

Strategic Review



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Formulation in Complex
Organisations*

Robert F. Grattan

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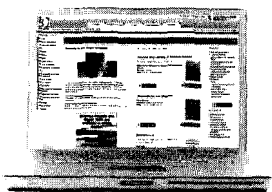
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Preface

I taught strategic management at the Bristol School for some ten years and became particularly interested in how strategy comes to be formed. Although many facets of management are written in text books in a prescriptive fashion, this is not the case with strategy formulation. Students are not given a blueprint to follow, but have to read the descriptions and arguments of eminent scholars, which are usually hedged in with '...it depends'. I cannot claim to have resolved this problem but continue, along with many better brains than mine, to try. I suspect, however, that there is no prescriptive answer in this case because, like chaos theory, small inputs from unexpected sources can have a surprising effect on the final strategic outcome.

I have sought parallels with that other great source of strategy, the military, (with whom I have an association) and have used the theories of strategic management as a lens through which to focus on how grand and strategic management is formed. This was the subject of my doctoral thesis published as Grattan (2002) by Palgrave Macmillan. The Strategic Defence Review is a natural target for such an investigation: hence this book, which seeks to answer the research question, 'How effective was the methodology employed in the Strategic Defence Review of 1997/98?'.

Although we all try to be objective, research is affected by the paradigm of the researcher. Isherwood may have claimed that 'I am a camera', implying neutrality and objectivity, but this will simply not do. The camera records that at which it is pointed and the resulting photograph is a product of the technology and also the skill and intentions of the operator. So it is that this study is affected by my paradigm. I am an Englishman, born in 1931, who grew up in the countryside before and during the Second World, before spending thirty years in the Royal Air Force during the Cold War; serving three tours in the Ministry of Defence. Ten years in the defence industry and twenty in academia have also had a formative effect. This, then, is the 'camera' through

which the Strategic Defence Review (SDR) has been viewed, with as much objectivity as could be mustered and with the hope that it has been pointed in the right direction.

Nowadays, much government information is freely available on the Internet and this is a great boon to researchers who can now access these documents in their garrets rather having to make time-consuming and expensive visits to libraries and depositories. These records are invaluable, but one always has to remember that even official documents are not value-free. Some, such as the proceedings of the Select Committee on Defence and Hansard, are verbatim records, but the evidence recorded does not include what the witness could have said, but did not. Records of meetings have gone through the filter of the secretary's (and chairman's) minds, and even the choice of words creates an impression beyond the bare facts. Many of those who actually conducted or participated in the Review are still available and I was particularly fortunate that so many gave generously of their time to talk to me and to give their account of what happened. Their evidence, too, is not value-free and the passage of ten years may have clouded the details somewhat. On the other hand, those directly and closely involved will have had ten years to reflect on their experience and to take a broader view than immediately after the Review was finished. Most of the evidence here then, is qualitative in nature, which will be less than satisfactory to the positivists and empiricists, but that is the nature of strategy formulation research.

After the Introduction, the next two chapters review the theories associated with Strategy and then Strategy Formulation. These form, by their nature, a literature review which seeks to lay down a boilerplate for consideration of what happened in the Review. Most of the theory is taken from strategic management. The nature of defence is considered in Chapter 4. Defence and the military have been with us a long time, which has created a legacy, a precursor, for any consideration of defence policy and Chapter 5 sketches the historical background to the SDR and provides a background for what occurred in 1997/98.

The declared intention of the new government in 1997 was that the defence review would be foreign policy led, and would be as open and all-inclusive as possible, which required a structure capable of handling the diverse inputs that would result. The Secretary of State for Defence and his Department had to orchestrate and evaluate these inputs to produce a practical policy for the military support of Britain's foreign policy. Chapter 5, then, describes the

complex structure of committees and groups that was devised to accomplish this difficult task, and goes on to describe how the Review was conducted within this bureaucracy. In the British democracy, Parliament is the body that monitors and discusses the actions of the government, and this task was performed through debates in the two Houses and through the Select Committee on Defence. An account of these proceedings forms Chapter 6.

