

DYNAMIC STRATEGIC MANAGEMENT

*for
the*  1990^S

*balancing opportunism
and business planning*

 RALPH D STACEY

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Preface

This book is addressed to senior levels of management in business enterprises; those required to take the lead in dealing with the impact of change on their organizations. It is now widely accepted that such change will become even more turbulent in the 1990s than it has been over the past decade. And this will increase the pressures on those whose prime concerns relate to the long-term future of their businesses and therefore to the practical difficulties of managing in a strategic fashion.

But this is not a textbook intended to summarize or review the concepts of what is conventionally thought of as strategic management. Instead it puts forward, in what I hope is an integrated and practical manner, a framework and recommendations for managing which differ starkly from those to be found in conventional textbooks on strategic management, from what is recommended by most strategy consultants and from what now constitutes the 'received wisdom' on strategy of large numbers of senior managers themselves. My intention is to encourage such managers to question that received wisdom and the usefulness of the many expensive planning and reviewing rituals to which it has given rise.

The arguments the book develops and the recommendations it puts forward are derived from my own personal experience as a manager, corporate planner and management consultant. I have worked closely with senior and middle management in some two dozen companies during the 1980s, covering a variety of manufacturing and service sectors, operating both nationally and internationally. Part of the role of the consultant is the dispassionate observation of what managers do and how they do it. It is these observations over a number of companies and a number of years which provide the material for this book.

As a manager, or a consultant, essentially one is applying to specific situations a set of views and beliefs relating to the effective functioning of the business; views and beliefs which are derived from previous education and experience. But there is usually little time to set out coherently what those views and beliefs, or implicit structures, are. My opportunity now, in writing this book, is to take specific situations from my own experience, as well as many ideas from the literature, and to try to draw from them key generalizations to guide managers in meeting the challenge of the 1990s.

I have approached the writing of this book by reviewing what actually happened

in the consultancy assignments I was involved in and the management positions I occupied. I have used as case material a number of the consultancy assignments in which I have been involved. To maintain the required confidentiality I have not used the real names of these companies. Where my involvement was other than as a consultant, or the material has been published, I have used real company names.

*Ralph D Stacey
Hatfield Polytechnic
Business School
November 1989*

Foreword

This is a rare management book indeed. Starting where conventional thinking on mission, long-term objectives and strategic planning usually stops, Ralph Stacey confronts the challenge of open-ended uncertainty with compelling and practical advice. His canvass is wide: the political character of organisation; strategic control styles; and the encouragement of flexibility, experiment, trial and error, and leadership. To this Chief Executive Officer facing the accelerating waves of change sweeping over the British electricity industry and then wholly uncharted seas – circumstances we may all find increasingly familiar in the 1990s – *Dynamic Strategic Management for the 1990s* gives courage that a business voyage into the unknown can not only be survived but enjoyed on the way.

John Baker
Chief Executive (Designate)
National Power plc

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I

Introduction

This chapter sets out the central propositions which are developed in the ensuing chapters and provides a brief outline of the book.

Conventional strategic management

Conventionally, strategic management is seen as a separate and distinctive type of management concerned with the longer-term 'big issues'. It is a type of management to be distinguished from the ordinary day-to-day running of the existing business on the one hand and opportunistic entrepreneurial behaviour on the other. Proponents assure companies that they will improve performance by formulating a strategic plan, which anticipates change and provides a framework within which single strategic issues can be handled as they occur.

Formulating a strategic plan means determining fixed missions which set out what the company wants to be in the future; establishing clear, fixed, long-term goals and objectives for what the company wants to achieve at some point in the future; drawing up broad courses of action which the company is to take over some period into the future in order to achieve its objectives and fulfil its mission. The focus is on future change out in the market place with the emphasis on understanding market structures and competitive pressures. The aim is to identify sources of competitive advantage and match competitive capability to those sources.

The processes employed in this form of management are analysis, quantification and forecasting. Formal regular procedures are required to prepare and review long-term plans. Techniques such as portfolio analysis and SWOT (strengths, weaknesses, opportunities and threats) are available to assist in this. A corporation is seen in terms of a number of strategic business units, each of which prepares a plan matching its own ability to compete with critical success factors in the market. The corporate level then specializes in balancing portfolios of strategic business units, allocating resources and skills to them, transferring skills between them, building interconnections and synergies.

The result is an orderly 'grand design' for the future; a hierarchy of plans which are comprehensive, forward looking, internally consistent, which fit the resources

of the company to its environment and serve as a template against which to control the business over the long term. The analogy used is that of the general who deploys his forces tactically within a grand war strategy. It is a deterministic view of the world in keeping with the standard scientific traditions within which we have all been educated. It is a view which encourages us to focus on what we can understand in deterministic terms and to ignore small changes because in clearly specified, deterministic systems, small changes are conventionally accepted as having small consequences.

There have always been entrepreneurs who totally reject this whole approach to strategy. Apart from them, however, this overall philosophy of control in the long term has spread rapidly over the past 15 years and now has a powerful hold on the business community; many managers feel almost guilty if they cannot produce a strategy in these terms. Classes of MBA students and boards of directors alike now speak the language of fixed, long-term objectives and routes to them.

