

EXPLORING STRATEGY

TEXT AND CASES

ELEVENTH EDITION

GERRY JOHNSON
RICHARD WHITTINGTON
KEVAN SCHOLES
DUNCAN ANGWIN
PATRICK REGNÉR



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

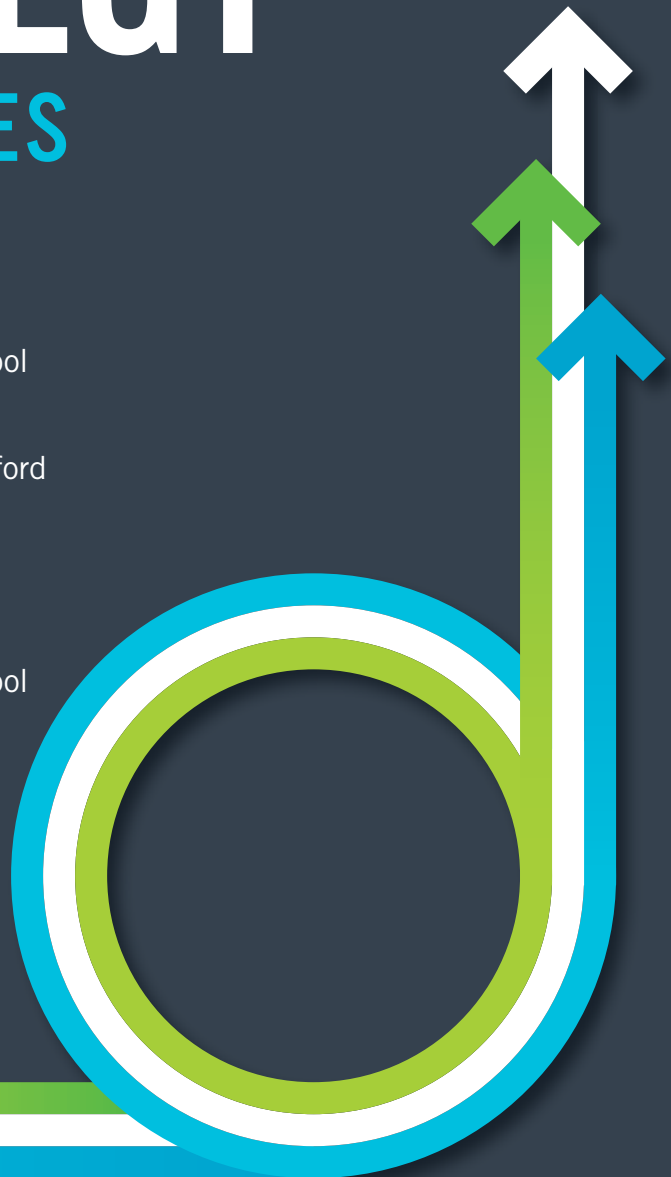
Stockholm School of Economics

With the assistance of

JASON EVANS

CLIVE KERRIDGE

STEVE PYLE



Harlow, England • London • New York • Boston • San Francisco • Toronto • Sydney • Dubai • Singapore • Hong Kong
Tokyo • Seoul • Taipei • New Delhi • Cape Town • Sao Paulo • Mexico City • Madrid • Amsterdam • Munich • Paris • Milan

Pearson Education Limited

Edinburgh Gate
Harlow CM20 2JE
United Kingdom
Tel: +44 (0)1279 623623
Web: www.pearson.com/uk

First edition (print) published under the Prentice Hall imprint 1984
Fifth edition (print) published under the Prentice Hall imprint 1998
Sixth edition (print) published under the Financial Times Prentice Hall imprint 2002
Seventh edition (print) 2005
Eighth edition (print) 2008
Ninth edition (print) 2011
Tenth edition published (2013) (print and electronic)

Eleventh edition published (2017) (print and electronic)

© Simon & Schuster Europe Limited 1998 (print)
© Pearson Education 2002, 2011 (print)
© Pearson Education Limited 2014, 2017 (print and electronic)

The rights of Gerry Johnson, Richard Whittington, Kevan Scholes, Duncan Angwin and Patrick Regnér to be identified as authors of this work have been asserted by them in accordance with the Copyright, Designs and Patents Act 1988.

The print publication is protected by copyright. Prior to any prohibited reproduction, storage in a retrieval system, distribution or transmission in any form or by any means, electronic, mechanical, recording or otherwise, permission should be obtained from the publisher or, where applicable, a licence permitting restricted copying in the United Kingdom should be obtained from the Copyright Licensing Agency Ltd, Barnard's Inn, 86 Fetter Lane, London EC4A 1EN.

