

MANAGEMENT ACCOUNTING – BUSINESS STRATEGY

Jerome Payne focuses on Nike, the world’s biggest sportswear manufacturer, to demonstrate some common business strategy models.

The strategic models that P6 candidates need to be able to use can initially seem rather dry and difficult. The best way to understand how they work is to apply them to a real business. In this case, let’s use Nike.

Corporate strategy is all about the overall scope and direction of an organisation. It also indicates how managers are to add value, addressing topics such as product diversity, geographical coverage and owner expectations. It is vital that decision-makers are clear about their strategy, since it forms the basis for all other decisions.

The need for clarity has made mission statements increasingly popular. These general expressions of the organisation’s overall purpose are intended to reflect stakeholders’ expectations and

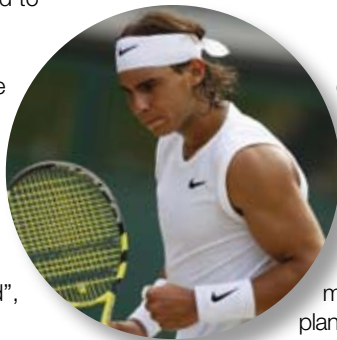
communicate the corporate values back to them. They can be thought of as the business’s *raison d’être*.

Nike’s mission statement is “to bring inspiration and innovation to every athlete in the world”, together with a quote from the company’s late co-founder, Bill Bowerman: “If you have a body, you are an athlete.”

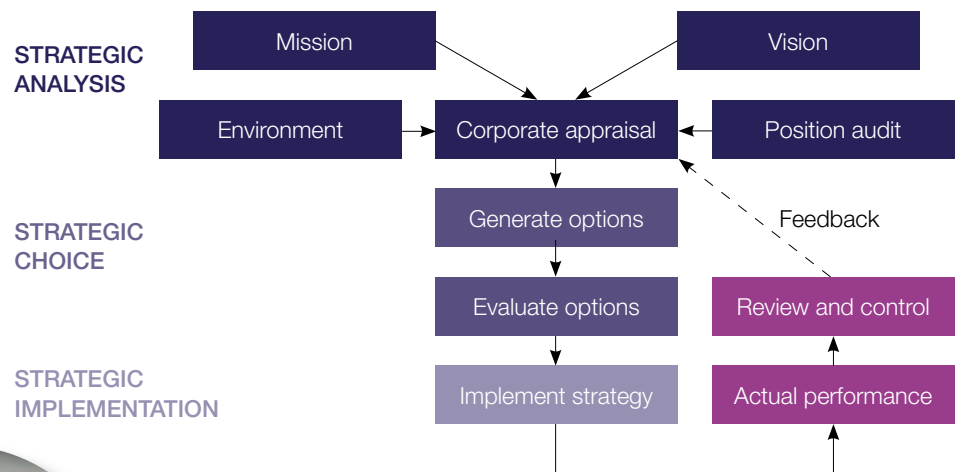
The company has expanded on its mission statement with 11 maxims that every employee can use to guide the decisions they make (see panel, page 55). It integrates these into the development of its entire workforce.

Nike is the most successful sportswear company in the world. According to Naomi Klein in *No Logo* (Flamingo, 2001), the Nike “swoosh” is more widely recognised around the world than the US flag. Its “Just do it” marketing campaign, launched in 1988, is one of the most famous ever produced.

The slogan is still familiar to millions. For strategy students – future business leaders hoping to emulate the success of Nike – a



1 Traditional strategic planning model



detailed examination of the connection between mission and strategy is crucial to understanding this success.

A company’s vision is the desired future state of the organisation. Along with the mission, it is crucial to the strategic planning process. Strategists try to

focus the energies of the workforce on the corporate vision. Nike’s maxims are an excellent example of how to communicate the mission and vision throughout an organisation.

In essence, the traditional strategic planning process entails finding answers to three key questions: where are we now, where do we want to be and how are we going to get there? Various models of this process have been defined by different academics. One of the most familiar of these is represented in diagram 1.

Many functional strategies are developed using processes based on this traditional strategic planning model. A good example of such a strategy-making process is that of the marketing planning model (see diagram 2, page 55). The Chartered Institute of Marketing

defines marketing as “the management process responsible for identifying, anticipating and satisfying customer requirements profitably”. Marketing objectives are developed using two streams of information: one derived from the organisation’s overall business strategy; the other from a marketing audit.