The views of as many participants as possible were gained through interviews, telephone conversations and the internet, and these inputs provide the fine grain of what otherwise would have been a broad description of bureaucratic structures. Strategy formulation is a human activity, with all that implies in terms of personality, vested interest, subjectivity, objectivity and the whole richness of social interaction. The proceedings of SDR were what they were and it would be pointless to speculate upon what differences might have emerged if 'X' had spoken instead of 'Y'. The SDR process tried to give all the Xs and Ys an opportunity to be heard and it cannot be held to blame if anyone missed the opportunity to affect the outcome. Finally, Chapter 7 is an analysis of the foregoing, leading to a conclusion which seeks to provide an answer to the research question.

Acknowledgements

I acknowledge with great thanks those who took the time to give me their account of SDR from the standpoint of a participant. Invariably they were men and women who hold or held important positions in our public life, and their willingness to talk to an academic researcher was most generous. Sadly, some central actors, notably Air Chief Marshal Sir John Willis, the Vice-Chief of Defence Staff at the time, who oversaw the process of SDR with the Second PUS, have passed away. Sir John was acknowledged as a powerful intellect in defence matters, and I was privileged to count him as a friend. His input to this study is sadly missed. Similarly, Sir Michael Quinlan, a distinguished civil servant, and Air Marshal Lord Garden are no longer with us, and they could have provided cogent comment. Those who did provide an input by interview to this study are listed in the Appendix to this Preface, and I owe them a great debt.

The Ministry of Defence was approached under the Freedom of Information Act for information on the Panel of Experts and they provided a wealth of

extracts from their files of the period. Their response exceeded anything I might have hoped for, and I am truly grateful for their generous response.

I have drawn heavily on Jackson and Bramall's excellent account of the British Chiefs of Staff system, which is well-researched, succinct and highly readable. I have referenced much of the use I have made of this book, but their account of the march towards centralised defence policy-making pervades my interpretation, particularly of the inter- and post-war periods. If I have made errors in this process, it is my fault and not theirs.

Air Chief Marshal Sir Joseph Gilbert made some cogent comments on my draft text, and his informed views of defence matters were very valuable.

The University of the West of England continues to support my research activities, and Judith Jordan, Head of the School of Strategy and Operations, in the Bristol Business School, and Professors Nicholas O'Regan and Derek Braddon provided welcomed encouragement and advice. Although many have contributed, the responsibility for any errors, omissions or misrepresentations remain the responsibility of the author, who, nevertheless, hopes that this work nudges our understanding of the strategy formulation process at least some way further forward.

Appendix to the Preface

List of Interviewees

Name	Current Post	Role in SDR
Mr Colin Balmer	Non-executive Director, Qinetiq	Director of Finance, MoD
Mr Jon Day	Ministry of Defence DGSecPol	Director on MoD Policy Staff under Mr Richard Hatfield qv
Admiral Sir Nigel Essenhigh	Chairman, Northrop Grumman UK	Assistant Chief of Defence (Programmes)
General the Lord Guthrie of Craigiebank	House of Lords	Chief of Defence Staff
Mr Richard Hatfield	Department for Transport Director General, International Networks and Environment	Deputy Under-Secretary (Policy)
Air Chief Marshal Sir Richard John	Retired	Chief of Air Staff
Sir Richard Mottram	Retired	Permanent Under-Secretary, Ministry of Defence
Air Vice-Marshal P.J O'Reilly	Retired	Director General, Technical Services President of the Ordnance Board
Lord Robertson of Port Ellen	House of Lords	Secretary of State for Defence
Sir Simon Jenkins	Journalist	Member, Expert Panel
Sir Kevin Tebbit	Chairman, Finnmeccanica	Deputy Under Secretary, Intelligence and Crisis , Foreign and Commonwealth Office

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Introduction

We are warned against starting any work with an apology but, in studying how conclusions are reached in matters of state, it is perhaps timely to be reminded of the wise words of John F. Kennedy (1963):

The essence of the ultimate decision remains impenetrable to the observer – often indeed, to the decider himself... There will always be the dark tangled stretches in the decision-making process – mysterious even to those who may be most intimately involved.

This study is of the process and conduct of a strategy review and uses the Strategic Defence Review (SDR) 1997–98 as a case study. Although interesting issues such as the structure of the Civil Service, ministerial responsibility, special advisors, economic policies, etc., come to mind, they are outside its scope. The study is concerned with *how* the Review was conducted and *what* resulted is of less interest. The content, however, does affect the process and is considered where necessary.