The ePublication is protected by copyright and must not be copied, reproduced, transferred, distributed, leased, licensed or publicly performed or used in any way except as specifically permitted in writing by the publishers, as allowed under the terms and conditions under which it was purchased, or as strictly permitted by applicable copyright law. Any unauthorised distribution or use of this text may be a direct infringement of the authors' and the publisher's rights and those responsible may be liable in law accordingly.

All trademarks used herein are the property of their respective owners. The use of any trademark in this text does not vest in the authors or publisher any trademark ownership rights in such trademarks, nor does the use of such trademarks imply any affiliation with or endorsement of this book by such owners.

Contains public sector information licensed under the Open Government Licence (OGL) v3.0. <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/>.

Pearson Education is not responsible for the content of third-party internet sites.

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.

Text only

ISBN: 978-1-292-14517-4 (print)
978-1-292-19149-2 (PDF)
978-1-292-19150-8 (ePub)

Text and cases

ISBN: 978-1-292-14512-9 (print)
978-1-292-14513-6 (PDF)
978-1-292-14514-3 (ePub)

British Library Cataloguing-in-Publication Data

A catalogue record for the print edition is available from the British Library

Library of Congress Cataloging-in-Publication Data

A catalog record for the print edition is available from the Library of Congress

10 9 8 7 6 5 4 3 2 1
20 19 18 17 16

Print edition typeset in 10/12.5pt Sabon MT Pro by SPi Global
Printed and bound by L.E.G.O. S.p.A., Italy

NOTE THAT ANY PAGE CROSS REFERENCES REFER TO THE PRINT EDITION

BRIEF CONTENTS

Chapter 1 Introducing strategy	2
PART I THE STRATEGIC POSITION	29
Introduction to Part I	30
Chapter 2 Macro-environment analysis	32
Chapter 3 Industry and sector analysis	62
Chapter 4 Resources and capabilities	96
Chapter 5 Stakeholders and governance	132
Chapter 6 History and culture	162
Commentary on Part I The strategy lenses	190
PART II STRATEGIC CHOICES	205
Introduction to Part II	206
Chapter 7 Business strategy and models	208
Chapter 8 Corporate strategy and diversification	242
Chapter 9 International strategy	276
Chapter 10 Entrepreneurship and innovation	308
Chapter 11 Mergers, acquisitions and alliances	338
Commentary on Part II Strategic choices	368
PART III STRATEGY IN ACTION	371
Introduction to Part III	372
Chapter 12 Evaluating strategies	374
Chapter 13 Strategy development processes	410
Chapter 14 Organising and strategy	438
Chapter 15 Leadership and strategic change	468
Chapter 16 The practice of strategy	498
Commentary on Part III Strategy in action	532
CASE STUDIES	535

BRIEF CONTENTS

Glossary	773
Index of names	779
General index	785
Acknowledgements	795

CONTENTS

Illustrations and Thinking Differently	xviii
Figures	xx
Tables	xxiii
Preface	xxv
<i>Exploring Strategy</i> features	xxvii
<i>Exploring Strategy</i> online	xxviii
1 INTRODUCING STRATEGY	2
1.1 Introduction	3
1.2 What is strategy?	4
1.2.1 Defining strategy	4
1.2.2 The purpose of strategy: mission, vision, values and objectives	7
1.2.3 Strategy statements	8
1.2.4 Levels of strategy	10
1.3 The <i>Exploring Strategy</i> Framework	11
1.3.1 Strategic position	12
1.3.2 Strategic choices	13
1.3.3 Strategy in action	14
1.4 Working with strategy	16
1.5 Studying strategy	18
1.6 Exploring strategy further	20
1.6.1 Exploring strategy in different contexts	20
1.6.2 Exploring strategy through different 'strategy lenses'	21
Summary	22
Work assignments	22
Recommended key readings	23
References	23
Case example: <i>The rise of a unicorn – Airbnb</i>	24

CONTENTS

PART I**THE STRATEGIC POSITION****Introduction to Part I 30****2 MACRO-ENVIRONMENT ANALYSIS 32**

2.1	Introduction	33
2.2	PESTEL analysis	34
2.2.1	Politics	35
2.2.2	Economics	38
2.2.3	Social	39
2.2.4	Technology	43
2.2.5	Ecological	44
2.2.6	Legal	45
2.2.7	Key drivers for change	48
2.3	Forecasting	48
2.3.1	Forecast approaches	49
2.3.2	Directions of change	50
2.4	Scenario analysis	51
	Summary	55
	Work assignments	55
	Recommended key readings	56
	References	56
	Case example: <i>Alibaba – the Yangtze River Crocodile</i>	58

