1 *The strategic management field*

Historical origins of the term "strategy"

Strategy as a term was coined in Athens around 508–7 BC, where ten *strategoi* comprised the Athenian war council and yielded both political and military power. Etymologically, *strategos*, or general, derives from *stratos* (the army) and *agein* (to lead). So, in this original sense, "strategy" is "the art of leading the army." Concerns of early writers on strategy such as Aenias Tacticus, Pericles, and Xenophon included the qualities of effective *strategoi*, principles of employing the troops, and wider strategic goals such as Pericles' admonition about the "need to limit risk while holding fast to essential points and principles." According to Xenophon, moreover, a commander "must be ingenious, energetic, careful, full of stamina and presence of mind, loving and tough, straightforward and crafty, alert and deceptive, ready to gamble everything and wishing to have everything, generous and greedy, trusting and suspicious." An essential attribute of aspiring strategoi was "knowing the business which [they] propose to carry out." A general was expected not only to plan for battle, but also to lead the troops into battle himself (Cummings 1993).

Parallel developments in Asia included Sun Tzu's *Art of War*, dated to around the 5th century BC (Sawyer 1996). Sun Tzu emphasized meticulous planning, the ideal of vanquishing the enemy indirectly without the need to fight, the qualities of effective generals, advice on managing the troops, and general principles and tactics of engaging with the enemy.

While strategy has originated in the military sphere, since the 1960s it has risen into prominence in the business world. Top executives of multidivisional corporations such as Chester Barnard of AT&T (1938) and Alfred Sloan of General Motors (1963) were among the first to draw attention to the need for strategy within a business context. Drucker (1954) argued for an active approach to management which entailed

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planning and actions intended to shape a firm's environment as opposed to simply reacting passively to it. The sociologist Philip Selznick (1957) at around the same time proposed the notion of an organization's "distinctive competence," which would become a central concept of the resource-based view of the firm (Wernerfelt 1984).

There are indeed good reasons for positing effective strategy as a cornerstone of high-performing organizations. Research has shown that a firm's strategy is the most important determinant of its performance; industry context is important to performance, but not as important as firm strategy (Bowman and Helfat 1998; McGahan and Porter, 1997; Rumelt, 1991). Some companies in very tough industries consistently deliver higher performance than their competitors, and this is because of the particular strategies they adopt at the global, corporate, business, and functional levels.

Classic authors on strategy

In 1912, the Harvard Business School began offering a course in "Business Policy," intended to be a capstone course integrating the functional knowledge that the students had gained in earlier study. Alfred Chandler of the Harvard Business School, in his classic *Strategy and Structure* (1962), explored how large businesses adapted their administrative structures to accommodate strategies of growth. In this work he gave a basic definition of strategy and structure which would have long-lasting resonance in the field: "strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals . . . Structure can be defined as the design of organization through which the enterprise is administered" (1962: 15–16). Chandler also suggested, based on his data, that "structure follows from strategy and that the most complex type of structure is the result of the concatenation of several basic strategies" (1962: 16).

Learned *et al.*, also at Harvard, in their *Business Strategy: Text and Cases* (1965–9) echoed Chandler when they defined strategy as "the pattern of objectives, purposes, or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in, or is to be in and the kind of company it is or is to be" (1965–9: 15). They viewed strategy formulation as a process

interrelated but practically distinct from strategy implementation, a distinction that has been questioned by strategy scholars, even those aligned with industrial organization economics such as Michael Porter, who has asserted that "there is no meaningful distinction between strategy and implementation, because strategy involves fine-grained choices about how to configure particular activities and the overall value chains" (1999: 25). In formulating strategy, Learned *et al.* proposed that managers should balance external market opportunity with internal firm competence and resources, managers" personal values and aspirations, and obligations to stakeholders other than the stockholders. Strategy could then be implemented through mobilizing resources, exhibiting leadership, and configuring the appropriate organization structure, incentives, and control systems. This broad approach was consistent with that of Chandler, and incorporated Selznick's concept of "distinctive competence" as well as the idea of an uncertain environment.

