The Strategy Concept II: Another Look at Why Organizations Need Strategies

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In the preceding article, I proposed five definitions of strategy—as a plan, ploy, pattern, position, and perspective. Drawing on these, I wish to investigate here the question of why organizations really do need strategies. In discussing some of the conventional reasons as well as other ones—to set direction, focus effort, define the organization, provide consistency—I will consider how these may suggest not only why organizations *do* need strategies, but also why they *don't.*

Setting Direction

Most commentators, focussing on the notions of strategy as deliberate plan and market position, argue that *organizations need strategy to set direction for themselves and to outsmart competitors, or at least enable themselves to maneuver through threatening environments.* In its boldest (and baldest) form: "the main role of strategy is to evolve a trajectory or flight path toward that bull's eye."[1] If its strategy is good, such commentators argue, then the organization can make various mistakes, indeed can sometimes even start from a weaker position, and still come out on top. Chandler quotes one of the men responsible for Sears Roebuck's great success: "Business is like war in one respect—if its grand strategy is correct . . . any number of tactical errors can be made and yet the enterprise proves successful."[2] In a similar vein, Tilles explains that:

> When Hannibal inflected the humiliating defeat on the Roman army at Cannae in 216 B.C., he led a ragged band against soldiers who were in possession of superior arms, better training, and competent 'noncoms.' His strategy, however, was so superior that all of those advantages proved to be relatively insignificant.[3]

The assumption here is that the competitor with the better strategy will win, or, as a corollary, that the competitor with a clear strategy will beat the one that has none. Strategy, it is suggested, counts for more than operations: what really matters is *thinking* it through; *seeing* it through, while hardly incidental, is nonetheless secondary. "Doing the right thing" beats "doing things right" is the expression for such strategic thinking, or to take the favorite example of the opposite, "rearranging the deck chairs on the Titanic."

Sound strategic thinking can certainly explain a good deal of success, in fact, more success than it should, since it is always easy, after the fact, to impute a brilliant strategy (and, behind it, a brilliant strategist) to every great victory. But no shortage of failure can probably be attributed to organizations that got their strategy right while messing up their operations. Indeed, an overdose of strategic thinking can impede effectiveness in the operations, which is exactly what happened on the Titanic. The ship did not go down because they were rearranging the deck chairs at all, but for exactly the opposite reason: they were so busy glorying in the strategy of it all—that boat as a brilliant conception—that they neglected to look out for icebergs.

As for the assumption that any strategy is always better than none, consider an oil company executive in 1973, just as the price of oil went up by a factor of four. What strategy (as plan) should he have pursued when his whole world was suddenly upset. Setting oneself on a predetermined course in unknown waters is the perfect way to sail straight into an iceberg. Sometimes it is better to move slowly, a little bit at a time, looking not too far ahead but very carefully, so that behavior can be shifted on a moment's notice.

The point is not that organizations don't need direction, it is that they don't need homilies. It stands to reason that it is better to have a good strategy, all things being equal. But all things are never equal. The Titanic experience shows how a good strategy can blind an organization to the need to manage its operations. Besides, it is not always clear what a good strategy is, or indeed if it is not better at times to proceed without what amounts to the straitjacket of a clear intended strategy.

Focussing Effort

A second major claim, looking inside the organization, is that *strategy is needed to focus effort and promote coordination of activity.* Without strategy, an organization is a collection of individuals, each going his or her own way, or else looking for something to do. The essence of organization is *collective action*, and one thing that knits individual actors together is strategy—again, through providing a sense of direction. Alfred Sloan notes in his memoirs a justification of the consolidated product line strategy developed at General Motors under his leadership: "some kind of rational policy was called for . . . it was necessary to know what one was trying to do," especially with regard to duplication across certain product lines.[4] Of course, by so focussing effort and directing the attention of each part within the integrated whole, the organization runs the risk of being unable to change its strategy when it has to.

Defining the Organization

Third, *strategy is needed to define the organization.* Strategy serves not only to direct the attention of the people working within an organization, but also to give the organization meaning for them as well as for outsiders. As plan or pattern, but especially as position or perspective, its strategy defines the organization, providing people with a shorthand way to understand it and to differentiate it from others. Christensen et al. discuss "the power of strategy as a simplifying concept" that enables certain outsiders (they are referring here to independent directors, but the point applies to any interested outsider) "to *know* the business (in a sense) without being *in* the business."[5] Of course, that "little knowledge" can be "a dangerous thing." But there is no denying that strategy does provide a convenient way to understand an organization.