3 INDUSTRY AND SECTOR ANALYSIS 62

3.1	Introduction	63
3.2	The competitive forces	64
3.2.1	Competitive rivalry	65
3.2.2	The threat of entry	66
3.2.3	The threat of substitutes	66
3.2.4	The power of buyers	68
3.2.5	The power of suppliers	69
3.2.6	Complementors and network effects	69
3.2.7	Defining the industry	71
3.2.8	Implications of the Competitive Five Forces	73
3.3	Industry types and dynamics	74
3.3.1	Industry types	76
3.3.2	Industry structure dynamics	77
3.4	Competitors and markets	81
3.4.1	Strategic groups	81
3.4.2	Market segments	84
3.4.3	Critical success factors and ‘Blue Oceans’	85
3.5	Opportunities and threats	87

CONTENTS

Summary	88
Work assignments	89
Recommended key readings	89
References	90
Case example: <i>Global forces and the advertising industry</i>	92
4 RESOURCES AND CAPABILITIES	96
4.1 Introduction	97
4.2 Foundations of resources and capabilities	98
4.2.1 Resources and capabilities	98
4.2.2 Threshold and distinctive resources and capabilities	100
4.3 Distinctive resources and capabilities as a basis of competitive advantage	101
4.3.1 V – value of resources and capabilities	101
4.3.2 R – rarity	102
4.3.3 I – inimitability	102
4.3.4 O – organisational support	104
4.3.5 Organisational knowledge as a basis of competitive advantage	105
4.4 Diagnosing resources and capabilities	107
4.4.1 VRIO analysis	107
4.4.2 The value chain and value system	107
4.4.3 Activity systems	111
4.4.4 Benchmarking	114
4.4.5 SWOT	115
4.5 Dynamic capabilities	119
Summary	124
Work assignments	124
Recommended key readings	125
References	125
Case example: <i>Rocket Internet – will the copycat be imitated?</i>	128
5 STAKEHOLDERS AND GOVERNANCE	132
5.1 Introduction	133
5.2 Stakeholders	134
5.2.1 Stakeholder groups	134
5.2.2 Stakeholder mapping	136
5.2.3 Owners	139
5.3 Corporate governance	141
5.3.1 The governance chain	143
5.3.2 Different governance models	144
5.3.3 How boards of directors influence strategy	149
5.4 Social responsibility and ethics	150
5.4.1 Corporate social responsibility	150
5.4.2 The ethics of individuals and managers	153

CONTENTS

Summary	155
Work assignments	156
Recommended key readings	156
References	157
Case example: <i>Drinking Partners – India's United Breweries Holdings Ltd</i>	159
6 HISTORY AND CULTURE	162
6.1 Introduction	163
6.2 Why is history important?	164
6.2.1 Path dependency	164
6.2.2 History as a resource	167
6.2.3 Historical analysis	167
6.3 What is culture and why is it important?	168
6.3.1 Geographically-based cultures	169
6.3.2 Organisational fields	170
6.3.3 Organisational culture	171
6.3.4 Culture's influence on strategy	174
6.3.5 Analysing culture: the cultural web	175
6.3.6 Undertaking cultural analysis	177
6.4 Strategic drift	180
Summary	184
Work assignments	184
Recommended key readings	185
References	185
Case example: <i>Culture clashes at Barclays Bank</i>	187
Commentary on Part I The strategy lenses	190
Case example: <i>Nokia's evolving strategy through the lenses</i>	202
PART II	
STRATEGIC CHOICES	
Introduction to Part II	206
7 BUSINESS STRATEGY AND MODELS	208
7.1 Introduction	209
7.2 Generic competitive strategies	210
7.2.1 Cost-leadership strategy	211
7.2.2 Differentiation strategy	215
7.2.3 Focus strategy	216
7.2.4 Hybrid strategy	218
7.2.5 The Strategy Clock	220
7.3 Interactive strategies	221
7.3.1 Interactive price and quality strategies	221

