Key approaches and trends in strategy

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Prepared by Louise Ross and Technical Information Service

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About Topic Gateways

Topic Gateways are intended as a refresher or introduction to topics of interest to CIMA members. They include a basic definition, a brief overview and a fuller explanation of practical application. Finally they signpost some further resources for detailed understanding and research.

Topic Gateways are available electronically to CIMA members only in the CPD Centre on the CIMA website, along with a number of electronic resources.

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Our information specialists and accounting specialists work closely together to identify or create authoritative resources to help members resolve their work related information needs. Additionally, our accounting specialists can help CIMA members and students with the interpretation of guidance on financial reporting, financial management and performance management, as defined in the CIMA Official Terminology 2005 edition.

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The Chartered Institute of Management Accountants
26 Chapter Street
London SW1P 4NP
United Kingdom

T. +44 (0)20 8849 2259
F. +44 (0)20 8849 2468
E. tis@cimaglobal.com
www.cimaglobal.com
Key approaches and trends in strategy

Definition

Strategy is how organisations create and sustain superior performance. It is defined as:

‘A course of action, including the specification of resources required, to achieve a specific objective.’

*CIMA Official Terminology, 2005*

Corporate strategy is expressed in a strategic plan, the top level of a cascade of plans for the various functions and divisions, and is defined as:

‘A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of these goals.’

*CIMA Official Terminology, 2005*

The relationship of divisional or functional strategy to policy making and lower-level (operational) planning is illustrated below.

<table>
<thead>
<tr>
<th>Policies</th>
<th>Manufacturing example</th>
<th>Service example</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Produce technically superior products</td>
<td>Offer low-cost services and cultivate brand awareness</td>
</tr>
<tr>
<td>Strategy</td>
<td>Spend &gt;15% of gross revenue on research and development</td>
<td>Local price setting to undercut competition</td>
</tr>
<tr>
<td>Tactics</td>
<td>Recruit engineers from the best university technology courses</td>
<td>Price deals to boost volume</td>
</tr>
<tr>
<td>Operational planning</td>
<td>Monitor customer feedback on product performance</td>
<td>Systematic use of brand awareness feedback</td>
</tr>
</tbody>
</table>

*Adapted from Fig 1. Ten CIMA Official Terminology (2005)*

The implementation of strategy requires the collection and monitoring of both internal and external data. This is known as strategic management accounting, defined as:

‘The form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information.’

*CIMA Official Terminology, 2005*
Context

In the current syllabus, CIMA students will learn and may be examined on this topic in the following papers:

Managerial level: P4 Organisational Management and Information Systems and P5 Integrated Management

Strategic level: all papers

TOPCIMA

Related concepts

The other (lower level) types of planning are discussed in the Planning and Forecasting topic gateway. Available from: www.cimaglobal.com/mycima [Accessed 12 March 2008]

Two specific tools which assist with the planning and implementation of strategy are also the subject of specific topic gateways, namely the Balanced Scorecard and the CIMA Strategic Scorecard™. Available from: www.cimaglobal.com/mycima [Accessed 12 March 2008]

Overview and brief history

There is a huge body of work on corporate strategy, and useful insights from both the academic or practitioner perspective. The overlap between the two seems considerable – academics practise as consultants and robust ‘field work’ is published by consulting firms, sometimes in quality business magazines.

This topic gateway has to be selective, but will include links to other resources so that readers interested in, for example, influential theorists can identify those other than the few listed here. It is important also to point out that there are both advocates and critics of strategic planning.

Broadly, there are two aspects to strategy:

- planning (or strategy formulation)
- implementation.
Strategy is about giving direction, rather than specific commands. The hallmark of an effective strategist is that he or she considers all the relevant factors in proportion to their significance. However, he or she is able to make decisions quickly as a result of this analysis, rather than panic or caprice. Strategy should also be developed in the context of the ultimate purpose of the entity. This might be to build shareholder value (in the case of companies) or to serve the public good (in not-for-profit entities).

