# The Changing Nature of Strategy Development—Supporting Management Thinking

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**ABSTRACT:** *Strategy development has always been considered an essential activity of management. The purpose of strategy is to provide direction, concentration of effort, constancy of purpose, and flexibility as the business strives to improve its position. Strategy has never been more important than in today's world of eBusiness. Yet, many organisations seem unprepared to cope with this new business environment. Management has been quick to grasp at fads and fixes without understanding the nature of strategy. This paper provides a brief review of each of several schools of management thinking and suggests an approach to strategy development for the digital era.*

*Key Words: Strategy, eCommerce, Systems Thinking*

## INTRODUCTION

For many years, the strategy literature has tended to adopt "a formal-rational view of organisations as systems with coherent purposes and shared goals" (Walsham quoted in Currie, 1995). But a wide gulf has been highlighted between strategic planning theory and reality with Mintzberg (1994) demonstrating that formal rational frameworks too often fail to influence or explain corporate success or failure. In the digital era, many age-old notions of strategy are going out the window. A recent survey of 375 IT managers and business executives found that in the rush to develop eBusiness applications few organisations had even taken the time to formally develop strategy or plan new initiatives (Wilder, 1999).

Yet, with the increasing pace of business, strategy development has never been more important than it is today. We are living in a world that seems to be constantly changing. Markets are being deregulated and destablised, new opportunities abound for the quick footed, but for the not so nimble, these opportunities just as rapidly disappear. New technologies, systems and eCommerce applications are presenting management with a once in a lifetime opportunity to rewrite the business rules and radically change the ways of business forever (Corcoran, 1999). Nevertheless many organisations seem unprepared to cope with this new business environment. Kirkbride (quoted in Chattel, 1998:6) writes that these companies "look as if they are frightened rabbits … caught in the headlights of an oncoming car."

## BUSINESS IN THE DIGITAL ERA

Several characteristics mark the new digital era:

1. There has been a dash to establish dominance in new markets. Being first is seen as more important than doing it well. One CEO of a major corporation is quoted as saying that he approved a seven figure budget request from the firm's Director of eCommerce in less than ten seconds because being first to market in the industry was a non-negotiable imperative (ibid:56).

2. Virtual marketing has revolutionized selling and customer relationships. Organisations can now easily collect, analyse and act upon the vast quantities of information available. Individual customers can be targeted, and in the age of mass customization, it is possible to tailor products to the specification of individuals.

3. New methods of distribution have led to both disintermediation and reintermediation. The power of new technologies has transformed the structure of the value chain and changed the nature of entire industries.

4. Communications have opened up new opportunities for business and increased access to customers. Today, eBusiness applications are providing 24-hour-a-day, 7-day-a-week access to businesses anywhere in the world.

5. Technology has been not only a catalyst for change but it actually seems to be driving many developments. In these organisations the danger is that technology can end up being "the tail that is wagging the dog".

These factors have been the short-term catalyst for new business opportunities but there is little chance of long-term success without a clearly defined and aligned business and IT strategy.

## WHY STRATEGY FORMATION IS DIFFICULT

Strategy is, and remains, difficult to define because its very nature is constantly changing. Mintzberg (1998:8) succinctly summarizes the situation when he says, "At the limit, strategy formation is not just about values and vision, competencies and capabilities, but also about military and the Moonies, crisis and commitment, organisational learning and punctuated equilibrium, industrial organisation, and social revolution." Strategy is the intangible element that drives organisations yet is so hard to put into words.

Strategy formation is even more problematic in the digital era, not only because of the innovative thinking involved, but also because for every advantage associated with pursuing a defined strategy there seems to be a disadvantage. Four examples that Mintzberg (ibid:15) gives are:

1. If the purpose of strategy is seen as "setting direction" then the main advantage of strategy is that it charts a course for the organisation, but strategic direction can also serve as a set of blinders to hide potential dangers.

2. If strategy is seen as way of "focussing effort" then the advantage is that it promotes coordination of effort and commonness of purpose but a possible disadvantage is that *groupthink* may discourage looking for other possibilities.

3. If strategy is seen as a way of "defining organisation" it can provide people with a way to understand their organisation and distinguish it from others but a disadvantage is that by defining the organisation too sharply, it may also mean that much rich complexity of the system is lost.

4. If strategy is seen as "providing consistency" the advantage is that it can reduces ambiguity and provide order, but the disadvantage is that if the strategy is too simplified it may have a misrepresenting or distorting effect.