CONTENTS

7.3.2	Cooperative strategy	224
7.3.3	Game theory	226
7.4	Business models	229
7.4.1	Value creation, configuration and capture	229
7.4.2	Business model patterns	232
	Summary	234
	Work assignments	234
	Recommended key readings	235
	References	235
	Case example: <i>The IKEA approach</i>	237
8	CORPORATE STRATEGY AND DIVERSIFICATION	242
8.1	Introduction	243
8.2	Strategy directions	244
8.2.1	Market penetration	245
8.2.2	Product development	247
8.2.3	Market development	248
8.2.4	Conglomerate diversification	248
8.3	Diversification drivers	250
8.4	Diversification and performance	252
8.5	Vertical integration	253
8.5.1	Forward and backward integration	253
8.5.2	To integrate or to outsource?	254
8.6	Value creation and the corporate parent	256
8.6.1	Value-adding and value-destroying activities of corporate parents	256
8.6.2	The portfolio manager	258
8.6.3	The synergy manager	259
8.6.4	The parental developer	261
8.7	Portfolio matrices	261
8.7.1	The BCG (or growth/share) matrix	263
8.7.2	The directional policy (GE–McKinsey) matrix	264
8.7.3	The parenting matrix	265
	Summary	268
	Work assignments	268
	Recommended key readings	269
	References	269
	Case example: <i>Virgin – is the brand more than Richard Branson?</i>	271
9	INTERNATIONAL STRATEGY	276
9.1	Introduction	277
9.2	Internationalisation drivers	278
9.3	Geographic sources of advantage	282
9.3.1	Locational advantage: Porter’s Diamond	282
9.3.2	The international value system	284
9.4	International strategies	286

CONTENTS

9.5	Market selection and entry	289
9.5.1	Country and market characteristics	289
9.5.2	Competitive characteristics	292
9.5.3	Entry modes strategies	295
9.6	Subsidiary roles in an international portfolio	297
9.7	Internationalisation and performance	299
	Summary	300
	Work assignments	301
	Recommended key readings	301
	References	301
	Case example: <i>China goes to Hollywood – Wanda's moves into the US movie industry</i>	304
10	ENTREPRENEURSHIP AND INNOVATION	308
10.1	Introduction	309
10.2	Entrepreneurship	310
10.2.1	Opportunity recognition	310
10.2.2	Steps in the entrepreneurial process	313
10.2.3	Stages of entrepreneurial growth	314
10.2.4	Social entrepreneurship	316
10.3	Innovation dilemmas	317
10.3.1	Technology push or market pull	318
10.3.2	Product or process innovation	320
10.3.3	Open or closed innovation	321
10.4	Innovation diffusion	324
10.4.1	The pace of diffusion	324
10.4.2	The diffusion S-curve	325
10.5	Innovators and imitators	327
10.5.1	First-mover advantages and disadvantages	327
10.5.2	The incumbent's response	328
	Summary	331
	Work assignments	332
	Recommended key readings	332
	References	332
	Case example: <i>Rovio Entertainment – going back to the entrepreneurial roots</i>	335
11	MERGERS, ACQUISITIONS AND ALLIANCES	338
11.1	Introduction	339
11.2	Organic development	340
11.3	Mergers and acquisitions	341
11.3.1	Types of M&A	341
11.3.2	Timing of M&A	342
11.3.3	Motives for M&A	342
11.3.4	M&A processes	345
11.3.5	M&A strategy over time	350
11.4	Strategic alliances	351

CONTENTS

11.4.1	Types of strategic alliance	353
11.4.2	Motives for alliances	353
11.4.3	Strategic alliance processes	355
11.5	Comparing acquisitions, alliances and organic development	359
11.5.1	Buy, ally or DIY?	359
11.5.2	Key success factors	360
	Summary	362
	Work assignments	362
	Recommended key readings	363
	References	363
	Case example: <i>Future-proofing business? Sainsbury acquires Argos</i>	365
 Commentary on Part II Strategic choices		 368
 PART III		
STRATEGY IN ACTION		
 Introduction to Part III		 372
 12 EVALUATING STRATEGIES		 374
12.1	Introduction	375
12.2	Organisational performance	376
12.2.1	Performance measures	376
12.2.2	Performance comparisons	377
12.2.3	Gap analysis	377
12.2.4	Complexities of performance analysis	379
12.3	Suitability	380
12.3.1	Ranking	384
12.3.2	Screening through scenarios	384
12.3.3	Screening for bases of competitive advantage	384
12.3.4	Decision trees	385
12.3.5	Life cycle analysis	385
12.4	Acceptability	387
12.4.1	Risk	388
12.4.2	Return	390
12.4.3	Reaction of stakeholders	398
12.5	Feasibility	399
12.5.1	Financial feasibility	399
12.5.2	People and skills	400
12.5.3	Integrating resources	401
12.6	Evaluation criteria: four qualifications	401
	Summary	403
	Work assignments	403
	Recommended key readings	404
	References	404
	Case example: <i>ITV – DIY, buy or ally?</i>	406

