

Rethinking strategy:

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It seems unnecessary to make the observation that work has changed significantly over the past decade. For some time, the combined forces of globalisation, technological change, changes in regulatory systems and a more educated society have conspired to increase the apparent rate of change in the environment. However, symbols are important, and it has only been since the collapse of the 'Iron Curtain', (symbolised by the fall of the Berlin wall in 1989), that we have seen the free market system developing to its full potential in an environment of unpredictable and, at times, seemingly chaotic change.

One of the major consequences has been the emergence of the key role ascribed to shareholders. From the limited company being established as a legal device to allow the coordination of sufficient capital to allow major works to be undertaken, we have created an investment and financial system that seems to have become dominant in peoples' thinking. Directors see themselves as responsible to shareholders in the first instance, rather than to the objectives of the organisation they serve. Shareholders behave as owners rather than punters, and institutional investors act as executive directors rather than non-executive members of the board. Financial analysts are left with the uncomfortable job of trying to advise investors, knowing full well that quarterly results are insufficient to make judgements about the future of a company, but lacking the hard facts to back their assessments.

Equally important is the recognition that the capitalist market system requires innovation - it demands innovation, as has been pointed out so eloquently by Schumpeter, and innovation is "creative destruction". Creative destruction destroys everything in order to continue to innovate, including previous innovations, traditions, customs and values. Furthermore, as the open market system becomes more pervasive, so it includes more and more within its operations. This, of course, is the significance of innovations in communications and information technologies - they have created the possibility of a world market, a possibility that has become a reality over the last decade. Globalisation - the shrinking of time and distance - has made it possible to trade across the world. This was first realised by financial traders and arbitrageurs, and as a result the flows of money for investment and for hedging transactions have become truly global. Thanks to the Internet, now a second major shift is taking place, the rise of e-business, and business to business/consumer trading.

In a global market, the two keys to success are said to be differentiation and cost: either you produce something that no-one else does, or you produce something at the best price for that item with that level of quality (design, functionality, durability, etc.). In today's world, organisations want to combine innovation with cost-effectiveness. As one of the major costs of any organisation turns out to be staff, there is an inevitable interest in reducing staff costs and maximising productivity.

Clearly, even if this account is a little overdrawn, there must be concern over the current emphasis on the financial rationality of business, and its impact on the staff of organisations. In fact, while there has not been enough research in the area, those who have examined those organisations that have shown sustained levels of superior performance have found that there are two key factors:

- the recognition of the importance of stakeholders in terms of company strategy and behaviour, and
- the importance of a set of consistent values that link that strategy and behaviour to stakeholders.

Of course, for many people the notion of a stakeholder is seen as rather irrelevant. Indeed, as already noted it has become conventional in recent years to place a great deal of emphasis on shareholders, and the responsibility of companies towards their shareholders, and increasing shareholder value.

However, the current emphasis on shareholders is usually accompanied by equally assertive comments about the importance of responding to the market, and the centrality of customer satisfaction. Indeed, most proponents of the importance of shareholder value would accept that this is achieved by meeting customer needs: it takes only an imperceptible shift to recognise that this is the same as saying that both shareholders and customers are stakeholders - that is, people who have an interest in what an organisation does, and whose interests have to be addressed by the organisation. One further small step, to acknowledge that governments set regulations and laws that companies have to address and meet - and we have the stakeholder approach in practice!

Of course, it is not as simple as that. However, many organisations do - and in some cases must - recognise a number of stakeholders, and while in theory it is an unnecessary and meaningless task to try and assert that any one stakeholder should be given primacy over the others - it reminds us of disputes about how many angels can dance on the head of a pin - in practice such rankings are made.

As the stakeholder approach is gaining greater interest, one outcome that seems to be gaining in importance has to do with the impact of the stakeholder approach on business plans and the strategic approach of enterprises. By this, I refer to the ways in which organisations seek to direct their activities into the future, and the implications of understanding the stakeholder perspective for developing strategies.

Strategy used to be about developing longer term plans in a relatively slowly changing and predictable environment. The pace of innovation has destroyed both the speed of change in the environment, and its predictability. This has had two consequences.

First, the linear approach to strategy is making less and less sense. The approach established several years ago relied on a logic whereby you started with your mission, vision and objectives, then assessed the environment, and future trends, together with

organisational strengths and weaknesses. You used all this information, combined with competitor analysis, to develop strategic options, chose your preferred strategy, and then implemented the strategic plan based on that strategy.

The wonderful sequential logic of this approach is having to be cast aside as organisations try to deal with change. Presentations on strategy talk about quite different concepts, about intent, not plans. Strategy is concerned with flexibility and opportunism, not just following a direction; it is complex, dynamic, and multidimensional, not rational and unidirectional. Strategists emphasise speed, reinvention, and living 'on the edge of chaos'.

Second, however, is the recognition that strategy is intimately involved with the way in which the organisation sees itself. From a stakeholder model approach, strategy has to be rethought in the face of the additional complexity of different types of strategy being required for different stakeholders. It requires the development of complex success models that reflect the range of stakeholder expectations and needs, and it requires strategic responses that differentiate stakeholders and needs.

Thus employees may require a process approach to strategy, whereas governments and shareholders may require an outcome-oriented approach. Existing customers may require an innovation-based approach that is incremental and iterative; new customers may require radical and reinvent innovation. Criteria for assessing opportunities and risk may be more important in many industries than criteria for shaping innovation and planned change.

These comments lead into the further implication, which is that the importance of stakeholders has grown. Much strategic analysis was, in the past, driven by the organisation's own staff, and often by a specialist group within these. Today, business units may develop their own strategies, within an overall framework, and strategic initiatives may embrace the involvement of a variety of stakeholders.

This has demonstrated in the car industry by new approaches to developing new models: instead of having this done by engineers and designers (often at different stages, and in conflict with one another), teams are established comprising both these people, but also customers, dealers, sales and marketing staff, etc.. Even more innovative are approaches to strategy where innovation is built in on a continuing basis, and is driven as much by customers as it is by staff: this has been used increasingly successfully in the fashion industry, where customers become part of the on-going innovation and development team.

Those companies that focus on traditional approaches find it increasingly difficult to maintain market leadership and competitive advantage. This is well illustrated in the computer industry. Companies come, and then they go if they are unable to respond in new and creative ways to their environment, as new technologies and innovations see leaders 'leadership' overtaken.

Strategy in the next decade or so is likely to look very different from the ‘strategic planning’ favoured for many years. It is likely to be more concerned with intent and direction and less with plans and targets. It is likely to be more exploratory, flexible and experimental. Perhaps it might be useful to think of it in terms of analogies – less about the blueprint to manufacture a car, and more like the complex code of biological organisms that allow them to grow and develop in the light of circumstances and changes.