However, critics question whether making strategic plans is as useful to large organisations as seizing opportunities or coping with disasters as they arise. Henry Mintzberg, one of the most influential writers on strategic planning, argues that planning can corrode commitment and prevent change. In his book 'The Rise and Fall of Strategic Planning', he concludes that planning and strategy are mutually exclusive activities, and considers the term strategic planning to be an oxymoron.

To an extent, these apparently opposing views can be reconciled. Advocates of strategic planning explain they are not creating inflexible plans which cannot respond to unexpected events. They argue that strategic planning contains the guiding principles which provide direction so that the organisation can respond to such events.

These different positions on corporate strategy are reflected in its history. After the Second World War, many concepts about strategy were translated from the military into the corporate world. In the 1960s, strategy meant complex and detailed planning based on economic models and detailed forecasts. The credibility of this approach was undermined in the following decades as a result of the impact of significant oil price rises (meaning the assumptions underlying the plans had to be revised). There was also the success of many Japanese companies, for whom detailed planning was apparently less of a priority.

One of Mintzberg’s earlier contributions to the field was to categorise different approaches to strategy-making. In 1973, he suggested these were:

- the adaptive
- the entrepreneurial
- planning.
Other approaches or 'schools' were added subsequently by Mintzberg, Ahlstrand and Lampel. They are explained and critiqued here for those who wish to explore the theory further.  

www.1000ventures.com/business_guide/mgmt_inex_stategy_10schools.html  
[Accessed 12 March 2008]

Another influential theorist was Michael Porter, who invigorated the field in 1980 by arguing that corporate strategy should be based on the conditions of the industry, and the company's relative position in that industry. Organisations should identify their strengths (or 'core competencies') and concentrate on or discover markets where those skills could be exploited. The concept of core competencies was relevant for both organic and acquisitive growth, informed diversification and divestment strategies.

Porter’s focus was on the interface between the organisation and its environment. Competencies Theory was developed into a more 'inside out' focus when Gary Hampel and C. K. Prahalad published their core competencies model in 1990. They took as the starting point for strategy development the core strengths of the organisation, and advised that a core competence was recognised by:

- providing potential access to a wide variety of markets
- making a significant contribution to the benefits of a product as perceived by customers
- being hard to replicate by competitors.

Management’s role was to create the environment to facilitate the creation of these core competencies. The competencies themselves were intended to equip entities to adapt quickly to changing environments and to produce innovative, even unexpected, products.

Around the same time, Jack Welch (whose perspectives still influence many business leaders) disbanded his company's planning department of about 200 staff at General Electric in the USA. He argued that the planners were divorced from the front-line, and were too concerned with planning in detail and not enough on competitive positioning and identification of potential markets. Welch devolved responsibility for strategic planning to the heads of GEC’s 12 business units, expecting them to be more responsive to change.
This emphasis on strategies to equip organisations to manage change has only increased in recent years. It is due to more volatile economic conditions, and technological and demographic changes. The most recent strategic developments have been in areas such as e-business, alliances and other collaborative arrangements. The current trends in strategic thinking can be gauged by tracking the influence of various thinkers.

One example is a 2003 survey of 'business intellectuals' carried out by Accenture's Institute for Strategic Change. This combines a description of each individual's area of expertise, with a popularity ranking based on citations and internet searches.

[Accessed 12 March 2008]

Another ranking can be found at: www.thinkers50.com/?page=commentary
[Accessed 12 March 2008]

**In practice**

The pendulum seems to be swinging back to a realisation that effective strategy formulation and execution are critical to business success. Two recent surveys of determinants of success (both 2003) indicate that:

- devising and maintaining a clearly stated and focused strategy is one of the four primary management practices which determine success. [Nohria et al’s survey of business tools].
- the four key strategic issues are: choice and clarity of strategy; strategy execution; ability to respond to abrupt changes and/or fast-moving market conditions; and ability to undertake successful mergers and acquisitions. [Enterprise Governance, the CIMA/IFAC analysis of corporate failures and successes].

