EXPLORING STRATEGY

TEXT AND CASES

ELEVENTH EDITION

GERRY JOHNSON
RICHARD WHITTINGTON
KEVAN SCHOLES
DUNCAN ANGWIN
PATRICK REGNÉR

Pearson

WELCOME TO
EXPLORING STRATEGY

Strategy is a crucial subject. It's about the development, success and failure of all kinds of organisations, from multinationals to entrepreneurial start-ups, from charities to government agencies, and many more. Strategy raises the big questions about these organisations – how they grow, how they innovate and how they change. As a manager of today or tomorrow, you will be involved in shaping, implementing or communicating these strategies.

Our primary aim with *Exploring Strategy* is to give you a comprehensive understanding of the issues and techniques of strategy. We can also help you get a great final result in your course. You can make the most of the text by:

- Exploring hot topics in cutting-edge issues such as competition, corporate governance, innovation and entrepreneurship and strategy in practice.

- Engaging with our new 'Thinking Differently' sections to access novel and distinctive perspectives on core themes in strategy.

- Using the 'strategy lenses' to think critically and originally about key topics and to set you on your way to better grades in your assignments and exams.

- Pursuing some of the recommended readings at the end of each chapter. They're specially selected as accessible and valuable sources that will enhance your learning and give you an extra edge in your course work.

We want *Exploring Strategy* to give you what you need: a comprehensive view of the subject, an ambition to put that into practice, and – of course – success in your studies. We hope that you'll be as excited by the key issues of strategy as we are!

So, read on and good luck!

Gerry Johnson
Richard Whittington
Kevan Scholes
Duncan Angwin
Patrick Regnér

Gerry Johnson BA, PhD is Emeritus Professor of Strategic Management at Lancaster University School of Management. He has also taught at Strathclyde Business School, Cranfield School of Management, Manchester Business School and Aston University. He is the author of numerous books and his research has been published in many of the foremost management research journals in the world. He is also a partner in the consultancy partnership Strategy Explorers (see **www.strategyexplorers.com**), where he works with senior management teams on issues of strategy development and strategic change.

Richard Whittington MA, MBA, PhD is Professor of Strategic Management at the Saïd Business School and Millman Fellow at New College, University of Oxford. He is author or co-author of nine books and is an Associate Editor of the *Strategic Management Journal.* He has had full or visiting positions at the Harvard Business School, HEC Paris, Imperial College London, the University of Toulouse and the University of Warwick. He is a partner in Strategy Explorers and active in executive education and consulting. His current research focuses on strategy practice and 'open strategy'.

Kevan Scholes MA, PhD, DMS, CIMgt, FRSA is Principal Partner of Scholes Associates – specialising in strategic management. He is also Visiting Professor of Strategic Management and formerly Director of the Sheffield Business School, UK. He has extensive experience of teaching strategy to undergraduate and postgraduate students inside and outside the UK, as well as of management development work in private- and public-sector organisations. He has been an advisor on management development to a number of national bodies and is a Companion of the Chartered Management Institute.

Duncan Angwin MA, MPhil, MBA, PhD is the Sir Roland Smith Professor of Strategic Management and Director of the Centre for Strategic Management at Lancaster University. He is author of eight books and many journal articles and serves on the editorial boards of several journals including *Journal of Management Studies.* He has taught strategy in over 20 countries and is active internationally in executive education and consulting. His current research focuses on mergers and acquisitions, strategy practices and international management.

Patrick Regnér BSc, MSc, PhD is Professor of Strategic Management at Stockholm School of Economics. He has published in leading journals like the *Strategic Management Journal*, *Journal of International Business*, *Human Relations*, etc. and serves on the editorial boards of *Journal of Management Studies*, *Organization Studies* and *Strategic Organization.* He has extensive experience of teaching strategy on all levels at several international institutions. He does executive teaching and consulting with organisations active worldwide and is senior advisor at strategy advisory firm Value Formation. His current research focuses on strategy and institutions.

The case collection has been managed by Jason Evans, Clive Kerridge and Steve Pyle.

