

Introduction and Objectives

Strategy is about achieving success. This chapter explains what strategy is and why it is important to success, for both organizations and individuals. We will distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter will be to introduce the basic framework for strategy analysis that underlies this book. I will introduce the two basic components of strategy analysis: analysis of the external environment of the firm (mainly industry analysis) and analysis of the internal environment (primarily analysis of the firm's resources and capabilities).

By the time you have completed this chapter, you will be able to:

- ◆ Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations, and recognize the key characteristics of an effective strategy.
- ◆ Comprehend the basic framework of strategy analysis that underlies this book.
- ◆ Recognize how strategic management has evolved over the past 60 years.
- ◆ Identify and describe the strategy of a business enterprise.
- ◆ Understand how strategy is made within organizations.
- ◆ Recognize the distinctive features of strategic management among not-for-profit organizations.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

The Role of Strategy in Success

Strategy Capsules 1.1 and 1.2 describe the careers of two individuals, Queen Elizabeth II and Lady Gaga, who have been outstandingly successful in leading their organizations. Although these two remarkable women operate within vastly different arenas, can their success be attributed to any common factors?

For neither of these successful women can success be attributed to overwhelmingly superior resources. For all of Queen Elizabeth's formal status as head of state, she has very little real power and, in most respects, is a servant of the democratically elected British government. Lady Gaga is clearly a creative and capable entertainer, but few would claim that she has outstanding talents as a vocalist, musician, or songwriter.

Nor can their success be attributed either exclusively or primarily to luck. Indeed, Queen Elizabeth has experienced a succession of difficulties and tragedies, while Lady Gaga has experienced setbacks (e.g. the cancelation of her first recording

contract and various health problems). Central to their success has been their ability to respond to events—whether positive or negative—with flexibility and clarity of direction.

My contention is that common to both the 60-year successful reign of Queen Elizabeth II and the short but stellar career of Lady Gaga is the presence of a soundly formulated and effectively implemented strategy. While these strategies did not exist as explicit plans, for both Queen Elizabeth and Lady Gaga we can discern a consistency of direction based clear goals and a keen awareness of how to maneuver into a position of advantage.

Elizabeth Windsor's strategy as queen of the UK and the Commonwealth countries may be seen in the role she has created for herself in relation to her people. As queen she is figurehead for the nation, an embodiment of the stability and continuity of the nation, a symbol of British family and cultural life, and an exemplar of service and professional dedication.

Lady Gaga's remarkable success during 2008-15 reflects a career strategy that uses music as her gateway, upon which she has built a celebrity status by combining the generic tools of star creation—shock value, fashion leadership, and media presence—with a uniquely differentiated image that has captured the imagination and affection of teenagers and young adults throughout the world.

What do these two examples tell us about the characteristics of a strategy that are conducive to success? In both stories, four common factors stand out (Figure 1.1):

- *Goals that are consistent and long term:* Both Queen Elizabeth and Lady Gaga display a focused commitment to career goals that they have pursued steadfastly.
- *Profound understanding of the competitive environment:* The ways in which both Elizabeth II and Gaga define their roles and pursue their careers reveal a deep and insightful appreciation of the external environments in which they operate. Queen Elizabeth has been alert both to the changing political environment in which the monarchy is situated and to the mood and needs of the British people. Lady Gaga's business model and strategic positioning show a keen awareness of the changing economics of the music business, the marketing potential of social networking, and the needs of Generation Y.
- *Objective appraisal of resources:* Both Queen Elizabeth and Lady Gaga have been adept at recognizing and deploying the resources at their disposal. Both, too, have been aware of the limits of those resources and drawn upon the resources of others—Queen Elizabeth through her family, the royal household, and a network of loyal supporters; Lady Gaga upon the variety of talents in her Haus of Gaga.
- *Effective implementation:* Without effective implementation, the best-laid strategies are of little use. Critical to the success of Queen Elizabeth and Lady Gaga has been their effectiveness as leaders and the creation of loyal, supportive organizations to provide decision support and operational implementation.

These observations about the role of strategy in success can be made in relation to most fields of human endeavor. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome

STRATEGY CAPSULE 1.1

Queen Elizabeth II and the House of Windsor

By late 2015, Elizabeth Windsor had been queen for 63 years—longer than any of her predecessors.

At her birth on April 21, 1926, hereditary monarchies were common throughout the world. Apart from the British Empire, 45 countries had this form of government. By 2015, the forces of democracy, modernity, and reform had reduced these to 26—mostly small autocracies such as Bahrain, Qatar, Oman, Kuwait, Bhutan, and Lesotho. Monarchies had also survived in Denmark, Sweden, Norway, the Netherlands, and Belgium, but these royal families had lost most of their wealth and privileges.