A common thread in the literature is that more attention seems to be paid to planning than execution – and it is poor execution which lets organisations down. Deloitte surveyed more than 120 senior executives in 2006 and found that poor execution of strategy was the factor identified by respondents as most likely to hinder their company’s growth in the next three years.

Only 3% of companies are ‘very successful’ at executing corporate strategies, according to a 2006 survey carried out by the American Management Association (AMA) of more than 1500 executives and managers. It identified
several impediments to the effective execution of strategy:

- poor communication
- lack of focus
- inability to overcome resistance to change
- poor alignment of day-to-day activities to strategic plans.

The AMA created a Strategy Execution Index (SEI) based on respondents’ answers to questions about how their organisations implemented strategy. It demonstrated that it was the better performing organisations (in terms of five year trends for revenue growth, market share, profitability and customer satisfaction) which were better at strategy execution.

The survey concluded that there was often a relative skills shortage for execution compared to planning, and that execution was complicated by a lack of tools to monitor strategy implementation. It predicted that strategy execution would improve as executives and managers learned how to align operational activities to strategy.

There are a plethora of strategic tools available to help with both planning and implementation. These include but are not limited to:

- the Boston Matrix (to assess a portfolio of products)
- Handoff’s Matrix (to choose new directions)
- SWOT analysis (a framework for analysing the factors which influence an organisation, also known as TOWS by those who like to prioritise the externally focused elements of this framework. Business Source Corporate includes more than 500 SWOT analyses of different companies or groups from Datamonitor)
- STEEPLE analysis (another framework for analysing the macro-environment, superseding PEST and PESTEL)
- value chain analysis (describing the chain and considering your place in it)
- Porter’s Five Forces (for competitor analysis)
- stakeholder analysis (to identify and assess the importance of key people, groups or bodies which influence your plans)
- industry analysis (identifying how the economic structure of an industry affects an organisation’s competitive strategy)
• strategic capability and critical success factors (evaluating an organisation’s current strategic strengths and identifying those factors which must work for an organisation to achieve its mission)

• benchmarking

• McKinsey’s seven S framework describes how an organisation operates, and which factors are necessary for effectiveness. The core ‘S’ is Shared Values, and the six interconnected factors are structure, systems, style, staff, skills and strategy

• scenario planning

• strategic option grid

• Balanced Scorecard (a framework to translate strategy into specific measures or goals, limited in number, which balance internal and external measures across four dimensions). and can be used in conjunction with strategy maps

• strategy maps (to visualise and communicate strategy). The map is developed by first identifying an overriding objective and a dominant value proposition, then identifying subsidiary strategies for the four quadrants of the Balanced Scorecard. Thus the map communicates the strategy, the scorecard helps implement and monitor it. The management accounting guideline Using Strategy Maps to Drive Performance explains the process in more detail and contains examples.

Frost’s article listed under Further information gives a fuller list. Strategic plans are distinguished by the inclusion of data from outside the organisation – such as economic or sector trends, and competitor, supplier or customer behaviour. The best tools are those which combine such an external perspective with internal measures so that the organisation’s performance and intentions can be put in context.

A recent and proprietary development of CIMA’s is the CIMA Strategic Scorecard™ which is the subject of its own topic gateway. Briefly, the CIMA Strategic Scorecard™ is a framework that provides a process for strategy development. In particular, it provides the board of an organisation with an effective means for engaging in the strategic process.
The CIMA Strategic Scorecard™ represents all the aspects of strategy that a board needs to consider in a summarised and consistent format. It helps boards focus and balance the time they spend on the relevant issues – in this case, strategic and governance issues.

Another solution to the problem of effective strategy execution is suggested by recent research from Deloittes, who analysed organisations known for effective strategy execution. It concluded that a more active and central role for finance contributed to this effectiveness.

Why strategies fail

One reason strategy fails is that the different strategies within the organisation are not congruent – they act against each other rather than in concert.