Also in the mid-1960s, Igor Ansoff, in his *Corporate Strategy* (1965) argued that strategy provided a "common thread" for five interrelated issues – (1) product-market scope, (2) growth vector, (3) competitive advantage, (4) internally generated synergy, and (5) make or buy decisions – and stressed the need for mutual reinforcement among these choices. Ansoff proposed the well-known product – mission matrix as a way for firms to define the common thread of their own strategy. This framework has nevertheless been popular as a means of identifying avenues for growth (figure 1.1).

	Present product	***New product***
Present mission	**Market penetration**	**Product development**
New mission	**Market development**	**Diversificaition**

Figure 1.1 Ansoff's Product/mission matrix
Source: Ansoff (1965)

The major pedagogical approach to the study of strategy at Harvard consisted of case studies combined with industry notes, an approach followed later by most other business schools. This approach reinforced the notion that strategy had to be determined inductively on a case-by-case basis, depending on both the specific internal capabilities of each company and its particular external environment. This approach assumed that the complexity of strategic decisions meant that it would be difficult if not impossible to establish useful generalizations.

Strategic decisions such as divestments, new product launches, acquisitions, and overseas expansions do involve what has been referred to as "wicked" problems (Mason and Mitroff 1981). Strategic decisions involve issues that are inherently ambiguous and unstructured, complex, have organization-wide implications and interconnections, are fundamental to the welfare of the organization, and often involve significant organizational change. By comparison, operational decisions are routinized, operationally specific, and may involve smaller-scale change.

Work by these early authors established the main parameters for how the subject of strategy would be understood and researched in the next few decades. These parameters included the link between strategy and performance, the importance of internal capabilities and resources as well as external environment, the distinction between formulation and implementation, and the active role of managers in setting and realizing strategy.

The entry of consulting firms

While academics determined how strategy was to be taught in business schools, their insistence that strategy was idiosyncratic to each individual firm, meant that the growing business demand for standardized strategic frameworks could be addressed by consulting firms, who used this opportunity to exercise substantial influence on the practice of strategy.

The Boston Consulting Group (BCG), founded in 1963, for example, was a pioneering consultancy that introduced influential concepts such as the "experience curve" and the "growth-share matrix" (Stern and Stalk 1998). The experience curve concept held that total costs would decline by a certain percentage every time cumulative production doubled. This idea spurred corporations to expand aggressively their

capacity, focus on cost minimization, and seek higher demand, often by keen price competition. However, when inevitable market downturns occurred or innovative products were introduced, the flaws of this approach became apparent. Companies found themselves with excess capacity and outdated product designs, as well as reduced capacity for innovation given their previous focus on cost-cutting. More criticism ensued. According to Ghemawat (2000: 9), "the concept of the experience curve was also criticized for treating cost reductions as automatic rather than something to be managed, for assuming that most experience could be kept proprietary instead of spilling over to competitors, for mixing up different sources of cost reduction with very different strategic implications (e.g., learning vs. scale vs. exogenous technical progress), and for leading to stalemates as more than one competitor pursued the same generic success factor."

The growth-share matrix viewed companies as a portfolio of businesses and was intended to help senior managers identify the cash-flow requirements of different businesses and take resource allocation decisions about them. When using the growth-share matrix, businesses are grouped in strategic business units (SBUs) (a term introduced at a later stage by the CEO of General Electric for use in their own portfolio analysis tools) and are mapped on a matrix along two dimensions: industry growth rate and relative market share. The SBUs are then divided into "stars," "question marks," "cash cows," and "dogs" (figure 1.2).

BCG assumed that competitors with larger market shares would have the lowest costs and highest profits, and that in growing markets

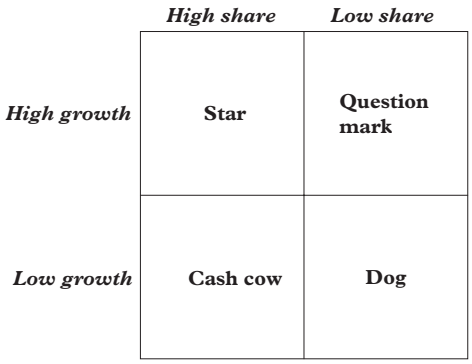

Figure 1.2 Boston Consulting Group's Growth-share matrix
Source: Boston Consulting Group.

a company should try to capture most of the growth by growing faster than its competitors, so that when growth slowed down, it would emerge as the highest-share competitor. Based on these assumptions, the strategic implications of the BCG matrix were that cash from "cash cows" should be used to support selected "question marks" and to strengthen emerging "stars," the weakest "question marks" should be divested or liquidated, the company should exit from "dog" industries, and that the company should have a balanced portfolio of "stars," "cash cows," and "question marks."

