning speed, flexibility and maintenance of overall direction and structure can be achieved by a system which defines overall objectives and boundaries as opposed to a system that commands and controls. Furthermore, a dynamic approach to strategy formulation and implementation calls for a structure and culture which:

● is supportive and enabling;

● provides a large degree of freedom for individuals and business entities in the decision-making process;

● delegates and demands responsibility for any action taken;

● builds up commitment and leadership;

● adjusts dynamically the organizational structure with changing requirements;

● treats individuals and teams according to their tasks and roles within the business processes rather than as parts of a hierarchical structure; and

● gives teams and individuals the charter to select new business opportunities and realize their ideas by working closely together with potential customers.

In dynamic environments, the increasing complexity of business issues also requires the close co-operation of people from different areas and functions within the organization in order to optimize the use of the knowledge base that is available in addressing the issues and enhance the level of creativity in the development of solutions.

Conclusions

Research into strategy development has come a long way since the early work in the 1960s. Nevertheless, many of the earlier concepts are still valid today or are reflected in the basic assumptions employed by recent research. While earlier research work into strategy formulation and implementation was directed at identifying reasons for superior performance, the focus later shifted towards the study of strategic processes and the search for sources of competitive advantage. With the increasing level of dynamics in competitive environments, researchers have realized the need for a dynamic approach to strategy development. Such a dynamic approach implies that an organization's success cannot be explained through the application of specific strategic processes or techniques.

High performance in dynamic environments is a characteristic that must be constantly pursued through an ongoing process of change which is in line with

changes in the competitive environment, the values of the organization and its capabilities. Under fast changing conditions it is not possible to employ generic strategies or follow a structured process of strategic analysis. Successful strategies are crafted and realized through a process of creativity and innovation involving all the skills, expertise and genius that are available throughout the organization. Successful strategies are driven by a sense of purpose and commitment which cannot be imposed or communicated but which must originate from inside the organization and become a vision that is clearly visible within and outside the organization.

Successful strategies are therefore driven by the possibilities of the future rather than the restrictions of the past. This cannot be achieved by sequential inductive/deductive approaches to strategy formulation and implementation. A sequential inductive/deductive approach usually results in already known solutions which do not necessarily differentiate the organization from its competitors. What is required is a process of visioning which lends itself to creative solutions thus forming the basis of differentiation. This process requires the close co-operation of people throughout the organization and a communication structure which is open and flexible.

The findings of this work have major implications on researching strategy development. Traditional research approaches have failed to develop knowledge which can be effectively and efficiently applied in highly dynamic environments. This is because research objectives and user needs are often misaligned and user needs change rapidly over time. As a result, the knowledge generated often lacks relevance and general applicability while there remains a large number of issues that need to be addressed. Researchers should therefore continuously adjust their objectives and processes to new emerging issues that are relevant to the real business needs of organizations and the pace of change in the environment rather than defining and testing a limited number of hypotheses.

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Application questions

(1) What does the history of business strategy thought tell you about its future?

(2) Are different philosophies for directing a business really functions of a changing environment? Why else would different philosophies emerge?