EXPLORING STRATEGY

TEXT AND CASES

ELEVENTH EDITION

GERRY JOHNSON
Lancaster University Management School

RICHARD WHITTINGTON
Saïd Business School, University of Oxford

KEVAN SCHOLES
Sheffield Business School

DUNCAN ANGWIN
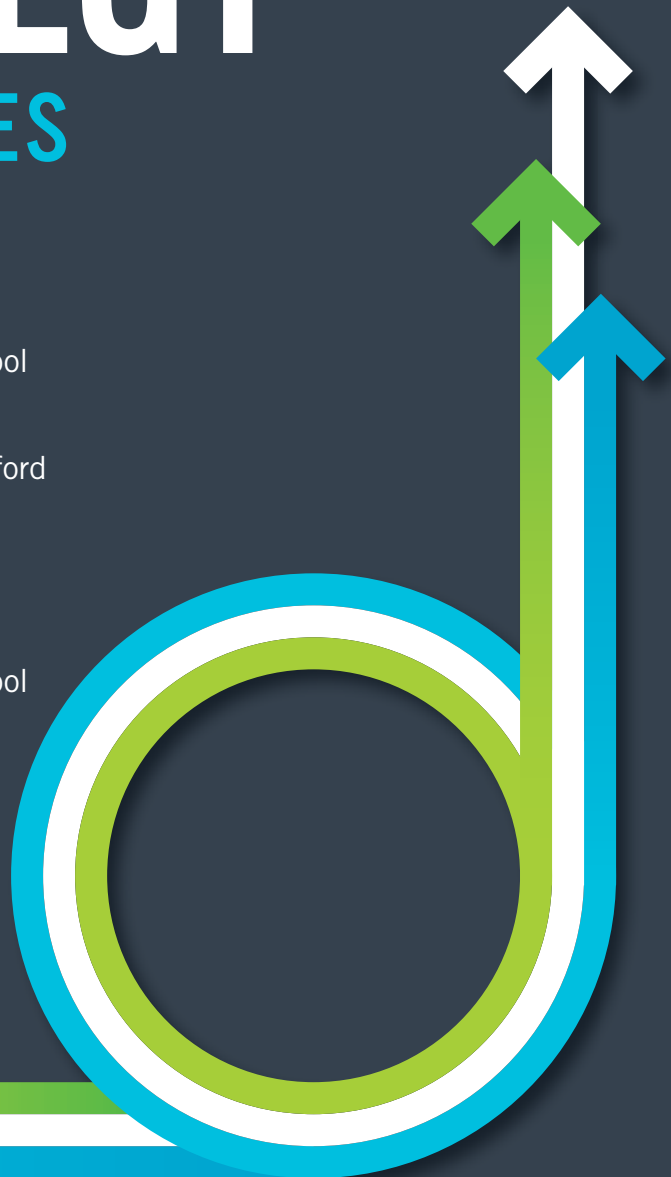Lancaster University Management School

PATRICK REGNÉR
Stockholm School of Economics

With the assistance of
JASON EVANS
CLIVE KERRIDGE
STEVE PYLE

Pearson

The Financial Times. With a worldwide network of highly respected journalists, *The Financial Times* provides global business news, insightful opinion and expert analysis of business, finance and politics. With over 500 journalists reporting from 50 countries worldwide, our in-depth coverage of international news is objectively reported and analysed from an independent, global perspective. To find out more, visit www.ft.com/pearsonoffer.

BRIEF CONTENTS

BRIEF CONTENTS

vi

CONTENTS

PART I
THE STRATEGIC POSITION

PART II
STRATEGIC CHOICES

10 ENTREPRENEURSHIP AND INNOVATION 308

11 MERGERS, ACQUISITIONS AND ALLIANCES 338

PART III
STRATEGY IN ACTION

CASE STUDIES

ILLUSTRATIONS AND THINKING DIFFERENTLY

ILLUSTRATIONS

THINKING DIFFERENTLY BY CHAPTER

FIGURES

FIGURES

TABLES

PREFACE

We are delighted to offer this eleventh edition of *Exploring Strategy*. With sales of previous editions now well over one million, we believe we have a tried and tested product. Yet the strategy field is constantly changing. For this edition, therefore, we have introduced a new chapter, and thoroughly refreshed all the remaining chapters, with new concepts, new cases and new examples throughout. Here we would like to highlight four particular changes, while recalling some of the classic features of the book.