In the early 1980s, the business press was very enthusiastic about General Electric. A reading of the reports of journalists and financial analysts suggests that what really impressed them was not what General Electric had done up to that point but that its new chief executive had articulated a clear, intended strategy for the firm. Thus Kidder, Peabody opened a December 21, 1983 newsletter with the statement: "General Electric is in the process of becoming a somewhat simpler company to understand," the result of the CEO's statement that it would focus on three major segments—core businesses, high technology, and services. Later they explained that "one of the main reasons we have been recommending General Electric for the past three years is the dynamic, creative, motivational leadership that the youthful Jack Welch . . . has provided . . . . His energy, enthusiasm, and ability to articulate a tight and viable corporate strategy are very impressive." No analyst can ever hope to understand much about a company so diversified and complex as General Electric, hence a clear, articulated strategy becomes a surrogate for that understanding.

The important question is whether a simplified strategy for such a complex system helps or hinders its performance—and the question is not meant to be rhetorical. On one hand, such a strategy cannot help but violate the immense complexity of the system, encouraging various dysfunctional pressures from outsiders (directors, for example, who may try to act on their "little knowledge") or even from insiders (chief executives, for example, who try to exercise control over divisions remote form their understanding by putting them into the simplistic categories of "dog" or "cash cow"). On the other hand, the enthusiasm generated by a clear strategy—a clear sense of mission—can produce a host of positive benefits. Those stock analysts not only helped to raise General Electric's stock price, they also helped to fire up the enthusiasm of the company's suppliers and customers, as well as the employees themselves, thereby promoting commitment which can improve performance. Thus, strategy may be of help, not only technically, through the coordination of work, but also emotionally, through the development of beliefs.

Imagine an organization without a name. We would not even be able to discuss it. For all purposes—practical and otherwise—it would not exist. Now imagine an organization with a name but with no strategy, in any sense—no position, no perspective, no plan (or ploy), not even any pattern consistent in its behaviors. How would we describe it or deal with it? An organization without a strategy would be like an individual without a personality—unknown, and unknowable. Of course, we cannot imagine such an organization. But some do come close. Just as we all know bland people with hardly any personality, so too do we know organizations with hardly any sense of strategy (which Rhenman labels "marginal organizations"[6]).

Most people think of such organizations as purely opportunistic, flitting from one opportunity to another,[7] or else as lethargic, with little energy to do anything but allow inertia to take its course (which may suggest strategy as pattern but not as plan). But we need not be so negative about this. Sometimes, lack of strategy is temporary and even necessary. It may, for example, simply represent a stage in the transition from an outdated strategy to a new, more viable one. Or it may reflect the fact that an environment has turned so dynamic that it would be folly to settle on any consistency for a time (as in the oil companies in 1973).

In one study,[8] a film company that began with a very clear direction lost it over time. It never really had formal plans; at best there existed broad leadership intentions in the earliest years. But it did have a very clear position and a very distinct perspective, as well as rather focussed patterns, the latter at least at certain periods in its history. But over time, the position eroded, the perspective clouded, and the patterns multiplied, so that diffusion replaced definition. The insiders become increasingly frustrated, coming to treat their organization more like a shell under which they worked than a system of which they were an integral part. As for the outside influences, lacking any convenient means to define the organization, they attacked it increasingly for irrelevance. Ironically, the organization turned out a number of brilliant films throughout all this, but—contrary to General Electric yet reinforcing the same conclusion—what it did do proved less important than what it did not exhibit, namely, strategy as a clear sense of direction.

Providing Consistency

A return to the notion of strategy as a "simplifying concept" may provide the clearest reason as to why organizations seem to need strategies. *Strategy is needed to reduce uncertainty and provide consistency (however arbitrary* *that may be), in order to aid cognition, to satisfy intrinsic needs for order, and to promote efficiency under conditions of stability (by concentrating resources and exploiting past learning).*

Psychologist William James once described the experiences of the infant as a "blooming, buzzing confusion." According to Ornstein, who so quotes him, that is due to "the lack of a suitable categorizing scheme in which to sort experiences consistently."[9] An organization without a strategy experiences the same confusion; its collective cognition can become overloaded, its members having no way to deal with experiences consistently. Thus, strategy is a categorizing scheme by which incoming stimuli can be ordered and dispatched.

In this sense, a strategy is like a theory, indeed, it *is* a theory (as in Drucker's "theory of the business"[10])—a cognitive structure (and filter) to simplify and explain the world, and thereby to facilitate action. Rumelt captures the notion well with the comment that "the function of strategy is not to 'solve a problem,' but to so structure a situation that the emergent problems are solvable."[11] Or, as Spender puts it (and so specifies how ambitious is research on the process of strategy making): "Because strategy-making is a type of theory building, a theory of strategy-making is a theory of theory-building."[12]

But, like every theory, strategy is a simplification that necessarily distorts the reality. Strategies and theories are not reality themselves, only representations (that is, abstractions) of reality in the minds of people. Thus, every strategy must misrepresent and mistreat at least some stimuli; that is the price of having a strategy. Good strategies, like good theories, simply minimize the amount of distortion.