CONTENTS

13 STRATEGY DEVELOPMENT PROCESSES	410
13.1 Introduction	411
13.2 Deliberate strategy development	412
13.2.1 The role of the strategic leader	412
13.2.2 Strategic planning systems	413
13.2.3 Externally imposed strategy	418
13.3 Emergent strategy development	419
13.3.1 Logical incrementalism	419
13.3.2 Strategy as the outcome of political processes	422
13.3.3 Strategy as the product of structures and systems	423
13.4 Implications for managing strategy development	425
13.4.1 Strategy development in different contexts	427
13.4.2 Managing deliberate and emergent strategy	429
Summary	431
Work assignments	431
Recommended key readings	432
References	432
Case example: <i>Alphabet – who and what drives the strategy?</i>	434
14 ORGANISING AND STRATEGY	438
14.1 Introduction	439
14.2 Structural types	440
14.2.1 The functional structure	440
14.2.2 The divisional structure	442
14.2.3 The matrix structure	444
14.2.4 Multinational/transnational structures	445
14.2.5 Project-based structures	448
14.2.6 Strategy and structure fit	448
14.3 Systems	451
14.3.1 Planning systems	451
14.3.2 Cultural systems	453
14.3.3 Performance targeting systems	454
14.3.4 Market systems	456
14.4 Configurations and adaptability	458
14.4.1 The McKinsey 7-Ss	459
14.4.2 Agility and resilience	460
Summary	462
Work assignments	462
Recommended key readings	462
References	463
Case example: <i>One Sony?</i>	465
15 LEADERSHIP AND STRATEGIC CHANGE	468
15.1 Introduction	469
15.2 Leadership and strategic change	470

CONTENTS

15.2.1	Strategic leadership roles	470
15.2.2	Leadership styles	471
15.3	Diagnosing the change context	473
15.3.1	The change kaleidoscope	473
15.3.2	Forcefield analysis	476
15.4	Types of strategic change	478
15.4.1	Adaptation	479
15.4.2	Reconstruction	479
15.4.3	Revolution	480
15.4.4	Evolution	481
15.5	Levers for strategic change	483
15.5.1	A compelling case for change	483
15.5.2	Challenging the taken for granted	484
15.5.3	Changing operational processes and routines	484
15.5.4	Symbolic management	485
15.5.5	Power and political systems	486
15.5.6	Timing	488
15.5.7	Visible short-term wins	488
15.6	Problems of formal change programmes	489
15.6.1	Problems in the process	489
15.6.2	What formal programmes forget	490
	Summary	491
	Work assignments	492
	Recommended key readings	492
	References	493
	Case example: <i>Sergio Marchionne – motor of change</i>	495

16 THE PRACTICE OF STRATEGY 498

16.1	Introduction	499
16.2	The strategists	500
16.2.1	Top managers and directors	500
16.2.2	Strategic planners	501
16.2.3	Middle managers	502
16.2.4	Strategy consultants	505
16.2.5	Who to involve in strategy development?	506
16.3	Strategising	508
16.3.1	Strategy analysis	508
16.3.2	Strategic issue-selling	509
16.3.3	Strategic decision-making	512
16.3.4	Communicating the strategy	513
16.4	Strategy methodologies	515
16.4.1	Strategy workshops	515
16.4.2	Strategy projects	517
16.4.3	Hypothesis testing	518
16.4.4	Business cases and strategic plans	520
	Summary	522
	Work assignments	522

CONTENTS

Recommended key readings	523
References	523
Case example: <i>Participative strategy process in the city of Vaasa</i>	525
Commentary on Part III Strategy in action	532

CASE STUDIES

Guide to using the case studies	536
Guide to the main focus of cases in the book	538
Glastonbury: from hippy weekend to international festival	541
The global pharmaceutical industry: back to the future?	545
Siemens A: exploring the future	557
The 'pub': decline of a British institution – how the brewers fought back	563
Ricoh Canada Inc.: printing the future or recycling the past?	568
H&M in fast fashion: continued success?	576
The Formula 1 constructors: capabilities for success	584
'Access to Healthcare': integrating a CSR programme in Coloplast	593
Manchester United FC: competing with Europe's elite clubs	600
Adnams: a living company	608
Widespace: managing growth and culture within a maturing technology venture	616
Ryannair: the low fares airline – 'always getting better'?	622
Flight Centre Limited: competing to provide the lowest air fares	633
Megabrew: creating an undisputed global brewing champion?	639
AirAsia and the Tune Group: diversifying across industries	651
Severstal: growth and consolidation strategies in a turbulent global steel industry	659
Indian Premier League: glitz, glamour and globalisation	667
Handelsbanken: banking done differently	671
Ningbo Smarter Logistics: innovating in partnership with IBM in China	680
Leadership and innovation at Apple Inc.: entering the post-Jobs era	684
All change at Teva	690
Mondelēz International: 'Are you going to stick around Irene'?	695
CRH plc: leveraging corporate strategy for value creation and global leadership	705
Evaluating the Mexican narco-trafficking problem	713
Where should the beds go? Infrastructure planning in NHS England	722
Strategic planning at King Faisal Hospital and Research Centre Saudi Arabia	729
Mormor Magda's ice cream: can you be hot in a cool market?	734
Academies and Free Schools: the future of education?	739