In studying the special case of the SDR, it is intended that the data and the analysis will contribute to the studies in academia of the difficult subject of how strategy is formulated. The work so far in this field has been largely descriptive and no general theory has yet been propounded. Indeed, it may be that no such theory can be formulated, and Thorngate's impostulate (1976:406) warned:

It is impossible for a theory of social behaviour to be simultaneously general, simple or parsimonious, and accurate.

The vast volume of data on SDR, given the very large number of people involved, could never be assembled, particularly as some of the notable participants are no longer with us. This study by that measure, is parsimonious. It is as accurate as possible but, by Thorngate's measure, cannot, therefore, be

general. Nonetheless, the aim here is to draw conclusions on how the resulting strategy was formulated and to refer back to extant, partial theories of strategy formulation. We proceed by small steps and hope that a pattern will emerge from the totality of strategy process research.

The Context and Setting

The SDR was a product of its time and so it follows that the context and setting for the Review, which are now addressed, are important for its assessment.

The day following the General Election, the outgoing Secretary of State for Defence, Mr Michael Portillo, tidied up his office and prepared to leave the Ministry of Defence (MoD), no longer in office and having lost his seat in Parliament. The news that he was leaving at eleven o'clock that morning quickly spread around the building and the MoD staff gathered in the corridors. As he left, Mr Portillo was loudly applauded: a singular event. The staff then returned to their desks and prepared to work for the new Secretary of State without partiality.

The centrist, New Labour party arose from reforms of the Labour Party whilst in opposition and these involved discarding policies such as Clause 4 (the public ownership of basic industries) and unilateral nuclear disarmament. On defence, New Labour still contained an anti-nuclear group and others were uneasy about the use of military force, although not outright pacifists. One result of this context was that New Labour needed to show to the public and the defence community that it was committed to defence and would deliver a policy designed to meet the nation's needs. Laffin and Alys' (1997) view was that 'Labour's task had been to build a "broad national cross-class appeal"' – an approach that might be seen to be mirrored in the SDR. New Labour sought a national consensus but Tony Blair (the Prime Minister) was quoted in the *'Guardian'* (8 April 1997) as saying, 'I accept the need for economic discipline and embrace the role of free enterprise in the economy' – public spending was to be held down. The Opposition needed to be included in this consensus because of the long reach of defence equipment programmes. Mr Richard Hatfield recalled (interview 20th April 2009) the difficulties the lack of such measure of agreement with the Opposition could cause within the MoD. In the view of McInnes (1998:826), however, 'Defence did not figure as a major or even a minor issue in the 1997 general election.'

After the New Labour Party won the 1997 general election and formed a government, it set about fulfilling its manifesto promises, one of which was to conduct a defence review. Their first problem was to devise a process for conducting this review. In opposition, Mr George Robertson had been the Shadow Scottish Secretary but in the government formed by the new Prime Minister, Tony Blair, he was made Defence Secretary, the Foreign Office post going to Mr Robin Cook. Mr Robertson's top team in 1997 were:

John Reid – Armed Forces Minister

Lord Gilbert – Defence Procurement Minister

John Spellar – Under-Secretary of State

Sylvia Heal – Parliamentary Private Secretary

Alasdair McGowan – Special Adviser

Richard Mottram – Permanent Under-Secretary

General Guthrie – Chief of Defence Staff

The defence policy resulting from SDR needed to identify priorities and options which would lead to decisions on force structures and equipment programmes which could be afforded. From the outset, it was decided that the review was to be foreign-policy led, with the hope of cost savings but not controlled by the Treasury, as in many previous reviews. Mr Robin Cook insisted that Britain's foreign policy was to be ethical and that Britain's armed forces would be a force for good in the world (a phrase probably coined by the now Sir Kevin Tebbit, who was then an Under Secretary in the Foreign Office). The whole government aspired to high principles, having made much of the 'sleaze' evident in the previous government.

Another requirement of the Review was that it was to be radical. Sir Michael Quinlan, a previous Permanent Under Secretary in the MoD, wrote to Mr George Robertson on 23rd December 1997 giving propositions for SDR, two of which were:

1. 'The outcome of the SDR needs to be one that has – and is seen from the outset as having – a reasonable prospect of substantially holding good amid resource constraints and competition through at least the life of the present Parliament.
2. "Little or no change" has little or no chance of being recognised as such an outcome by the media, the public, the Treasury and the armed forces themselves.'