Even though there has been a significant move towards greater flexibility in the use of long-range planning by many companies in recent years, the basic conceptual approach remains intact in the minds of great numbers of managers. They react hostilely to any suggestion that the basic approach itself may be a fundamental nonsense in today's conditions, an approach which cannot be cured by any amount of flexibility. They recognize the limitations but still believe that long-range planning has real benefits in terms of communication, providing a focused, rational search for new opportunities and competitive edges and developing the strategic abilities of the management team. And the philosophy has spread deep into the public sector. Public health authorities and educational institutions in the UK now submit long-term strategic plans to their funding bodies and no self-respecting institution is without its mission statement.

Why conventional strategic management is inappropriate

This book uncompromisingly rejects the conventional strategic management framework, with its trite future-mission statements and flimsy strategic plans, as unrealistic, impractical and essentially static. It proposes more appropriate ways of developing and deploying the strategic abilities of the management team. The real cutting edge of strategic management lies in handling the unknowable, and the cast of mind generated by the conventional approach is a positive hindrance to such an endeavour. The time spent in preparing long-term plans which have to be changed within a few months is wasteful and diverts attention from the real issues. Conventional strategic management does offer some important insights and useful questions to ask when faced with problems, if used in an eclectic and flexible way. But as a form of control, a method of managing change, in the dynamic business

world of the 1990s it is totally inappropriate.

This is because conventional theory is based fundamentally on an assumption that change can be understood in terms of past experience, that probability is applicable, that small changes can be ignored, that clear frameworks can be established. It consequently conditions the thinking of managers in a manner which is highly dangerous in situations of true uncertainty. Managers so conditioned focus on matching existing resources to the environment; on competing with existing rivals who are assumed to think in the same way and play by the same rules. The result is planning for marginal adjustment rather than making imaginative moves.

Because managers with conventional strategic casts of mind are looking for clear, precise, long-term objectives, because they are concerned with working out in advance how to achieve those objectives, they frequently reject what appears to be the way out and the new. They are then no match for competitors who are not inhibited by a restrictive, conventional view of business strategy.

But, the reader will say, many successful companies have formal planning systems and conventional approaches to strategy. My reply is that such successful companies do not in fact use, and probably never have used, long-term planning as a method of control in dynamic situations. When it comes to actually managing change in conditions of true uncertainty, successful companies do something far more dynamic, whether they have long-term planning systems or not. They focus on single strategic issues and challenges, usually one by one; they develop implicit, dynamic strategic issue agendas; they focus organizational attention on the issues and challenges at many levels; they make experimental responses to such issues; and they back successful experiments with organizational energy and resource. In this way they develop and change their businesses organically and dynamically.

In short they do not control by grand design, they control by trial and error. The real analogy is not with grand war strategies but with playing games. Strategic management is a game in which a series of organizational and market moves are made, each with uncertain consequences in terms of customer response and competitor reaction. It is a dynamic, interactive game and companies play it because that is the realistic, practical thing to do in truly uncertain situations. It is the innovative, entrepreneurial behaviour which conventional strategic management treats as an alternative to planning, something separate, almost inexplicable and largely unsuited to large organizations. Innovative, entrepreneurial game playing is not an alternative to the planning mode of strategy, it is the only mode in conditions of true uncertainty. And it is so because we are dealing with open-ended change: that which is difficult to understand and where small changes escalate through the system with vast, unpredictable consequences.

But innovative, entrepreneurial game playing does not mean cowboy-like behaviour on the part of a single individual. In a corporation of any size it is a team

game, the effectiveness of which depends on the functioning of the business political system. Developing the strategic skills of the management team then has little to do with the arid formality and regularity of long-term planning. It has to do with creating and improving the political system of the company, the framework which provides opportunities for managers to exercise their intuitive and team skills in situations of true uncertainty.

If successful companies with long-term planning systems do not use them for 'real' strategy, then what do they use them for? They use them in fact to raise comfort levels by creating feelings of greater clarity; to communicate formally between levels in the management hierarchy on the 'big issues'; to gather and analyse data on the recent past; to back up complex procedures for approving capital expenditure. But they pay a price for these benefits — a way of thinking which inhibits really dynamic strategic management. The planning system wastes valuable time and diverts attention from the truly strategic.

As a consequence such companies are less flexible players of business games than they otherwise would be; they make fewer innovative moves; they react to more nimble competitors' moves instead of initiating them. In fact conventional strategic management tends to have the opposite effect to that intended — its practitioners are forced into reacting, when planning is supposed to enable them to anticipate.

Unconventional perspectives and prescriptions

This unconventional view leads to perspectives and prescriptions which are totally different from those of the conventional:

- Strategic management is not a separate kind of management at all, it is simply management. You cannot separate day-to-day and 'long-term' control; they are too interconnected. Effective day-to-day management requires tight, short-interval control, state of the art Management Information and Control Systems. Without them there will be little management time for the 'strategic' and there will be no tool to implement it. Such systems provide some short-term order in what is fundamentally a disorderly situation.
- Strategy is not some hierarchy of grand designs with fixed future missions and objectives, which precedes and provides a framework within which to deal with single strategic issues. Strategy is a consequence of the way in which challenges are created for the organization; the manner in which single strategic issues are dealt with; the experiments which are conducted; the games which are played. Strategies are built by the organizational backing of successful experiments. Strategy is not comprehensive, anticipative long-term planning at all; it is the consequence of innovative experimentation and entrepreneurial behaviour. And