Several studies (Lederer and Sethi, 1988; Earl 1993, Bhide, 1994) have shown that organisations devoting significant time and effort to formal planning appear to be little better off than those that have expended less time and effort. The study by Bhide found that of the 500 fastest growing organisations in the U.S. in 1989, 41% had no business plan at all and 26% had just rudimentary, back-of-the-envelope type plans. This "success without planning" paradox has resulted from a need to quickly adapt to constant changes to the business environment, discontinuity of senior management, the steady influx of new technologies, and a complexity of systems. It is perhaps true that in some cases strategic planning can be overdone such that "many beneficial and worthwhile elements of planning become stigmatised by those elements that have been oversold" (King, 1985).

## SCHOOLS OF STRATEGY DEVELOPMENT

Management has often been quick to grasp at fads and fixes without understanding the nature of strategy. A substantive review of several decades of strategy development by Mintzberg, Ahlstrand and Lampel (1998) led to the naming of ten so-called schools of management thinking—from the design, planning, positioning, entrepreneurial, and cognitive schools to the learning, power, cultural, environmental, and configurational schools. Each of these schools with its key identifying characteristic is shown in Table 1.

| Strategy School | Where strategy formation is- |
| --- | --- |
| The Design School | A process of conception |
| The Planning School | A formal process |
| The Positioning School | An analytical process |
| The Entrepreneurial School | A visionary process |
| The Cognitive School | A mental process |
| The Learning School | An emergent process |
| The Power School | A process of negotiation |
| The Cultural School | A collective process |
| The Environmental School | A reactive process |
| The Configuration School | A process of transformation |

Table 1. Views of strategy

The first three schools, the Design, Planning and Positioning Schools are described by Mintzberg as prescriptive in nature being more concerned with how strategies should be formulated rather than how they necessarily do form. The Entrepreneurial, Cognitive, Learning, Power, Cultural and Environmental schools consider specific aspects of the process of strategy and are seen to describe how strategies do in fact get made rather than prescribing ideal strategic behaviour. The Configuration school clusters the various elements of strategy making to describe life cycles of organisations. Each school has had a period in which it was prominent in the management thinking literature. Mintzberg (1998:7) adds, "a few have already peaked and declined, others are now developing, and some remain thin but nonetheless trickles of publication and practice".

Each school of strategy development proposes a structure in which we use can understand the complexities of the strategic management process. To this end, the tools and analytical methods of each approach allow us to identify opportunities, see the organisation in its environment, understand the resources available to the business, and the risks of action versus non-action. The main contribution of Mintzberg in describing these schools of thought is the discussion of the nature of strategy. Yet, since the business environment in which these theories were developed is vastly different from today's world of eBusiness; we should ask, "are these ideas still relevant today?"

## STRATEGY DEVELOPMENT IN THE DIGITAL WORLD

Strategy development in the world of eBusiness appears to be based around three main schools of thinking. Firstly, the Entrepreneurial school where strategy is seen as a visionary process. Secondly, the Positioning school where strategy takes direction from the desire to reposition the organisation after analysing the forces acting upon the business. Thirdly, the Environmental school where strategy is created out of a reactive process.

In the Entrepreneurial school, strategy is typically built around a single leader and innate mental processes—intuition, judgement, wisdom, experience and insight. Entrepreneurs are seen as action people who like to make things happen. They have been described as those who are (Williams, 1999):

- aggressively ambitious and highly competitive;
- moderate risk takers;
- highly tolerate of ambiguity and uncertainty;
- determined, optimistic and persistent; and
- very future oriented.

Stevenson and Gumpert (1985:86) suggest that the set of questions that an entrepreneur typically asks are: "Where is the opportunity? How do I capitalize on it? What resources do I need? How do I gain control over them? What structure is best?" The Entrepreneurial school promotes strategy formation as a process of developing a vision which serves both as inspiration and a sense of what needs to be done. The key in the digital age is that entrepreneurs move "quickly past the identification of an opportunity to its pursuit" (ibid:88).

The *Positioning* school holds the premise that strategies are generic identifiable positions in the marketplace. Strategy formation is the process of selecting one of these generic positions based on a review of the strategic options. The Positioning school originally grew out of origins from the military maxims of Sun Tzu (1971) and others, but has been refined by the writings of Porter (Mintzberg, 1998:85). Porter's (1985) Model of Competitive Analysis has been used extensively to understand and

evaluate the structure of an industry's environment and threats of competition to a specific company. Thinking competitively is an essential element of developing strategy because information systems are making new ways of competing possible. Porter tells us that competition in an industry is based on five forces—the bargaining power of buyers and suppliers, examining the threat of new entrants and substitute products, and inter-industry rivalry. Porter argues that only by understanding how these five forces work in the industry and how they affect the company can we assess the competitive risks as a first step to developing a strategy. Porter's generic strategies of cost leadership, differentiation, and focus define ways of achieving above average performance. Actions available to be taken can be identified by use of the Value Chain model. This model focuses internally within an organisation and was developed as a systematic basis for examining all the activities that a firm performs and how they interact. The value chain concept says that products or services pass through multiple functions within an organisation, the objective should be to maximise the value adding activities while minimizing those that do not add value.