By contrast, the British royal family retains considerable wealth—the Queen’s personal net worth was estimated by *Forbes* magazine at \$500 million—not including the \$10 billion worth of palaces and other real estate owned by the nation but used by her and her family. Queen Elizabeth’s formal status is head of state of the UK and 15 other Commonwealth countries (including Canada and Australia), head of the Church of England, and head of the British armed forces. Yet none of these positions confers any decision making power—her influence comes from the informal role she has established for herself. According to her website, she “has a less formal role as

Head of Nation” where she “acts as a focus for national identity, unity and pride; gives a sense of stability and continuity; officially recognises success and excellence; and supports the ideal of voluntary service” (www.royal.gov.uk).

How has Queen Elizabeth been able to retain not just the formal position of the monarchy but also its status, influence, and wealth despite the challenges of the past 60 years? These challenges include the social and political changes which have swept away most of the privileges conferred by hereditary status (including the exclusion of most hereditary lords from the House of Lords, Britain’s upper chamber of Parliament) and the internal challenges presented by such a famously dysfunctional family—including the failed marriages of most of her family members and the controversy that surrounded the life and death of her daughter-in-law, Diana, Princess of Wales.

At the heart of Elizabeth’s sustaining of the British monarchy has been her single-minded devotion to what she regards as her duties to the monarchy and to the nation. Throughout her 60-year reign she has cultivated the role of leader of her nation—a role that she has not compromised by pursuit of personal or family interests. In pursuing this role she has recognized

of a purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on these four elements almost always play an influential role.

Look at the “high achievers” in any competitive area. Whether we review the world’s political leaders, the CEOs of the Fortune 500, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively, typically by combining these four strategic factors. They are goal focused; their career goals have taken primacy over the multitude of life’s other goals—friendship, love, leisure, knowledge, spiritual fulfillment—which the majority of us spend most of our lives juggling

the need for political neutrality—even when she has personally disagreed with her prime ministers (notably with Margaret Thatcher’s “socially divisive” policies and Tony Blair’s commitment of British troops to Iraq and Afghanistan).

Through her outreach activities she has played a major role in promoting British influence, British culture, and British values within the wider world. She has made multiple visits to each of the 54 Commonwealth nations, including 26 to Canada and 16 to Australia.

Maintaining her popularity with the British people has required adaptation to the wrenching changes of her era. Recognizing the growing unacceptability of hereditary privilege and the traditional British class system, she has repositioned the royal family from being the leader of the ruling class to an embodiment of the nation as a whole. To make her and her family more inclusive and less socially stereotyped she cultivated involvement with popular culture, with ordinary people engaged in social service and charitable work, and, most recently, endorsing the marriage of her grandson William to Kate Middleton—the first member of the royal family to marry outside the ranks of the aristocracy.

Elizabeth has been adept at exploiting new media. Television has provided an especially powerful medium for communicating both with her subjects and with a wider global audience. Her web page appeared in 1997, in 2009 she joined Twitter, and in 2010 Facebook. Throughout her reign, her press and public

relations strategy has been carefully managed by a group of top professionals who report to her private secretary.

While respecting tradition and protocol, she adapts in the face of pressing circumstances. The death of her daughter-in-law, Diana, created difficult tensions between her responsibilities as a grandmother and her need to show leadership to a grieving nation. In responding to this time of crisis she departed from several established traditions: including bowing to the coffin of her ex-daughter-in-law as it passed the palace.

Elizabeth has made effective use of the resources available to her. First and foremost of these has been the underlying desire of the British people for continuity and their inherent distrust of their political leaders. By positioning herself above the political fray and emphasizing her lineage—including the prominent public roles of her mother and her children and grandchildren—she reinforces the legitimacy of herself, her family, and the institution they represent. She has also exploited her powers of patronage, using her formal position to cultivate informal relationships with both political and cultural leaders.

The success of Elizabeth’s 63-year reign is indicated by the popular support for her personally and for the institution of the monarchy. Outside of Northern Ireland, the UK lacks any significant republican movement; republicanism is also weak in Canada and Australia.

and reconciling. They know the environments within which they play and tend to be fast learners in terms of recognizing the paths to advancement. They know themselves well in terms of both strengths and weaknesses. Finally, they implement their career strategies with commitment, consistency, and determination. As the late Peter Drucker observed: “we must learn how to be the CEO of our own careers.”¹

There is a downside, however. Focusing on a single goal may lead to outstanding success but may be matched by dismal failure in other areas of life. Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Jean Paul Getty in business, Richard Nixon and

STRATEGY CAPSULE 1.2

Lady Gaga and the Haus of Gaga

Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is one of the most successful popular entertainers to emerge in the 21st century. Since releasing her first album, *The Fame*, in 2008 she has certified album sales of 27 million, swept leading music awards including Grammy, MTV, and Billboards, topped *Forbes Celebrity 100* list, and generated \$382 million in ticket sales for her 2012 “Born this Way” tour. Her 79 concerts during her 2014 “Artrave: The Artpop Ball” tour generated \$271 million.