(Enclosure 31 MoD File D/DefPol 16/7/3)

The incoming government appointed a number of 'special advisers' which affected the relationship of ministers and civil servants. Ponting (1986:243) wrote disparagingly about the way in which business was conducted in the 'Whitehall village' and had suggested that it was 'still run by a short-sighted political class and an amateur Civil Service élite, with tools devised in the nineteenth century'. He was only reflecting the earlier view of Sir Sidney Low (1904) who had pointed out that, not only were the Administrative Class civil servants amateurs but so were the Ministers they served. Lodge (2006) gave a more-recent view:

Whitehall has always prided itself on its ability to offer strong analytical policy advice to its political masters. Yet the almost exclusive focus on 'delivery' has meant significant problems in the way that policy is developed and managed in Whitehall [have been overlooked]. This is, in part, because consensus-building is inherent in Whitehall's culture, resulting in a tendency to produce policy which is timid and risk averse, often leading ministers to seek bolder thinking from outside bodies such as thinktanks and consultants.

Both documents call into question the efficacy of a system that relied upon the analytical skills of highly-intelligent generalists, rather than technically-qualified specialists. Specialists, however, may not be able to see the broader wood for the trees and, when our body of knowledge is rapidly expanding, may give yesterday's solution to today's problems. Although, in this view, the civil servants are generalists, many of them have spent most of their working lives in the defence field and are not without knowledge of its intricacies and also that of the Whitehall 'system'. Despite many attempts by successive governments to modernise this system (Fry 1981), the authors of the Trevelyan-Northcote Report of 1856 may well have recognised some elements in the style

of operations in Whitehall in the twentieth century. Civil servants now have training in management, finance and technology but the basic method is still 'learning by doing'. Nonetheless, there was an attraction for a Defence Review that was open to inputs from whomsoever felt that they had something to say. Despite this openness, the analytical work in the Review would have to be done in the MoD by the staff which would have to implement its decisions and be endorsed by the political leaders who would bear the responsibility for any errors or misjudgements.

Since all the recent defence reviews had been dominated by the Treasury's demands to save money, there was a widespread apprehension that SDR would follow the same course. As late as November 1997, during the debate in the House of Lords several noble lords expressed this fear.

Lord Gilbert said:

As your Lordships will know, this country has already received a substantial peace dividend since the end of the Cold War. Since the mid-1980s, defence expenditure in the United Kingdom has fallen by 29 per cent in real terms and now stands at 2.7 per cent of our GDP, which your Lordships may be surprised to know is the lowest level since the mid-1930s.

(Hansard: Column 1485)

This view was echoed by Baroness Park of Monmouth:

We already spend a lower percentage of GDP (2.7 per cent) than Greece or Turkey, let alone the US; less per capita than Norway, France, Denmark or the US; and less in actual expenditure than the US, France or Germany. Before Parliament returned from the Recess it was hardly reassuring to read in the Sunday Times of 12th October that the Treasury, 'intended to force the MoD into a huge disposal of land and other assets in order to finance its future equipment spending.

(Hansard: Column 1510)

Mr Robertson, however, was adamant from the outset that SDR was to be foreign policy led. In reality, the staffs involved knew that a resulting defence policy, the costs of which did not keep within existing financial limits, or even

show some savings from efficiency and cost-effectiveness, was bound to provoke powerful opposition from the Treasury. McInnes (1998:826) added that there was a further complication, 'the SDR became entangled in the Whitehall-wide Comprehensive Spending Review led by the Treasury. An early SDR would steal a march on the Comprehensive Spending Review and, from the Treasury perspective, might provide it with an unwelcome *fait accompli*.'

Patrick Wintour (1998) commented that Mr Robertson had to devise a structure for the Review that ensured that the heads of the three Services 'could not cook up some deal between them and present it as a *fait accompli*.' The power of the heads of the individual Services had been gradually eroded over the years, principally during the time that Lord Mountbatten was Chief of Defence Staff. The growth of the Central Staff lessened the independent management of the single Services but there still remained the possibility of 'side' deals being struck. As will be seen, this characteristic of governmental policy making, bargaining and the making of deals and trade-offs, has been recognised by Allison and Zelikow (1999) in their powerful analysis of the Cuban Missile Crisis of 1962.

