

AN EXECUTIVE PERSPECTIVE



CORNELIS A. DE KLUYVER

Strategic Thinking

An Executive Perspective

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Preface

The competitive environment is changing at a furious pace. Businesses that were immune to global competition only a few years ago now find themselves locked in fierce competitive battles with rivals from around the world. Technology is changing the way we live and work and, in the process, is rewriting the rules of competitive strategy for many businesses. At the corporate level, new strategic options such as the use of alliances and joint ventures have become essential to building competitive advantage. And key concepts in global strategic thinking—from which global battles to enter to how to manage the value chain in a global setting—are being revisited in a climate of rising worldwide economic uncertainty. Keeping up with these changes, and with new ways of strategic thinking aimed at exploiting these new developments, is critical to success.

Given the importance of this topic, it is surprising that there are few if any short, up-to-date, readable overviews of the field of strategy aimed at its most important audience: executives who shape tomorrow's strategies. Most writings on the subject are highly academic in nature or focus on a particular aspect of strategy—business unit strategy, strategy in high-technology industries, and so forth. There is also a plethora of books that deal with more tactical, operational issues such as reengineering, total quality, and outsourcing. But executives who wish to refresh or update their knowledge about the major issues in strategy development must turn to corporate or university executive development programs or enroll in one of a growing number of executive MBA programs in which they are given notes, reprints of well-known articles, case materials, and other supplementary readings organized in voluminous loose-leaf binders. This book is an attempt to fill the gap.

WHO SHOULD READ THIS BOOK?

This book is written for practicing executives who are getting ready to assume broader responsibilities. *It is intended as background reading in executive MBA and corporate executive programs to a series of case discussions in which specific strategic issues are examined in greater detail, or as a stand-alone overview if time pressures make taking a formal course on strategy development impractical.* And, if the limited experience with preliminary versions of this treatment of the subject is any guide, the book should appeal to a select number of practice-oriented MBA programs.

ORGANIZATION AND APPROACH

The approach and organization of this book reflect years of experience in executive development. Its tone is conversational, its coverage topical, and its approach practical. The first chapter defines strategy as the act of *positioning* a company for *sustained com-*

petitive advantage by focusing on *unique* ways to *create value* for customers. It requires *choosing* what *industries* to participate in, what *markets* to pursue, and what *products* or *services* to offer, and how to *allocate resources* to make such a positioning a reality. Formulating a sound strategy requires both *analysis* and *synthesis*, and therefore is as much a *rational* as it is a *creative* act. Successful strategies are rooted in a deep understanding of what customers value, how markets behave, and how competition develops. They also reflect a clear *strategic intent* and *competitive innovation*. Generic strategies rarely propel a company to a leadership position. Knowing where you want to go and finding carefully considered, creative ways of getting there, combined with a measure of patient persistence, are the hallmarks of successful strategy.

Chapter 2 looks at the importance of changes in a firm's *external strategic environment*—driven by *economic, technological, political, and sociocultural* change—and the impact of the evolutionary forces that shape a company's *industry environment* on strategy formulation. In particular, we focus on two key issues that every strategist must confront: how to assess and deal with *change* and *uncertainty*.

Chapter 3 focuses on the company itself. Analysis of external change forces is critical to determining what strategic changes a company *should* consider. An assessment of internal strategic resources and capabilities and of pressures for and against change is important to determining what strategies a company successfully *can* (and should) pursue. A firm's *strategic resources* include its physical assets (*physical resources*), its relative financial position (*financial resources*), the quality of its people (*human resources*), and specific knowledge, competencies, processes, skills, or cultural aspects of the organization (*organizational resources*). A second aspect of assessing a company's internal strategic environment deals with identifying *pressures for strategic change* that come from within the organization or from its immediate stakeholders. Persistent disappointing performance, new owners or management, limitations to growth with current strategies, scarcity of critical resources, or internal cultural changes are examples of conditions that give rise to such pressures.

Chapter 4 deals with creating a sustainable and profitable competitive position for a business unit within a specific industry, segment, or served market. The principal focus of business unit or competitive strategy is on *how* to compete, in a given competitive setting as opposed to corporate strategy, the subject of chapter 5, which is concerned with *what* businesses a company should compete in and *how* a parent company can add value to its business units. The chapter begins by examining the *logic* behind strategic thinking at the business unit level. In this section we address the basic question, What determines profitability at the business unit level? We look at the relative importance of the industry in which a company competes and its competitive position within the industry, and identify the drivers that determine sustained competitive advantage. This logic naturally suggests a number of *generic strategy choices*, broad strategy prescriptions, which define the principal dimensions of competition at the business unit level. Which generic strategy is more attractive and what form it should take varies considerably according to the specific opportunities and challenges analyzed. Accordingly, the next section deals with the question of how to size up a strategic challenge at the business unit level. It introduces a variety of techniques such as *profit pool analysis*, *growth vector analysis*, *gap analysis*, *competitor analysis*, and *product life cycle analysis* useful for generating and assessing strategic alternatives. Since strategy is developed in a specific industry context, the next section considers six different industry environ-

ments. Three represent different stages in an industry's evolution—*embryonic*, *growth*, and *mature* industry settings. The other three—*fragmented* industries, *global*, and *deregulating* industry environments—are defined by their structure, scope, or external forces operating on them. We conclude the chapter with a number of special topics—the role of *innovation* in value creation, issues of *timing*, *entry-exit* decisions, *vertical integration*, and the *relationship between business unit and corporate strategy*.