Companies that followed these recommendations blindly made important strategic errors. One reason is that it is too simplistic to take important investment decisions based on just two, historically oriented dimensions. The historical performance of business or the historical growth pattern of markets were not guaranteed to continue along the same trajectory in future. Secondly, the relationship between market share and cost savings is not as straightforward as assumed by the growth-share matrix, for example in industries using low-share technologies such as mini-mills or micro-breweries, and in industries benefiting from computer-assisted manufacturing (CAM). Thirdly, even "cash cows" may require substantial investment to be kept competitive; for example, the motor vehicle industry is indeed low-growth and relatively consolidated, but it is also characterized by cut-throat competition. If the leading competitors reduce their investment in new vehicle designs, and product or process innovations in general, they are likely to be quickly overtaken by other more capable competitors. Lastly, portfolio planning techniques tend to view businesses as free-standing entities, and thus ignore any potential or actual synergies between them.

Improved models of portfolio planning techniques have been developed, which address some of the above flaws, one example being the McKinsey/GE matrix. Even though such models are definite improvements over the BCG matrix, in that they address a much higher number of relevant dimensions of industry attractiveness and business strength, they still have some drawbacks. They still tend to regard businesses as independent, downplay diversification as a strategy for creating value since they focus on existing businesses, and undervalue the need to leverage distinctive competencies and resources across business units to achieve synergies.

A significant alternative approach is Hamel and Prahalad's view of the corporation as a portfolio of *core competencies* as opposed to a portfolio of businesses (Hamel and Prahalad 1994). Building on the resource-based view of the firm, (Wernerfelt 1984) this view has important implications for investment decisions that are quite different from the implications arising from using portfolio tools such as the BCG matrix. The aim shifts from strict maximization of financial performance of SBUs in the short term, to longer-term investment in the nurturing and creation of core competencies across SBUs that can enable the company to be a winner in the future; they thus focus on "opportunity share" rather than simply market share.

The industrial organization model

Meanwhile, developments in the academic sphere continued. Two streams of strategy research are particularly worth noting because of their significant influence on the field: the industrial organization model, and the resource-based model. The industrial organization (IO) model focuses on the industry structure or attractiveness of the external environment, suggesting that the performance of any firm is largely determined by market characteristics (Porter 1980). Economists have traditionally assumed a situation of perfect competition, where several equally capable competitors would gradually eliminate super-normal profits, and the choice of competing firms would be either to produce efficiently and price at cost, or exit the industry. This emphasis has downplayed the empirically differential internal capabilities of firms, and focused on market structure, leading to the Structure–Conduct–Performance (S–C–P) paradigm (that market structure would determine firm conduct which would determine performance). This was based on research by Edward Mason (1939) and Joe Bain (1951, 1956), two Harvard economists. Bain (1956) identified three main barriers to entry to an industry as a means of explaining why some industries are more profitable than others: absolute cost advantages, product differentiation, and economies of scale. These entry barriers are linked with two out of three "generic" strategies subsequently proposed by Michael Porter, then a joint economics/business doctoral researcher at Harvard: cost leadership, differentiation, and focus (Porter 1980). Michael Porter proposed his well-known "five

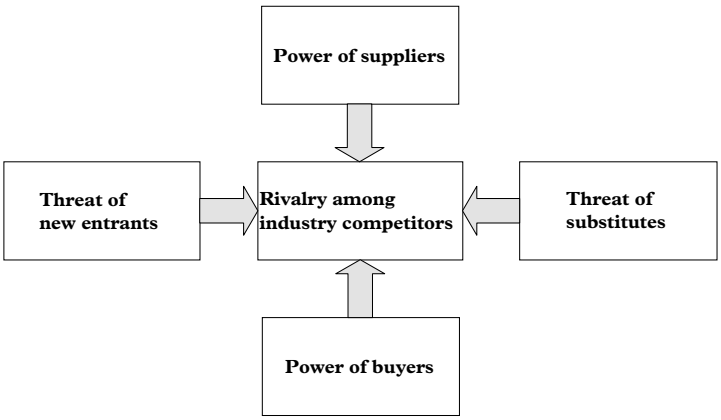

Figure 1.3 Porter's five forces framework for industry analysis
Source: Porter (1980).

forces" framework for industry analysis as a more structured way to evaluate industry attractiveness and explaining the differential performance of industries (figure 1.3). Porter's model was an advance over existing understandings of the market in that it emphasized extended competition rather than simply current competitors, in the form of threat from substitute products, as well as offering a memorable, structured framework that could be easily applied.

