

## What is Strategy Anyway?

On the face of it, defining “business strategy” seems like a no-brainer. Yet when I was confronted with the challenge recently in a faculty meeting, I found myself rather less than articulate. “Bad form!” you might say, for a professor of the subject, and more important, a columnist on strategy for this fine journal.

OK, so you got me. But before you get too critical, dear reader, how about taking a shot at it yourself?

.... I’m waiting....

Ah, see what I mean? It’s not as easy as it might at first appear.

The fact is, there are many, many definitions of strategy, some highlighted here. Most of these are from academic books about strategy and are among those commonly tossed around in business schools today. You might think dueling over definitions is a faculty thing (we get paid for it), but there is a real advantage for practitioners who have a working definition of strategy, an advantage that comes in the form of time.

Time is the most expensive and scarcest of all corporate commodities. A corporate-wide agreement on a (working) definition of strategy saves the organization precious time in establishing the strategy formation process. More important, it saves time and money by focusing the organization on critical strategic analysis and facts, on sorting the relevant alternatives, and on selecting the optimum strategy (and not the tactics, the most common error I’ve found in corporate practice).

And, perhaps most important of all, it saves time during the implementation of a chosen strategy and the constant tracking and evaluation required. Exact or near agreement on what constitutes strategy, why it’s important, and how it is articulated and executed will save many hours of debate and lost resources.

### Defining Strategy

Well, I finally got my act together and share with you now my humble (and brief) contribution to the strategy definition debate:

Strategy is understanding an industry structure and dynamics, determining the organization’s relative position in that industry, and taking action to either change the industry’s structure or the organization’s position to improve organizational results.

This definition en-compasses all the major activities undertaken in the strategy process and should focus practitioners and scholars alike on what’s important (i.e., what drives the amount and nature of corporate success). Industry structure and dynamics determine the broad parameters of growth and earnings potential and delimit what is realistically possible to achieve. The firm’s relative position in a given industry structure sets its specific achievement profile and the scope of its strategic options. Finally, industry or organizational change defines the specific organization responses to its strategic (structural and positional) circumstance and aspirations.

While no definition is perfect (and, granted, this one suffers from lack of detailed specifics when compared to some of those offered in the accompanying sidebar), it does offer the practitioner a general place to start in determining an approach that a particular firm might use.

To help broaden your thinking about the definition of strategy, I offer a brief review of the history of strategic thinking.

### The Evolution of Business

#### Strategy: Strategic Metaphors

One time-honored way to come to grips with a difficult concept such as strategy is to think in terms of metaphors (basically something that is “linguistically transformed to ‘stand for’ something else”). An early and persistent model was that of strategy as war (and later modified to strategy as sport.)

**Strategy as War.** The word “strategy” is derived from the Greek word *strategia*, meaning “generalship.” For early commercial enterprises that moved beyond the family firm, business approaches often mirrored those of the military. The command and control models Army generals used moved easily into business practice with little alteration. Company heads commanded the troops while winning battles through sheer force (superior resources), because they had an impenetrable fortress (a protected market or monopoly), or via guerrilla warfare (going after competitors when they’re not expecting it).

Some of these thematic elements still exist today. Many top executives regard Sun Tzu’s *The Art of War*, written more than 2000 years ago, as required reading. The command and control model was pervasive until the dawn of antitrust legislation at the

turn of the century, and its lifecycle was extended by the Great Depression. Keeping workers happy or motivated was rarely a consideration, and companies were much more likely to dictate to customers what they could buy than to listen to what buyers wanted. Strategy was primarily centered on winning the war by eliminating competitors.

**Strategy as Machine.** World War II demonstrated that the winner was the one with the better “industrial machine.” Thus, the war metaphor gave way to a view of strategy as essentially an industrial process that, just like a factory, was largely mechanized. The prescribed approaches to strategy seemed to suggest (just as with a machine) “if you press this button or pull this lever, then such and such would happen.”

With its new emphasis on mechanistic processes, the idea of strategic planning drew more attention in academic circles through the 1960s. Major corporations created strategic planning staffs and began to implement systematic planning processes. For the first time, strategy became a business process that was seen as manageable, in the same manner as other elements of the business. Many of today’s key terms and tools—as well as a number of strategy consulting firms—were developed during this period. Courses on strategic planning began to enter the business school curriculum in a limited fashion.