The eleventh edition's principal changes are:

- **Extended coverage of the macro-environment**. We now have a whole chapter on the macro-environment, allowing us to cover increasingly important nonmarket aspects of strategy, such as politics and regulation, and to provide students with the tools to analyse the mega-trends that will drive organisational strategy in the future.

- **A new treatment of business models**. We have developed the treatment of business models, important to students in a start-up culture of rapid technological change.

- **Enhanced emphasis on entrepreneurship**. As entrepreneurial opportunities become increasingly attractive to readers, we have raised the prominence of entrepreneurship, and introduced new materials on opportunity recognition and the entrepreneurial process.

- **New 'Thinking Differently' sections**. At the end of each chapter, we introduce new material designed to encourage students to approach issues from a different point of view to the conventional wisdom of the chapter itself: for example, using crowdsourcing to predict environmental change, or one force rather than five to analyse industries.

At the same time, *Exploring Strategy* retains its longstanding commitment to a comprehensive and real-world view of strategy. In particular, this entails a deep concern for:

- **Process**. We believe that the human processes of strategy, not only the economics of particular strategies, are central to achieving long-term organisational success. Throughout the book, we underline the importance of human processes, but in particular we devote Part III to processes of strategy formation, implementation and change.

- **Practice**. We conclude the book with a chapter on the practice of strategy (Chapter 16), focused on the practicalities of managing strategy. Throughout the book, we introduce concepts and techniques through practical illustrations and applications, rather than abstract descriptions. **MyStrategyExperience** simulation gives students a chance to apply the frameworks of the book to a dynamic, realistic simulation of strategy in the advertising industry (visit **https://uk.pearson.com/higher-education-educators/products-and-services/course-resources-and-content/simulations.html**).

Many people have helped us with the development of this new edition. Jason Evans, Clive Kerridge and Steve Pyle have led in coordinating the case collection. We have also consulted carefully with our Advisory Board, made up of experienced adopters of the book and other

leading academics in the field of strategy. Many other adopters of the book provide more informal advice and suggestions – many of whom we have had the pleasure of meeting at our annual teachers' workshops. This kind of feedback is invaluable and we hope you will keep the comments flowing. Also, our students and clients at Lancaster University, Oxford University, Oxford Brookes, Stockholm School of Economics, Sheffield Hallam and the many other places where we teach are a constant source of ideas and stimulus. We also gain from our links across the world, particularly in Austria, Ireland, the Netherlands, Denmark, Sweden, France, Canada, Australia, New Zealand, Hong Kong, Singapore and the USA. Many contribute directly by providing case studies and illustrations and these are acknowledged in the text.

Finally, we thank those organisations that have been generous enough to be written up as case studies. We hope that those using the book will respect the wishes of the case study organisations and *not* contact them directly for further information.

Gerry Johnson (gerry.johnson@lancaster.ac.uk)
Richard Whittington (richard.whittington@sbs.ox.ac.uk)
Kevan Scholes (KScholes@scholes.u-net.com)
Duncan Angwin (d.n.angwin@lancaster.ac.uk)
Patrick Regnér (patrick.regner@hhs.se)
October 2016

Advisory Board

Special thanks are due to the following members of the Advisory Board for their valued comments:

Mike Davies	University of Winchester
Alison De Moraes	Royal Holloway University of London
Dr Maria Emmanouilidou	University of Kent
Dr Andrew Jenkins	University of Huddersfield
Adrian Myers	Oxford Brookes University
Sarah Owens	Swansea University
Nick Papageorgiadis	University of Liverpool
Adam Raman	Kingston University
Dr Andrew Wild	Nottingham University
Steve Wood	Leeds Beckett University

EXPLORING STRATEGY FEATURES

This eleventh edition of *Exploring Strategy* builds on the established strengths of this best-selling textbook. A range of in-text features and supplementary features have been developed to enable you and your students to gain maximum added value from the teaching and learning of strategy.