One subsequent development is the introduction of the concept of "complementors" (Bradenburger and Nalebuff 1996), firms from which customers buy, or suppliers sell, complementary products or services. Porter, however, believes that the relationship of complementors to industry profitability is not "monotonic," and that it has to be analyzed not as a force in its own right but through its effects on the five forces. He made similar arguments for the role of government, that some have proposed as a sixth force (Porter 2002).

This early research set the foundations for the IO paradigm of strategic management; this includes using the industry as the unit of analysis, addressing the content rather than the process of strategies, methodologically employing archival data longitudinally, and posing the dominant inference pattern that industry structure sets limits on firm performance (Jemison 1981).

The realization that profitability differences within industries can be even greater than across industries, led to research on strategic groups

(Hunt 1972) that aimed to explain this differential. Companies within the same strategic group follow the same or similar strategies along certain dimensions (Porter 1980: 129), and movement from one strategic group to another is hindered by so-called "mobility barriers" (Caves and Porter 1977), a similar concept to "barriers to entry."

Another aspect of industries highlighted by IO research is that they can be fragmented or consolidated to various degrees. Fragmented industries are often characterized by low entry barriers and commodity-like products. Consolidated industries, on the other hand, have higher entry barriers and are composed of interdependent firms. Industry structure is dynamic; industries can move from being fragmented to more consolidated after an industry shakeout; or they can become fragmented after the entry of new competitors enabled by environmental shifts such as deregulation or the availability of new technologies or new distribution channels.

Porter's value chain and generic strategies

Michael Porter also developed the value chain as a tool for analyzing an organization's internal activities. This represents the flow of activities that results in a product or service of value to the customer. "Primary" activities relate to manufacturing, marketing, sales, and service, and "support" activities relate to infrastructure (structure and leadership), human resources (HR), research and development (R&D), and materials management. Use of the value chain can enable a company gain a deeper understanding of where its distinctive value-adding competencies lie, or identify problems with its functioning. Porter has shown how successful strategies involve clear choices as well as mutual reinforcement among a firm's internal activities (Porter 1996). For example, a successful strategy of cost leadership involves cost control in all of a firm's activities which are mutually reinforcing to deliver a product or service of sufficient quality at a lower cost than most or all competitors.

With regard to generic strategies, Porter argues that "the fundamental basis of above-average performance in the long run is sustainable competitive advantage . . . there are two basic types of competitive advantage a firm can possess: low cost or differentiation . . . combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies . . . Each of the generic strategies involves a

fundamentally different route to competitive advantage" (Porter 1985: 11). Porter believes that a company should not try to follow more than one generic strategy, otherwise it risks being "stuck in the middle," achieving neither cost leadership nor differentiation: "achieving competitive advantage requires a firm to make a choice . . . Being "all things to all people" is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all" (Porter 1985: 12). Porter believes that it is possible for a firm to achieve both cost leadership and differentiation, but only where its competitors are stuck in the middle, cost is greatly affected by market share or firm interrelationships, or a firm pioneers a major innovation (1985: 19–20). All of these situations, however, are seen as temporary, and there will come a time when a firm has to make a choice: "A firm should always aggressively pursue all cost reduction opportunities that do not sacrifice differentiation. A firm should also pursue all differentiation opportunities that are not costly. Beyond this point, however, a firm should be prepared to choose what its ultimate competitive advantage will be and resolve the tradeoffs accordingly" (1985: 20).

Whether cost leadership and differentiation are compatible or not has been a point of controversy. Hill (1988), for example, has argued that it is possible to have both, under certain conditions. He argues that investment to increase differentiation can improve brand loyalty and expand sales, in turn reducing the long-run average costs. In this way, differentation allows a firm also to attain a low-cost position. This proposition holds, however, only when expenditure on differentiation significantly increases demand, and when the extent to which significant reductions in unit costs arise from increasing volume.