CONTENTS

Siemens B: implementing the strategy	744
Paul Polman: turnaround and development of strategy at Unilever	750
Aurizon: managing change in a complex environment	758
In the boardroom at HomeCo	764
Guide to the classic cases on the companion website	770
Glossary	773
Index of names	779
General index	785
Acknowledgements	795

ILLUSTRATIONS AND THINKING DIFFERENTLY

ILLUSTRATIONS

1.1	Tesla Motors: the future is electric!	5
1.2	Strategy statements	9
1.3	Strategists	17
2.1	BP's PESTEL	36
2.2	Intelligence Unit 8200 and the small world of Israeli hi-tech	42
2.3	Uber drives into trouble	47
2.4	Datatopia?	52
3.1	Busted banking barriers?	67
3.2	Facebook's network fears	72
3.3	Steps in an industry analysis	75
3.4	Consolidation across the UK charity and public sectors	78
4.1	Resources and capabilities	99
4.2	Groupon and the sincerest form of flattery	106
4.3	An integrated value system in the Nepalese poultry industry	112
4.4	SWOT analysis of Pharmcare	116
4.5	Dynamic capabilities (and rigidities) in mobile telephone companies	120
5.1	Firefox burns out	142
5.2	A load of tosh? Toshiba's accounting scandal	145
5.3	Volkswagen's governance crisis	148
5.4	H&M's sustainability strategy	152
6.1	Indian Railways and Empire	166
6.2	'Dream. People. Culture'	173
6.3	The Bogleheads and Vanguard Asset Management	178
6.4	Kodak: the decline and fall of a market leader	181
7.1	Vanguard's low-cost strategy comes to Europe	214
7.2	Volvo's different Indian buses	217
7.3	Game theory in practice in the public sector	227
7.4	Uber's ubiquitous business model	230
8.1	Baking change into the community	246
8.2	From sat nav to driverless cars	249
8.3	'Out of sight – out of mind'? Outsourcing at Royal Bank of Scotland	255
8.4	Eating its own cooking: Berkshire Hathaway's parenting	260
8.5	Chipotle: doing things differently	262
9.1	Walmart: international successes and failures	279
9.2	The international 'Joint Effort Enterprise'	285
9.3	Nordic Industrial Park: bridging distance across international markets	290
9.4	Base of the pyramid strategies	293

ILLUSTRATIONS AND THINKING DIFFERENTLY

10.1	Entrepreneurs, teams and external relationships	312
10.2	Nearly billionaires	315
10.3	Frugal sanitary towels	319
10.4	The disruptive cloud	322
11.1	Strategies clash in a contested bid	343
11.2	To deal or not to deal – that’s the multi-billion dollar question	349
11.3	Apple’s iPad advantage	352
11.4	Bharti–Walmart break-up	358
12.1	Poor performance?	378
12.2	‘Refreshing’ Heineken	382
12.3	A strategic decision tree for a law firm	386
12.4	Sensitivity analysis	389
12.5	Using break-even analysis to examine strategic options	391
12.6	Sewerage construction project	395
12.7	Real options evaluation for developing premium beers in India	397
13.1	The influence of strategic leaders	414
13.2	Strategic planning at Siemens	416
13.3	An incrementalist view of strategic management	421
13.4	A classic case: Honda entering the US motorcycle market	426
14.1	Structural fault: Qwikster’s quick demise	441
14.2	Google gets a new name and a new structure	447
14.3	Call fire, police and ambulance	455
14.4	Rogue banker or rogue bank?	457
15.1	Leadership styles	472
15.2	Challenges of change in Indian banking	475
15.3	A forcefield analysis for devolving strategy	477
15.4	Change levers in action	487
16.1	Wanted: team member for strategy unit	503
16.2	The Barclays Jam	507
16.3	Dinner with the consultants	511
16.4	A tale of two workshops	516
16.5	Hypothesis testing at a bank	519