The marketing audit involves an analysis of the organisation’s products and competitive environment, together with a detailed review of its customers. The latter entails identifying customers’ attitudes and behaviour, and their relationship with the firm and its products.

Henry Mintzberg argued that the strategy enacted by an organisation is a combination of outputs from formal strategy-generation processes and from what he called “emergent strategy” (*Mintzberg on Management*, Free Press, 1989). The orthodox view of strategic action is that it results from a deliberate process – ie, strategic planning takes place first, then action results. Such a view tells only part of the story. It ignores the possibility that action may result from strategy that emerges from sources other than a formal process. Mintzberg’s emergent strategies come about through everyday processes. They often

occur as a result of learning from mistakes or as a flexible response to a fast-changing competitive environment.

To use a musical analogy, a composer might play a score he has written and find that he isn't happy with it. He may amend a few bars, find that it's better but not quite right and so on, until the finished piece eventually emerges. The orthodox view of strategy would have the musician create the perfect score first time. The final product results both from the initial idea (formal strategy) and the learning process (emergent strategy).

One of the prime sources of emergent strategy is organisational culture. This has many sources, including the corporate mission and the retelling of key events from the organisation's history. An anecdote about Bowerman provides an example of such a story: he claimed that his design for the sole of Nike's first set of running shoes was inspired by the shapes of his wife's waffle-maker. Their soles would both grip well and be lightweight. This story illustrates an aspect of Nike culture and the implementation of

2 Marketing planning – key steps



emergent strategy through innovation and the incorporation of chance events.

Although initially developed for training purposes, Nike's maxims are an excellent illustration of the organisation's culture. They encourage employees to value innovation, the brand and the customer – and also to move fast in exploiting new opportunities. The strength and cohesiveness of this culture across Nike's global operations has made it easier for the company to exploit emergent strategy and expand the brand into new markets. For example, Nike moved beyond making running shoes in the eighties and now produces a wide range of apparel for all manner of sports.

It should be clear that organisations enact a combination of deliberate and emergent strategy. A company's mission and vision are key sources of emergent strategy. An organisation with a strong, coherent culture can use emergent strategy to gain significant competitive advantage over its rivals.

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Nike's 11 maxims

1 "It is our nature to innovate." The company sees innovation as one of its core organisational competencies.

2 "Nike is a company." Nike is a profit-making entity and it achieves this goal very well. In the quarter ended August 31, 2007 it reported that its net income was up 51 per cent on the same quarter in 2006.

3 "Nike is a brand." The "swoosh" logo is instantly recognisable around the world. Nike sees this as the symbol of its global leadership. It will enter only those markets that it thinks it can dominate. It says: "If we can't lead it, we don't need it."

4 "Simplify and go." Nike products have short life-cycles in terms both of technology and fashion. The company believes that making quick yet skilful decisions is key to its success. This aspect of Nike's vision, together with the seventh maxim, is particularly powerful in articulating the company's hugely successful use of emergent strategy.

5 "The consumer decides." The company is keenly aware of the sophistication of its customers and it treats them as its key stakeholder.

6 "Be a sponge." Employees at Nike are encouraged to be curious and open to new ideas, whatever their source.

7 "Evolve immediately." Nike sees itself as being in perpetual motion – viewing change as a key source of innovation. This attitude can easily be observed in the wide range of products that Nike offers its consumers. It is another example of the company's use of emergent strategy to good effect.

8 "Do the right thing." Nike thinks of itself as a responsible global citizen, embracing the stakeholder view of corporate social responsibility. It encourages its people to be honest and transparent and to promote diversity and sustainability.

9 "Master the fundamentals." All the innovation in the world is useless if you can't put it

into action. A crucial part of Nike's success is its ability to refine its performance – the recent growth in profits suggests that it's achieving this.

10 "We are on the offence – always." To stay ahead in an extremely competitive environment, Nike urges its people to act like leaders in their field to achieve victory.

11 "Remember the Man." The late Bill Bowerman is still held in high esteem throughout Nike, both for his understanding of athletes' needs and for his innovative spirit. Even from the grave he exerts a strong cultural influence on the organisation he helped to start – to the extent of being quoted in its mission statement.