Generic strategies can be seen as a first step in deciding on business-level strategies. A company has also to decide on its particular image or positioning in the market and on its sales appeal to customers. For example, differentiators in the vehicle industry may choose to be principally differentiated in terms of luxury (Rolls-Royce), speed and styling (Ferrari), engineering excellence (Mercedes, BMW), and/or safety (Volvo). Companies can also attempt to reposition themselves if they believe that this will lead to competitive advantage. For example, Volvo attempted to reposition not only as a brand associated with safety, but also associated with speed, and aired advertisements portraying a race between a Volvo and a BMW vehicle, with the Volvo

winning. BMW complained to the US advertising authorities, who ruled that the advertisement was not misleading because, taking into account the particular models shown, Volvo was indeed the faster. The point is, however, that not many consumers were ultimately convinced of the Volvo brand's sportiness, illustrating how difficult it is to alter an already diffused brand image.

Organizational economics

Two branches of organizational economics, transaction costs economics and agency theory, have been particularly influential in the strategic management field. Transaction costs economics (Williamson 1975, 1985) seeks to explain the existence of organizations (hierarchies) based on their higher efficiency in carrying through certain transactions, as compared to markets. The goal is minimization of transaction costs and the unit of analysis is firm-level dyadic transactions. Transaction cost logic can explain the widespread adoption of the multi-divisional form, as well as the potential benefits that accrue to firms undertaking related diversification (through economies of scope) or unrelated diversification (through financial economies within an internal capital market).

Agency theory (Jensen and Meckling 1976; Fama and Jensen 1983) suggests that the separation of ownership and control in modern corporations leads to a divergence of interest between the principals (shareholders) and the agents (managers). It is assumed that the agents will act in a self-interested and opportunistic way to maximize their own interests at the expense of the principals. Governance mechanisms thus become necessary. Internally they include the board of directors and configuration of executive compensation, and externally the market for corporate control and the market for managerial talent. Agency theory has been particularly influential in research on corporate governance, diversification, and firm innovation.

The resource-based view

While the traditional IO paradigm downplays internal firm capabilities and resources that can lead to competitive advantage, the resource-based view suggests that above-average returns for any firm are largely determined by characteristics inside the firm. This view focuses on

developing or obtaining valuable resources and capabilities which are difficult or impossible for rivals to imitate, because their link with the firm's competitive advantage may be causally ambiguous or the resources themselves may be socially complex. Thus, capabilities and resources that are valuable, rare, imperfectly imitable, and not substitutable can enable a firm achieve sustainable competitive advantage (Barney 1991).

While the concept of firms as sets of resources was originated by Penrose (1959), it was Wernerfelt (1984) who more formally formulated the resource-based view of the firm. He suggested that most economic tools were relevant to the product/market domain, whereas the traditional view of strategy was more concerned with a firm's resource position in terms of strengths and weaknesses. He suggested that some resources can lead to higher profitability because they pose "resource position barriers" (Wernerfelt 1984: 172), that a firm should strike a balance between exploiting existing resources and developing new ones, and that acquisitions could be seen as purchasing a set of resources. His definition of resources was "anything that could be thought of as a strength or weakness of a given firm. More formally, a firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semipermanently to the firm... Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures, capital, etc." (1984: 172). Barney *et al.* (2001: 625) echoed this definition when they defined resources and capabilities as "bundles of tangible and intangible assets, including a firm's management skills, its organizational processes and routines, and the information and knowledge it controls."

The resource-based view of the firm has had immense influence on strategic management theory and practice since the late 1980s. It has contributed to fields as diverse as human resource management (HRM), economics and finance, entrepreneurship, marketing, and international business. Further potentially useful contributions can be made to the areas of organizational adaptation in fast-moving environments (in the form of "dynamic capabilities"), corporate governance, management buyouts or venture capital financing (Barney *et al.* 2001).