The *Environmental* school sees the organisation as passive; something that spends more time reacting to the environment which actually sets the agenda. The "environment" is seen as a set of general forces that become the central actor in the strategy making process, the organisation has to respond to these forces to survive. Mintzberg (1998:288) states that the environmental school has "its roots in contingency theory, which opposes the confident assertions of classical management that there is just 'one best way' to run an organisation. To contingency theorists, strategy depends on the size of the organisation, its technology, the stability of its context, external hostility, and so on.

Each of these three schools of strategy-making are best suited for use in the digital era for several reasons. They explicitly recognise that:

1. Strategy is about meeting challenges and uncovering opportunities.
2. Strategy is a process of continual adaptation.
3. Strategy allows the organisation to deal with complexity and uncertainty.
4. Strategy is about a setting a level of risk-taking.
5. Strategy provides direction and defines the rules of business.
6. Strategy is a way of delivering growth.
7. Strategy development is both a deliberate and emergent process.

## APPLYING SYSTEMS THINKING TO STRATEGY DEVELOPMENT

In this paper, it is suggested that apart from the Entrepreneurial, Positioning and Environmental schools, the best chance of success in the strategy formation process is to use the approach of the Learning school. This is an approach that closely relates to the ideals of systems thinking. *Systems thinking* can play an important role in strategy development by *supporting organisational understanding and learning* and relating the everyday activities carried out within an organisation to its larger vision, mission, values, and goals. Systems thinking allows people to look at an organisation in an open and holistic way and review how the business interacts with its environment at every level. Senge (1996) notes that, in applying the systems approach to a problem, "resolutions come from thinking about how one deals with complexity .... when a group of people collectively recognise that nobody has the answer, it transforms the quality of that organization in a remarkable way."

Soft Systems Methodology (SSM), originally developed by Checkland (1981) and further developed by Checkland and Scholes (1990) and others, is a well-developed approach to systems thinking that can be used to explore strategic IS opportunities and foster organisational learning. The methodology is explicitly holistic, and recognises that different players may have different views about the aims, objectives, and purposes of the organisation, these being influenced by social and personal contexts, and individual experiences and values. These individual, social, cultural, and 'values' issues are explicitly dealt with in the context of strategy development. Checkland (1981) suggests that it may be necessary to "pause and reflect" during the initial stages of thinking, especially when dealing with expression of the problem situation, and to temper peoples' "over-urgent desire for action". SSM does not seek technological solutions to problem situations, but *systemic* solutions, which may be aided by the application of technology. It involves an iterative process of thinking about problem situations, developing 'rich pictures' and 'root definitions' of the situation, building conceptual models of relevant human activity systems, comparing models with the real world, and taking action to modify the real world situation.

In the context of a learning approach, SSM sets out in the first instance to *understand* the existing environment and to generate potential *new views* of it. SSM is designed to generate possibilities for *change*. The process emphasises thinking about the system in the way it should be, *then* considering the existing system as it is and making appropriate changes. It also allows for the consideration of the

most interesting questions, including the purpose and meaning of strategy. Checkland describes one of the primary aims of SSM as being the generation of "radical thought". In this sense, SSM has been shown to be particularly capable of "making the transition from present to future" (Galliers, 1992).

## CONCLUSIONS

Today organisational maturity in strategy formation is exhibited by linkage and integration of IS and business strategic planning processes, by ensuring a broad degree of genuine involvement in planning processes, and by adopting open, flexible approaches to strategy development. Viewing strategic decision-making as a *learning* process, which considers the changing environmental, political, cultural, and other factors facing an organisation, as well as development of strategy as part of an *ongoing* process should be a key feature within all organisations. These ingredients of strategy formation can contribute directly to the ultimate success of strategy processes and of the organisation itself.

The importance of strategic thinking and strategy formation as a *process of learning* and synthesising what is learnt into the development of future directions for the organisation can be a central path to success. In this context, the learning process must involve a broadening of the issues considered not a narrow focusing on single issues. We must constantly encourage business to challenge the use of structured planning methodologies to 'see' windows of opportunity or cope dynamically with a constantly changing business environment. Organisations must be aware of the many different approaches to strategy formation and the work of Mintzberg and his colleagues has highlighted these options. The final question then becomes not just which school of strategic thinking is best, but when and where each approach can be best used. Only then can managers move beyond strategic planning and, as Pascale (1982) says, "get on with the acting".

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