THINKING DIFFERENTLY BY CHAPTER

2	The crowdsourced forecast	54
3	From five forces to one	88
4	Micro-foundations of capabilities	123
5	Benefit Corporations	155
6	Institutional logics versus organisational culture	183
7	Transient rather than sustainable advantage	233
8	Corporate strategy is a fool’s errand	267
9	An institution-based view of strategy	300
10	Entrepreneurship: discovery or creation?	331
11	From acquiring capabilities to acquiring as capability	361
12	Misrepresenting strategic projects	402
13	Different strategy development styles	430
14	Beyond hierarchy?	461
15	Women as leaders	491
16	Rethinking the role of strategists	521

FIGURES

1.1	Definitions of strategy	4
1.2	Three horizons for strategy	6
1.3	The <i>Exploring Strategy</i> Framework	12
1.4	Strategy's three branches	18
Part I.1	Strategic position	30
2.1	Layers of the business environment	33
2.2	Analysing the macro-environment	34
2.3	The political environment	37
2.4	Economic cycles	39
2.5	Sociogram of social networks within an organisational field	41
2.6	Technology roadmap for graphene technology in electronics	44
2.7	Contexts and motives for ecological issues	46
2.8	Forecasting under conditions of uncertainty	49
2.9	The scenario cube: selection matrix for scenario key drivers	51
2.10	The scenario process	53
3.1	Industry and sector environments: the key issues	63
3.2	The Five Forces Framework	64
3.3	The value net	70
3.4	The industry life cycle	79
3.5	Comparative industry structure analysis	80
3.6	Some characteristics for identifying strategic groups	82
3.7	Strategic groups in the Indian pharmaceutical industry	83
3.8	Strategy canvas for electrical components companies	86
4.1	Resources and capabilities: the key issues	97
4.2	VRIO	101
4.3	Criteria for the inimitability of resources and capabilities	103
4.4	The value chain within an organisation	108
4.5	The value system	110
4.6	Activity systems at Geelmuyden.Kiese	113
4.7	The TOWS matrix	119
5.1	Stakeholders, governance and ethics	133
5.2	Stakeholders of a large organisation	135
5.3	Stakeholder mapping: the power/attention matrix	137
5.4	Ownership, management and purpose	140
5.5	The chain of corporate governance: typical reporting structures	143
6.1	The influence of history and culture	163
6.2	Path dependency and lock-in	165

6.3	Cultural frames of reference	169
6.4	Culture in four layers	171
6.5	Culture's influence on strategy development	174
6.6	The cultural web of an organisation	175
6.7	The cultural web: some useful questions	179
6.8	Strategic drift	180
C.i	Design lens	191
C.ii	Experience lens	193
C.iii	Variety lens	195
C.iv	Discourse lens	197
Part II.1	Strategic choices	206
7.1	Business strategy	210
7.2	Three generic strategies	211
7.3	Economies of scale and the experience curve	212
7.4	Costs, prices and profits for generic strategies	213
7.5	The Strategy Clock	220
7.6	Interactive price and quality strategies	222
7.7	Responding to low-cost rivals	223
7.8	Cooperating with rivals	225
7.9	Prisoner's dilemma game in aircraft manufacture	228
7.10	Business model components	231
8.1	Strategic directions and corporate-level strategy	243
8.2	Corporate strategy directions	245
8.3	Diversity and performance	252
8.4	Diversification and integration options: car manufacturer example	253
8.5	Portfolio managers, synergy managers and parental developers	258
8.6	The growth share (or BCG) matrix	263
8.7	Directional policy (GE–McKinsey) matrix	265
8.8	The parenting matrix: the Ashridge Portfolio Display	266
9.1	International strategy: five main themes	277
9.2	Drivers of internationalisation	280
9.3	Porter's Diamond – the determinants of national advantages	283
9.4	Four international strategies	287
9.5	International cross-cultural comparison	292
9.6	International competitor retaliation	294
9.7	Subsidiary roles in multinational firms	298
10.1	Entrepreneurship and innovation: four major themes	309
10.2	Entrepreneurial opportunity recognition	311
10.3	Steps in an entrepreneurial process	313
10.4	Stages of entrepreneurial growth and typical challenges	314
10.5	Product and process innovation	321
10.6	The diffusion S-curve	326
10.7	Disruptive innovation	329
10.8	Portfolio of innovation options	330
11.1	Three strategy methods	339
11.2	The acquisition process	345
11.3	Post-acquisition integration matrix	348
11.4	Strategic alliance motives	354
11.5	Alliance evolution	356