The substantial influence of the resource-based view was partly because of its consonance with ongoing research at the time, as well as its consonance with the classic Harvard business policy model (Wernerfelt 1995). With regard to theory, subsequent studies focused on specific

resources such as culture (Barney 1986), the dynamics of resource acquisition and shedding (Montgomery 1995), and the potential inertial effects of certain resources (Leonard-Barton 1992). In spite of all the research, however, we still know more about markets than about resources: "we have a rich taxonomy of markets and substantial technical and empirical knowledge about market structures. In contrast, "resources" remain an amorphous heap to most of us" (Wernerfelt 1995: 172). For this reason, scholars have called for more in-depth, qualitative studies (Rouse and Daellenbach 1999) that can more effectively capture the nature and functioning of intangible resources such as organizational culture or innovation capability.

Hoskisson *et al.* (1999), using the metaphor of a pendulum, argue that strategic management research began inside the firm, with the classical Business Policy approach at Harvard in the 1960s. It then swung outside to the market through the influence of IO economics (encompassing research under the S–C–P paradigm, strategic groups, and competitive dynamics), began to swing back towards the firm under the influence of organizational economics (encompassing transaction cost economics and agency theory), and in the 1990s returned inside the firm, with the popularity of the resource-based view.

Sustainability of competitive advantage and dynamic capabilities

According to Hoskisson *et al.* (1999: 444):

> from an IO economics perspective, mobility barriers or market positions are the critical sources of competitive advantages that lead to superior performance. Organizational economics is more concerned with devising appropriate governance mechanisms or contracts to help reduce transaction or agency costs. However, the advance of the resource based view has refocused the field of strategic management on the firm's internal characteristics and views firms' internal resources as the source of competitive advantage. While all three theoretical perspectives have significantly advanced our understanding of the sources of competitive advantage and hence firm performance, the sustainability of firms' competitive advantages has increasingly become an important question.

Sustainability of competitive advantage is fleeting. A study by McKinsey Consultants found that out of 208 companies in various industries, only three could sustain their competitive advantage (in terms

of above-average profitability and growth) over a ten-year period (Ghemawat 2000). In addition, analysis of 700 business units showed that 90 percent of the profitability differentials between above-average and below-average performers disappeared over a ten-year period (Ghemawat 1986). This was referred to as the "Red Queen" effect, where companies have to deal with continually improving competitors and therefore have to "keep running" as fast in order just to stay in the game.

Factors that influence the sustainability of competitive advantage include the extent to which a company's competencies are valuable, rare, imperfectly imitable and non-substitutable, the dynamism of the industry context, and the capabilities of competitors. Tangible resources, such as production facilities, are the easiest to imitate. Intangible resources such as brand name and trademarks are harder to imitate. Capabilities such as innovation capability or absorptive capacity (Cohen and Levinthal 1990) are the hardest to imitate, because they do not reside in any one individual, but in the routines and culture of the organization as a whole.

A company without sustainable competitive advantage is in danger of imminent failure, in terms of sustained below-average performance and finally bankruptcy. Companies can fail for several reasons, including organizational inertia that hinders change (Kelly and Amburgey 1991), misplaced prior strategic commitments (Ghemawat 1991), or the "Icarus paradox" (Miller 1992) – being so content with their success that they lose touch with their customers and the shifts in their competitive environment.

Disenchantment with the traditional planning approach and fragmentation in the strategic management field

The "planning view" of strategy developed at Harvard in the 1960s holds that strategy is a rational, top-down, structured process that involves clear steps of establishing mission and goals, conducting internal and external analyses, choosing strategies at the corporate, business and functional levels, and then implementing these strategies through changes in the organizational structure and control systems. This traditional view has been criticized on various grounds, however, including the fact that it downplays the existence of unintended consequences of actions and the inherent unpredictability of the environment, sees

Table 1.1 ***History lessons on the future***

"Think there is a world market for maybe five computers" (Thomas Watson, Chairman of IBM, 1943)
"Nobody wants to watch a box night after night" (Daryl I F. Zanuck, Chairman of 20th Century Fox, rejecting television, 1949)
"We don't like their sound, and guitar music is on the way out" (The Decca Recording Company, rejecting the Beatles, 1962)
"This 'telephone' has too many shortcomings to be seriously considered as a means of communication" (Western Union internal memo, 1896)
"Whatever could possibly be invented, has now been invented" (The head of the US Patent Office, 1899)
"There is no reason anyone would want a computer in their home" (Ken Olsen, President and founder, Digital Equipment Corp., 1977)

strategy as an exclusively top-down process, and ignores the role of emergent strategy.