However, just as enhanced communication and global planning permanently changed the nature of warfare, these factors also affected the nature of business. By the late 1960s, business had become more international, more complex, and more sophisticated as firms rushed to reinvent themselves and grab global market share. Firms realized that there was a “web” of interrelated stakeholders who directly affected success. What was needed, then, was a new metaphor.

**Strategy as Network.** The global shocks of the 1970s illustrated the importance of flexibility, non-linear thinking (i.e., strategy was not simply an extension of current trends), and rapid communication in strategic thinking. Many companies burdened with a rigid planning process (or no planning process at all) suffered devastating consequences at the hands of escalating oil prices, war, government instability, and increasing global competition.

The 1980s saw the rise of Japan and its consequent effect on strategic planning theory and practice. The rapid advances in technology also had a dramatic effect, with the humble bar code turning inventory management upside down and the rise of

ERP computer systems allowing managers to track widespread geographic activity in real time. Harvard professor and strategy guru Michael Porter wrote his most important works during this period and shaped several generations of academic and practitioner thinking about strategy.

As the personal computer and advanced robotics became more widespread, productivity increased, and managers gained a wider view of operations than ever before. The 1980s were a golden time in the history of strategy: The decade witnessed the start of global planning processes, corporate reengineering, the “information-based organization,” and recognition of the employee as a key resource.

The 1990s were a boom time for the United States, which sealed its role as the dominant world leader. Strategic thinking was affected by the rise of the Internet, accelerating advances in technology of all kinds, and a continuing striving for efficiency and low-cost production, putting the focus on a firm’s ability to “add and migrate value.” Strategic planning and continual revision became entrenched as a vital core of the corporation.

**Strategy as Biology.** Perhaps the most important change in strategic thinking in this period, though, was the recognition of the critical role customers played and their intimate relationship with the “ecology” of the firm. With few exceptions (e.g., government-dictated monopolies) the customer has always been the final arbitrator of corporate strategic success, particularly over the long term.

However, as a result of the proliferation of information technologies during the late 1990s, the customer role in strategy formulation became more immediate and instantly powerful, influencing the life of the firm just as a living organism interacts with its environment. (In an earlier column I argued somewhat forcefully for real customer input and participation in the strategy process, but I’ve seen little evidence that it has happened.)

This strong and continuous interaction of a firm with its environment (particularly its customers) begs for a new metaphor. Occasionally, one hears a biological metaphor suggested for a firm and its strategy. It’s too early to be certain, but I predict strategy as biology will be the dominant strategic metaphor for this current decade.

## Strategy Today

What is strategy today if the CEO is the DNA of a firm rather than the ultimate manager pushing buttons or leading a platoon? If innovation and

change are being created as a natural and intimate part of a constantly mutating organism?

This is where many definitions of strategy fail. Even mine. Most definitions are written by academics for other academics and their students, or, at best, by consultants for their CEO/CFO/Chairman clients, and most fail to capture the currents of change in business.

The dismal state of the world economy in the first two years of new millennium, and the unpredictable result of the terrorist assault on U.S. economic and business institutions on September 11, 2001, make judgments about the state of strategy today even more difficult.

However, while admittedly not perfect, the definition I advance does argue for a more organic view of strategy. To me, strategy is the process of understanding the industry (its ecology) and the firm's position in that industry (its genetic makeup). It involves understanding whether the firm can either improve the structure of its industry or improve its position within the industry (either a revolutionary or evolutionary path).

It asks the question: Can the firm be better than average in its current industry (get beyond its DNA)? If not, it must change the structure of the industry or place itself in another industry where it can be dominant (mutate or die).

While I'm not entirely happy with my definition, it will have to do for the moment. Next faculty meeting I'll try to be a more articulate in defining strategy. In the meantime, though, practitioners need to have a working definition that they and their colleagues agree on and use.

Here in the Ivory Tower, it's simply a matter of debate. For those of you in the real world, it can spell the difference between corporate life and death.

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