- *Outstanding pedagogical features.* Each chapter has clear learning outcomes, practical questions associated with real-life illustrations and examples which students can easily apply to what they have learnt.
- *Flexibility of use.* You can choose to use either the Text and Cases version of the book, or – if you don't use longer cases (or have your own) – the Text-only version. The provision of Thinking Differently sections, Commentaries and Strategy 'Lenses' allows you to dig deeper into the tensions and complexity of strategy.

The two versions are complemented by a concise version of the text, *Fundamentals of Strategy,* and instructors also have the option of further customising the text. Visit **www.pearsoned.co.uk/CustomPublishing** for more details.

- *Up-to-date materials.* As well as a new chapter on the macro-environment, we have fully revised the other chapters, incorporating new research and updating references so that you can easily access the latest research.
- *Encouraging innovative and critical thinking.* The Strategy Lenses and Commentaries are designed to encourage critical thinking, while each chapter ends with a Thinking Differently section, introducing students to new and distinctive approaches to key issues of the chapter.

Our 'three circles' framework – depicting the overlapping issues of strategic position, strategic choices and strategy in action – also challenges a simple linear, sequential view of the strategy process.

- *Case and examples.* A wide range of Illustrations, Case Examples and (in the Text and Cases version) longer Case Studies are fresh and engage with student interests and day-to-day experience. The majority of these are entirely new to this edition; we have extensively revised the remainder. Finally, we draw these examples from all over the world and use examples from the public and voluntary sectors as well as the private.
- *Teaching and learning support.* You and your students can access a wealth of resources detailed in the *Exploring Strategy* Online section that follows this.
- *Teachers' workshop.* We run an annual workshop to facilitate discussion of key challenges and solutions in the teaching of strategic management. Details of forthcoming workshops can be found at **https://heuk.pearson.com/events.html**

EXPLORING STRATEGY ONLINE

A wide range of supporting resources are available at: **www.pearsoned.co.uk/johnson**

For students

- **Multiple choice questions** that test your understanding of key content.
- **Key concept audio summaries** that you can download or listen to online.
- **Video cases** that show managers talking about strategic issues in their own organisations.
- **Revision flashcards** to help you prepare for your exams.
- **A multi-lingual online glossary** to help explain key concepts.
- Guidance on **how to analyse a case study.**
- **Links** to relevant sites on the web so you can explore more about the organisations featured in the case studies.
- **Classic cases** – over 30 case studies from previous editions of the book.

For instructors

- An **Instructor's Manual** which provides a comprehensive set of teaching support, including guidance on the use of case studies and assignments, and advice on how to plan a programme using the text.
- **PowerPoint slides,** containing key information and figures from the book.
- **Classic cases,** from previous editions of the book.

MyStrategyExperience is an engaging and rigorous simulation designed to bring together the theory and practice of strategy-making in the realistic environment of a dynamic organisation and industry. The simulation puts students on the board of directors in a global advertising agency and allows them to make a strategic analysis of the business, put together a business plan and then make a number of challenging decisions on the future strategy of the company.

As students set and implement strategy, they will see the impact of their decisions on financial and non-financial measures of performance within the simulated company. Your students will need to balance strategic opportunities with inherent risk thus gaining knowledge and insights relevant to their strategic studies.

For more information, contact your local sales representative or visit **https://uk.pearson. com/higher-education-educators/products-and-services/course-resources-and-content/ simulations.html**

Follow the authors' latest comments on the strategy issues of this book at **https://twitter. com/ExploreStrategy**