Global trends such as inter-organizational networking, accelerated product and process innovations, new technologies, deregulation and liberalization, globalization of product and financial markets, higher consumer sophistication, and intensifying competition, spurred the development of more flexible planning approaches such as "scenario planning" (Wack 1985a, 1985b). Since the traditional planning paradigm was based on the assumption that the future can be reasonably predictable, or at least that the firm can make plans and allocate resources in fixed ways that will not be negated by environmental changes, it was soon realized that this approach was not feasible. Managers realized that attempts to predict the future were doomed to failure. Some high-profile misjudgements are illustrated in table 1.1.

A trenchant critic of the traditional planning paradigm is Henry Mintzberg (1987), who argues that strategy is a multi-dimensional concept and that at least five different views of strategy are required; *intended* strategy, which may remain unrealized; *deliberate* strategy, where resources are invested in the intended strategy; *realized* strategy, either intended or not; strategy that is intended but remains *unrealized*; and *emergent* strategy, which arises from the grass roots of the organization.

Other critics included Hamel and Prahalad (1994), who argue that the traditional planning model of strategy focuses too much on the concept of "fit" between environmental conditions and organizational capabilities and resources. This focus on fit and the present, however, could prevent a company from thinking about how to develop its capabilities for creating winning products for the future. Managers were therefore advised not to think just in terms of market share, but also in terms of "opportunity share." Companies should create new competitive space through introducing groundbreaking new products, as opposed to fighting for incremental slices of the same pie.

These criticisms led to a "behavioral" view of strategy, where strategy is seen as a pattern of decisions and actions at the organizational level (Mintzberg 1978). These decisions and actions are not always "rational" (in the classical sense of being solely based on structure and objective analysis), in that they are influenced by the sociopolitical climate and the existing routines, structure, and systems of the organization.

A related "interpretative" view of strategy has also emerged. In this view, strategy is the product of the minds and ideologies of individuals and groups in the organization. This view emphasizes the fact that the relation between the organization and its competitive environment is always mediated by how individuals in the organization interpret both its environment and capabilities. In turn, strategic decisions and actions are based on these interpretations, and an adequate understanding of the strategy of the organization must include the particular interpretations of actors in the organization (Chaffee 1985). Mintzberg *et al.* (1998) present a useful overview of the fragmentation of the strategy field, identifying ten schools of strategic thought (table 1.2).

Despite the fragmentation of the strategy field, there are some areas of agreement; strategy concerns both the organization and its environment, and an effective strategy is important for the welfare of the organization. The substance of strategy is complex, non-routine and unstructured, and its study involves issues of content, context and process (Pettigrew 1987). Lastly, strategies are not purely or simply deliberate; they can be intended but unrealized, or emergent; strategies exist on different levels – the corporate, business, and functional levels; and their development involves various thought processes, including both analytical and creative ones (Chaffee 1985).

Table 1.2 ***Ten schools of strategic thought***

Strategy school	*View of strategy: strategy formation as:*
Design school	A process of *conception*
Planning school	A *formal* process
Positioning school	An *analytical* process
Entrepreneurial school	A *visionary* process
Cognitive school	A *mental* process
Learning school	An *emergent* process
Power school	A process of *negotiation*
Cultural school	A *collective* process
Environmental school	A *reactive* process
Configuration school	A process of *transformation*

Source: Mintzberg *et al.* (1998).

Dominant strategic management approaches based on industrial organization and organizational economics, however, and even the resource-based view that at face value looks inside the firm, tend to neglect social and organizational factors in the strategy process. In particular, the role of human agency (the strategists who form the dominant coalition, and how they make strategic choices), as well as the organizational paradigm within which strategic decisions and actions take place, are rarely seriously analyzed. Chapter 2 develops an organizational action (OA) view of strategic management that incorporates these aspects, and integrates them with the traditional concerns of the S–C–P paradigm. But this integration occurs in the context of a different set of guiding assumptions, that acknowledge multi-directional, systemic effects on the strategy process, conditioned rationalities of agents, and messy socio-political organizational processes that nevertheless have an important bearing on strategic decisions and actions.

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