Chapter 5 has several parts. We first look at the concept of *economics of scale and scope*—a fundamental underpinning of corporate strategy—and try to answer the question, Is bigger always better? Next, we turn to the context in which corporate strategy is developed and executed. In particular, we note the importance of the dispersion in the ownership of large corporations in the last 30 years and of emergence of *the market for corporate control*. With this background, we trace the *evolution of strategic thinking* at the corporate level. Four perspectives are identified—the *portfolio*, *value-based*, *generic strategy*, and *resource-based* points of view—and their relative merits assessed. This discussion leads us to the consideration of *strategy choices* at the corporate level. In this section we look at *concentrated growth strategies*, *diversification issues*, *merger and acquisition activities*, *cooperative strategies* including joint ventures and alliances, and *sell-offs*, *spin-offs*, and *liquidations*. Next, we look at the issue of *corporate parenting* and how a parenting style affects portfolio composition and management. We conclude the chapter with a discussion of *how to evaluate* strategy choices at the corporate level.

In chapter 6 we take a closer look at the opportunities and risks associated with staking out a global competitive position and identify the principal dimensions of a global strategy. To set the stage we first take a look at the driving forces behind the emerging global economy and characterize “globalization” in greater detail as an economic, political, social, and technological phenomenon. Industry globalization is the next topic of discussion. In this section we focus on such questions as: What is a global industry? What are the driving forces behind the globalization of industries? and What explains the dominance of particular countries or regions in global industries? The third major topic of this chapter is global strategic thinking. In this section we identify the principal dimensions of global strategy and introduce a framework for global strategic thinking that links global strategy options to the nature of the global industry environment. A major tenet of this discussion is that global strategy, more than strategy at the corporate or business unit levels, increasingly is played out in two arenas: a market and a nonmarket arena. Market dimensions of global strategic thinking concern questions such as: Which markets should we participate in? Why? In what form? To what extent should we standardize products and services? Where should we locate key value-added activities? Should we have a uniform market positioning worldwide? and How do we coordinate competitive moves across the globe? They are aimed at creating value through economic performance in a global context. Nonmarket dimensions of global strategy deal with shaping the global competitive environment. As many executives will attest, the rules of global competition are critical to performance. As a consequence, to enhance their global competitiveness, an increasing number of companies have concluded that they need to participate in the political process of shaping those rules. An integrated global strategy therefore consists of market and nonmarket components that act synergistically to create a sustained competitive advantage on a global scale. The effectiveness of different global postures depends importantly on the structure of the global industry. Accordingly, we evaluate the relative effectiveness of different global

strategy options in the context of a number of generic global industry settings. We conclude this discussion by considering the various strategic risk factors associated with a global strategic posture.

Chapter 7 briefly looks beyond strategy formulation. It argues that because of the greater intensity of the competitive environment the need for effective *leadership*, at all levels of the organization, has never been greater. At the same time, the growing complexity of the strategic environment makes leadership not only more critical to success but also more difficult. This in part explains why companies are experimenting with new forms of *organization*; traditional models simply are not as effective anymore. This *reinventing the corporation* also reflects a broader paradigm shift about what management is all about. Getting comfortable with change is not an option any more; today it is a requirement for success. After all, no matter how well crafted a strategy is, success begins with implementation. And as many executives have learned, “Successful implementation is secured through commitment, not compliance.”

ABOUT THE BOOK

As every author knows, writing a book about a vast subject such as strategy involves making compromises and trade-offs. This book is no exception. In choosing what to include, where, and at what level of depth, I was guided by the book’s primary objective as a companion volume to case analysis in an executive MBA setting. To me, that positioning meant several things. First, the book had to be *relatively short*, and highly *readable*. Second, a *broad perspective* was needed—sometimes at the expense of details about particular techniques or analysis frameworks. Third, the focus should be on strategic *thinking*—not on recipe-driven strategy formulation. Fourth, the book should give the reader a sense of *context* through the use of real examples and, where appropriate, of relevant historical references. Finally, a fundamental premise underlying this book is that strategy development is a *dynamic* process. All companies have a strategy of some kind in place. What is more, few executives have the luxury of “starting over.” This book recognizes therefore that most strategies *evolve over time*, and must take into account how things are done today.

Strategy formulation is as much a creative as an analytical process. To emphasize this point, each chapter begins with a quotation by a famous painter, composer, or dancer. Their words inspire new ideas about and new approaches to strategic thinking. Paul Cézanne’s views on art, for example, known to us almost exclusively through letters to personal friends such as fellow artist Emile Zola, speak to the way in which he translated what he saw into what he painted. Executives today are confronted with a competitive environment that provides such a barrage of continuous stimuli that one wonders how they can effectively absorb it all. For Gauguin, the expression of feeling was essential, but Matisse recites the need to see the total picture. Judith Jamison connects her total being to the creative process of dance and shows what commitment to an idea is all about. And Picasso said, “In my opinion to search means nothing in painting. To find, is the thing. Nobody is interested in following a man who, with his eyes fixed on the ground, spends his life looking for the pocketbook that fortune should put in his path.”¹ Perhaps these thoughts will spark creative strategic thinking.

¹Pablo Picasso, Statement, 1923, as quoted in Herschell B. Chipp, *Theories of Modern Art: A Source Book by Artists and Critics* (Berkeley, CA: University of California Press, 1968), 263.

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CdK, April 1999

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