An inappropriate corporate strategy is potentially more dangerous. It can lead to making poor M&A decisions - paying too much for acquisitions, choosing the wrong investments and diverting resources away from existing successful business units. It can demotivate managers of business units, and destroy accountability. Also, it can impede and stultify the responsiveness of the entire organisation.

Arguably, corporate strategy should focus on the major transitions of the organisation, especially when it is at a turning point, crisis or faced with acquisition or divestment decisions. Business units should be free to develop their own strategies.
Alternatives to strategic planning

In addition to Henry Mintzberg, there are other critics of strategic planning who consider it an unnecessary and bureaucratic process, which is overrated.

Some argue that planning is a formal process, and this formality itself limits its potential. They state that forecasting over the long-term is inherently inaccurate and not a good basis on which to firmly commit plans. In addition, few managers understand sufficiently the factors which drive their business. Those against strategic planning argue that there is evidence that few companies make big gains from formal strategic planning (Mintzberg 1994, Starbuck 1992).

Some argue that a carefully planned strategy may be no more successful than a randomly evolving strategy. They believe that strategy outcomes cannot be predicted and it is more important that organisations are innovative and flexible enough to adapt according to whether that innovation succeeds or fails (Ormerod 2007 and Raynor 2007).

Further information

Articles

Full text articles from Business Source Corporate available from: www.cimagloba.com/mycima
[Accessed 12 March 2008]


Deevi, S. The strategy paradox: why committing to success leads to failure and what to do about it. Research Technology Movement, July/August 2007, Volume 50, Issue 4, pp 4-10


Hinterhuber, H. and Wolfgang, P. Are you a strategist or just a manager? Harvard Business Review, January/February 1992, Volume 70, Issue 1, pp 105-113


Morse, G. *Set up to fail.* Interview with economist Paul Ormerod on strategy and extinction. Harvard Business Review, June 2007, Volume 85, Issue 6, p. 28

Raynor, M. *Solving the strategy paradox: how to reach for the fruit without going out on a limb.* Strategy and Leadership, 2007, Volume 35, Issue 4, pp 4-10

**Books**


Raynor M. (2007). *The strategy paradox: why committing to success leads to failure (and what to do about it).* Currency

Surveys of practice

https://secure.amanet.org/login/enterEmail.cfm?next_url=/research/pdfs/keys-to-strategy-execution.pdf
[Accessed 12 March 2008]

Guidance

CIMA Strategic Scorecard™ – executive summary and full report. Available from:
www.cimaglobal.com/researchexecsummaries and
www.cimaglobal.com/executivereports
[Accessed 12 March 2008]

Management Accounting Guideline: Using strategy maps to drive performance. This tool is also discussed on Business Source Corporate. Available from:
www.cimagloba.com/mycima
[Accessed 12 March 2008]

On best behaviour - sound advice on strategy execution. Deloitte’s advice is to combine a behavioural approach with breaking down strategy into a series of ‘value events’, critical events which must happen to achieve strategic goals.
www.deloitte.com/dtt/cda/doc/content/UK_Cons_best_behaviour%281%29.pdf [Accessed 12 March 2008]

CIMA Mastercourses

The myths and context of strategy. To book via www.cimaglobal.com please go to Find and key in the course code TMCS.

Strategies of the Serengeti. To book via www.cimaglobal.com please go to Find and key in the course code SOTS.

Strategic thinking, influencing and implementation. To book via www.cimaglobal.com please go to Find and key in the course code STII.
Websites

Accenture monthly online newsletter ‘Strategy in action’.
[Accessed 12 March 2008]

Strategy + Business
Online version of the business magazine, published by the consulting firm Booz Allen Hamilton. www.strategy-business.com
[Accessed 12 March 2008]

McKinsey Quarterly
Strategy in practice pages from the consulting firm McKinsey.
[Accessed 12 March 2008]

The Manager.org
Links to information to theorists and writers on strategy. www.themanager.org/Knowledgebase/Strategy/Gurus.htm
[Accessed 12 March 2008]