EXPLORING STRATEGY

1

INTRODUCING STRATEGY

Strategic position

Strategic choices

Strategy in action
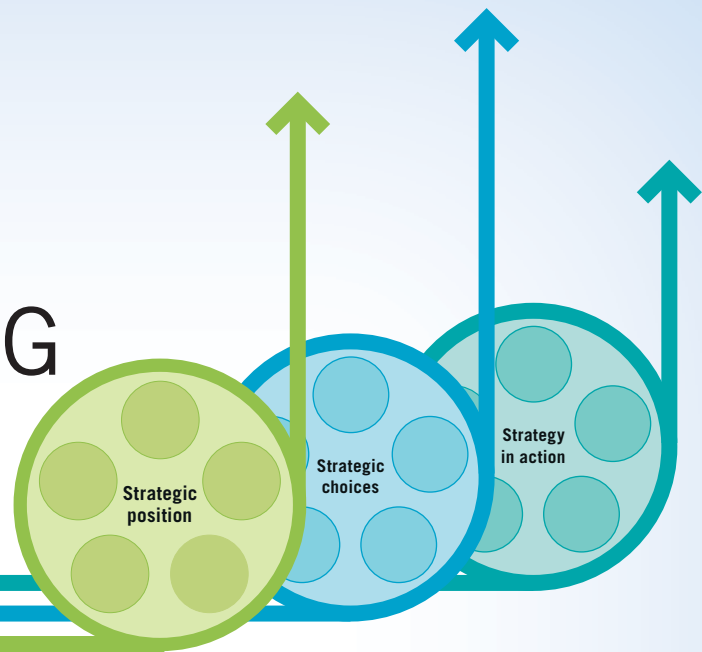
Learning outcomes

After reading this chapter you should be able to:

- Summarise the strategy of an organisation in a '*strategy statement*'.
- Distinguish between *corporate*, *business* and *functional* strategies.
- Identify key issues for an organisation's strategy according to the *Exploring Strategy Framework*.
- Understand different people's roles in *strategy work.*
- Appreciate the importance of different *organisational contexts*, *academic disciplines* and *theoretical lenses* to practical strategy analysis.

Key terms

1.1 INTRODUCTION

Claudia, a junior at a leading firm of strategy consultants, had just arrived with two senior colleagues at the headquarters of a medium-sized company considering its next strategic move. The CEO began the meeting by outlining the business the company was in and some of the history behind the firm's significant success in European markets. The recent entry into Europe of new aggressive competitors threatened their performance and the Board was wondering whether the company should globalise. The CEO then asked how the consultants might approach this problem. The consulting partner explained they would carry out a systematic strategic analysis of the company's situation and Claudia knew this would be her responsibility – to gather and analyse appropriate data. She would need to understand how the company had been so successful to date, the challenge posed by competitors and the broader opportunities and threats from the wider environment. She knew she could access key company executives to understand what resources, processes and people were supporting the current strategy and also what might support international expansion. She would have to consider the direction in which the business might expand, the methods of expansion that might be most appropriate as well as other strategic options. Through this analysis, she would hope to inform the CEO's decision about what the strategy for the company might be and perhaps gain further work to help implement a strategic direction.

The problem presented by the CEO to the consultants is one of strategy. It is concerned with key issues for the future of the organisation. For instance, how should the company compete in the future with aggressive new entrants? What growth options are there for the company? If going global is a good strategy, what would be the optimal method to achieve this outcome and what might be the resourcing implications? All of these strategy questions are vital to the future survival of the organisation.

Strategy questions naturally concern entrepreneurs and senior managers at the top of their organisations. But these questions matter more widely. Middle managers also have to understand the strategic direction of their organisations, both to know how to get top management support for their initiatives and to explain their organisation's strategy to the people they are responsible for. Anybody looking for a management-track job needs to be ready to discuss strategy with their potential employer. Indeed, anybody taking a job should first be confident that their new employer's strategy is actually viable. There are even specialist career opportunities in strategy, for example like Claudia, as a strategy consultant or as an in-house strategic planner, often key roles for fast-track young managers.

This book takes a broad approach to strategy, looking at both the economics of strategy and the people side of managing strategy in practice. It is a book about 'Exploring', because the real world of strategy rarely offers obvious answers. In strategy, it is typically important to explore several options, probing each one carefully before making choices. The book is also relevant to any kind of organisation responsible for its own direction into the future. Thus the book refers to large private-sector multinationals and small entrepreneurial start-ups; to public-sector organisations such as schools and hospitals; and to not-for-profits such as charities or sports clubs. Strategy matters to almost all organisations, and to everybody working in them.