The role of the MoD was to be the central, coordinating (not necessarily controlling) body in SDR and the Supporting Essays document, page 1 defined that Department's objectives:

- to produce a defence strategy, policy and programme matched to our security needs now and in the future;
- to help dispel hostility and to build and maintain trust through defence diplomacy and to play an effective and leading part in support of NATO, the Western European Union and the United Nations;
- to provide clear and timely strategic direction on the participation of UK forces in conflict prevention, crisis management and operations;
- to allocate available resources in a way which maximises military capability and other Departmental outputs;

- to encourage the competitive strengths of British defence suppliers and within the framework of the Government's arms sales policy, to support British defence exports.

The structure and processes to conduct the SDR needed to enable these objectives to be achieved. Routinely, defence matters are controlled by committees and Appendix 1 to this chapter shows the structure of the senior committees in this process. It may be helpful to the reader to have a picture of the higher organisation of the MoD and that can be found at Appendix 2 to this chapter.

The Civil Service staff, which had the responsibility for the details of the Review's structure and conduct, had gained valuable experience of such activities during recent internal defence reviews conducted under the previous government. They had, however, to add the further requirements imposed by the Secretary of State of which openness will have been the most difficult to introduce into the closed, secretive world of the MoD. Security precautions are necessary for safeguarding knowledge that could be of assistance to potential enemies, whose espionage activities were often targeted on the Ministry of Defence. This veil of secrecy had, in the view of journalists in particular, been used to prevent publication of information on failings in the system and its decisions. In SDR, however, even BBC cameras were allowed into the Ministry of Defence to make a documentary, entitled, '*A Paper War: inside Robertson's Defence Review*', which was screened on 31st May 1998. Sir Richard Mottram (interview 12th June 2009) recalled objecting to some scenes that depicted discussions in which junior military and civilian staff were talking 'rubbish'. The BBC's rejoinder, however, was that their agreement did not exclude showing rubbish but if it was classified rubbish, it would be deleted. The film was shown as a part of the openness that Mr Robertson had insisted upon in his Foreword to the Supporting Essays document:

Throughout the Review I have been determined to extend the principle of openness, to reflect this Government's commitment to open Government and to encourage informed debate on all aspects of our defence policy.

The Press, of course, showed considerable interest in SDR although their input at the time concerned the content of the Review, rather than the process that is the subject of this study. New Labour also held a fascination for journalists as Rawnsley (2001) shows. His book concentrated on the relationship between the Prime Minister and the Chancellor and barely mentions the SDR and George

Robertson. The exception is a brief discussion on page 159 in the context of New Labour's first budget, in which cash increases of £220 million and £500 million had been given to education and the health service respectively but in which the Chancellor was seeking to cut the defence budget. Rawnsley concludes that Brown was outgunned by a combination of the Chief of Defence Staff and the Secretary of State for Defence and his Minister for the Armed Forces. What Rawnsley does not record, however, is that the budget that emerged from the SDR process was cut by the Treasury by £2 billion, forcing unplanned savings.

The strategy and policy decided as a result of the SDR was intended to fit the United Kingdom's defence forces for the 'long term' and into the '21st Century' (Mr Robertson's introduction to the Review White Paper, Cm 3999). This laudable intention, however, was going to be difficult to achieve, given the inherent uncertainty of the future. The Review would be, to a certain extent, future proofed by specifying the military's tasks in a generic, rather than specific, way. Thus, types of missions were used to calculate force structures, rather than trying to identify particular opponents. Nonetheless, the outcome could always be argued as either too much or too little, depending upon one's point of view or agenda.

The open, foreign policy led, SDR was a bold innovation that needed to succeed to show New Labour's commitment to defence. If everyone was to be given the chance to make an input, there was no guarantee that such comments would have an impact on the outcome of the Review. Special arrangements were made to secure informed inputs from eminent figures in such fields as defence and industry by the formation of a Panel of Experts, who made their contributions into the highest level of the SDR structure. Inputs at a lower level came from the team that went around units of the armed forces seeking the opinions of those actually involved in delivering defence. The bureaucratic structure for the conduct of SDR benefited from the experience of the officials who had conducted internal reviews for the previous Government and permitted control of a very complex and costly exercise. The outcome was the White Paper, Cm 3999 'The Strategic Defence Review' and the 'Supporting Essays' which presented the policy that emerged from a year of intense activity.