FIGURES

11.6	Buy, ally or DIY matrix	359
12.1	Evaluating strategies	375
12.2	Gap analysis	379
12.3	Assessing profitability	392
13.1	Deliberate and emergent strategy development	411
13.2	A continuum of emergent strategy development processes	419
13.3	Strategy development as the product of structures, systems and routines	423
13.4	Strategic direction from the continuity of prior strategic decisions	425
13.5	Strategy development in different contexts	427
14.1	Organisational configurations: strategy, structure and systems	439
14.2	A functional structure	442
14.3	A multidivisional structure	443
14.4	Two examples of matrix structures	444
14.5	Multinational structures	446
14.6	Strategy styles	452
14.7	A partial strategy map	458
14.8	The McKinsey 7-Ss	459
15.1	Key elements in leading strategic change	469
15.2	The change kaleidoscope	473
15.3	Styles of change leadership according to organisational capability and readiness	476
15.4	Types of change	478
15.5	Kotter's Eight Steps for Change	483
16.1	The pyramid of strategy practice	499
16.2	Who to include in strategy making?	508
16.3	Formal channels for issue selling	510

TABLES

1.1 The strategy checklist	15
3.1 Industry types	76
3.2 Some bases of market segmentation	85
4.1 Resources and capabilities	98
4.2 The VRIO framework	108
5.1 Some common conflicts of stakeholder interests and expectations	136
5.2 Sources and indicators of power	137
5.3 Corporate social responsibility stances	151
5.4 Some questions of corporate social responsibility	154
C.i A summary of the strategy lens	200
9.1 Comparison of entry mode strategies	296
12.1 The SAFe criteria and techniques of evaluation	380
12.2 Suitability of strategic options in relation to strategic position	381
12.3 Some examples of suitability	381
12.4 The industry life cycle/portfolio matrix	387
12.5 Measures of shareholder value	394
12.6 Financial strategy and the business life cycle	399
14.1 Strategy and structure fit	449
14.2 Types of control systems	451
15.1 Turnaround: revenue generation and cost reduction steps	479
15.2 Organisational rituals and change	485
15.3 Political mechanisms in organisations	488
16.1 Managing conflict	513



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

PREFACE

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 Regner (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.

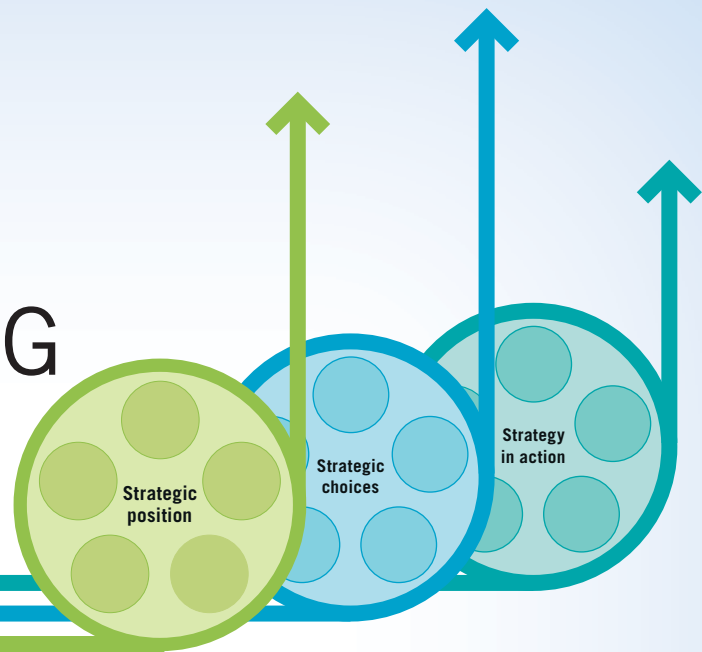
For more information, contact your local sales representative or visit <https://uk.pearson.com/higher-education-educators/products-and-services/course-resources-and-content/simulations.html>

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

EXPLORING STRATEGY

1

INTRODUCING STRATEGY



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

business-level strategy p.11

corporate-level strategy p.10

Exploring Strategy Framework p.11

functional strategies p.11

mission statement p.7

objectives p.8

statements of corporate values p.8

strategic choices p.13

strategic position p.12

strategy p.4

strategy in action p.14

strategy lenses p.21

strategy statements p.8

three-horizons framework p.6

vision statement p.8

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.