"Strategy," notes James Brian Quinn, "deals . . . with the unknowable."[13] But it might perhaps be more accurate to write that strategy assumes the unknowable can be made knowable, or at least controllable. As such, it is important to emphasize that strategy is a concept rooted in *stability.*[14] No one should be fooled by all the attention to change and flexibility. When Miller and Friesen write that "strategy is essentially a dynamic concept. It describes a modus operandi more than a posture, a process more than a state,"[15] they are not talking about strategy at all but about the process of making strategy. Strategy is not about adaptability in behavior but about regularity in behavior, not about discontinuity but about consistency. Organizations have strategies to reduce uncertainty, to block out the unexpected, and, as shown here, to *set* direction, *focus* effort, *define* the organization. Strategy is a force that *resists* change, not encourages it.

Why then do organizations seem to have such an overwhelming need for consistency? In other words, why the obsession with strategy? To some extent, this is a human need per se. Consistency provides us with a sense of being in control (and nowhere is this better illustrated than in the prescriptive literature of strategic management, although those of us who feel compelled to study strategy as pattern in behavior may be accused of the same thing). That is presumably why some psychologists have found that people claim to discover patterns even in streams of random numbers.[16] Moore makes this point well: strategy is "a relief from the anxiety created by complexity, unpredictability, and incomplete knowledge. As such, it has an element of compulsion about it."[17]

But there is more to the need for consistency than that. Above all, consistency is an efficient response to an environment that is stable, or at least a niche that remains lucrative.

For one thing, strategy enables the organization to concentrate its resources and exploit its opportunities and its own existing skills and knowledge to the very fullest. Strategies reflect the results of organizational learning, the patterns that have formed around those initiatives that have worked best. They help to ensure that these remain fully exploited.

Moreover, once established, strategies reduce the need to keep learning in a broad sense.[18] In this respect, strategy works for an organization much like instinct works for an animal: it facilitates fast, almost automatic response to known stimuli. To be efficient, at least in a stable environment, means to get on with things without the need to think them through each time. As Jonsson notes about "myth," his equivalent to what we call strategy as perspective:

> The myth provides the organization with a stable basis for action. It eliminates uncertainty about what has gone wrong, and it substitutes certainty: we can do it, it is up to us . . . the riskiness disappears when you 'know' what has to be done. If there is much at stake and you are uncertain as to what is wrong, action is inhibited. If you are certain about what should be done, action is precipitated.[19]

To rethink everything all the time, as Jonsson implies, is unproductive. The person who gets up every morning and asks, "Do I really want to remain married?" or even, "I wonder if it is better today to wash before I brush my teeth," will eventually drive themselves crazy, or at least work themselves into inaction. The same will be true of the organization that is constantly putting its strategies into question. That will impede its ability to get on with things. (A colleague makes this point best with his proposed epitaph: "Here lies RR: he kept his options open.")

We function best when we can take some things for granted, at least for a time. And that is a major role of strategy in organizations: it resolves the big issues so that people can get on with the little details—targeting and serving customers instead of debating which markets are best, buying and operating machines instead of wondering about different technologies, rearranging deck chairs and looking for icebergs. This applies not only at the bottom of the hierarchy, but all along it, right to the very top. Most of the time, the chief executive, too, must get on with managing the organization in a given context; he cannot continually put that context into question.

There is a tendency to picture the chief executive as a strategist, conceiving the big ideas while everyone else gets on with the little details. But his job is not like that at all. A great deal of it has to do with its own little details—reinforcing the existing perspective ("culture" is the currently popular word now) through all kinds of mundane figurehead duties, maintaining the flow of information by developing contacts and disseminating the resulting information, negotiating agreements to reinforce existing positions, and so on.[20]

The problem with all this, of course, is that eventually situations change, environments destabilize, niches disappear. Then all that is constructive and efficient about an established strategy becomes a liability. That is why even though the concept of strategy is rooted in stability, so much of the study of strategy making focusses on change. But while prescription for strategic change in the literature may come easy, management of the change itself, in practice, especially when it involves perspective, comes hard. The very encouragement of strategy to get on with it—its very role in protecting the organization against distraction[21]—impedes the organization's capacity to respond to change in the environment. As Kuhn notes, in discussing the paradigms of communities of scholars, "retooling is expensive."[22] This is especially true when it is not just machines that have to be retooled, but human minds as well. Strategy, as mental set, can blind the organization to its own outdatedness. Thus we conclude that strategies are to organizations what blinders are to horses: they keep them going in a straight line, but impede the use of peripheral vision.

And this leads to our final conclusion, which is that strategies (and the strategic management process) can be vital to organizations, both by their presence *and* by their absence.

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