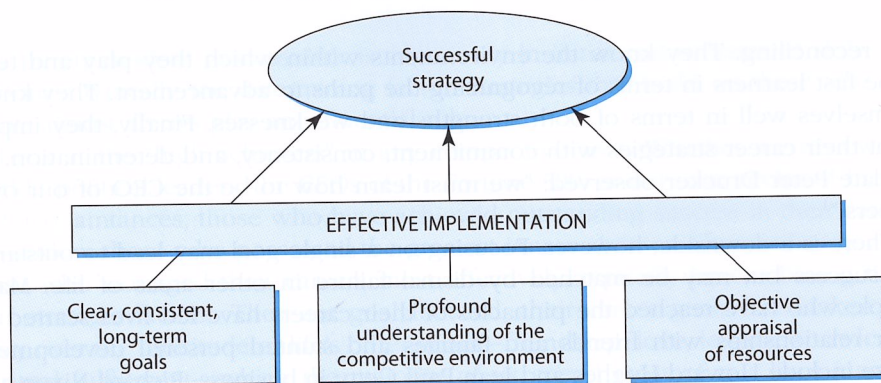
Since dropping out of NYU’s Tisch School of the Arts in 2005, Germanotta has shown total commitment to advancing her musical career, first as a songwriter, and then developing her Lady Gaga persona. Her debut album, *The Fame*, and its follow up, *The Fame Monster*, yielded a succession of number-one hits during 2009 and 2010.

Gaga’s music is a catchy mix of pop and dance, well suited to dance clubs and radio airplay. It features good melodies, Gaga’s capable singing voice, and her reflections on society and life, but it is hardly exceptional or innovative: music critic Simon Reynolds described it as: “ruthlessly catchy, naughties pop glazed with Auto-Tune and undergirded with R&B-ish beats.”

However, music is only one element in the Lady Gaga phenomenon—her achievement is not so much as a singer or songwriter as in establishing a persona which transcends pop music. Like David Bowie and Madonna before her, Lady Gaga is famous for being Lady Gaga. To do this requires a multi-media, multi-faceted offering that comprises an integrated array of components including music, visual appearance, newsworthy events, a distinctive attitude and personality, and a set of values with which fans can identify.

Key among these is visual impact and theatricality. Her hit records were heavily promoted by the visually stunning music videos that accompanied them. *Paparazzi* and *Bad Romance* each won best video awards at the 2009 and 2010 Grammys; the latter is the second-most-downloaded YouTube video of all time. Most striking of all has been Lady Gaga’s dress and overall appearance, which have set new standards in eccentricity, innovation, and impact. Individual outfits—her plastic bubble dress, meat dress, and “decapitated-corpse dress”—together with weird hairdos, extravagant hats, and extreme footwear (she met President Obama in 16-inch heels)—are as well-known

FIGURE 1.1 Common elements in successful strategies



as her hit songs. The range of visual images she projects is so varied that her every appearance creates a buzz of anticipation as to her latest incarnation.

More than any other star, Lady Gaga has developed a business model that recognizes the realities of the post-digital world of entertainment. Like Web 2.0 pioneers such as Facebook and Twitter, Gaga has followed the model: first build market presence, and then think about monetizing that presence. Her record releases are accompanied, sometimes preceded, by music videos on YouTube. With 45 million Facebook fans, 15.8 million Twitter followers, and 1.9 billion YouTube views (as of November 16, 2011), Famecount crowned her “most popular living musician online.” Her networking with fans includes Gagaville, an interactive game developed by Zynga, and The Backplane, a music-based social network.

Her emphasis on visual imagery reflects the ways in which her fame is converted into revenues. While music royalties are important, concerts are her primary revenue source. Other revenue sources—endorsements, product placement in videos and concerts, merchandizing deals, and media appearances—also link closely with her visual presence.

A distinctive feature of Gaga’s market presence is her relationship with her fans. The devotion of her fans—her “Little Monsters”—is based less on their desire to emulate her look as upon empathy with her values and attitudes. They recognize Gaga’s images

more as social statements of non-conformity than as fashion statements. In communicating her experiences of alienation and bullying at school and her values of individuality, sexual freedom, and acceptance of differences—reinforced through her involvement in charities and gay rights events—she has built a global fan base that is unusual in its loyalty and commitment. The sense of belonging is reinforced by gestures and symbols such as the “Monster Claw” greeting and the “Manifesto of Little Monsters.” As “Mother Monster,” Gaga is spokesperson and guru for this community.

Lady Gaga’s most outstanding talents are her showmanship and theatricality. Modeled on Andy Warhol’s “Factory,” The Haus of Gaga is her creative workshop and augments her own capabilities. It includes manager Troy Carter, choreographer and creative director Laurieann Gibson, fashion director Nicola Formichetti, hair stylist Frederic Aspiras, stylist and designer Anna Trevelyan, fashion photographer Nick Night, makeup artist Tara Savelo, marketing director Bobby Campbell, and others involved in designing and producing songs, videos, concert sets, photo shoots, and the whole range of Gaga’s public appearances.

Sources: M. Sala, “The Strategy of Lady Gaga,” BSc thesis Bocconi University, Milan, June 2011; <http://www.statisticbrain.com/lady-gaga-career-statistics>, accessed July 20, 2015; http://en.wikipedia.org/wiki/Lady_Gaga, accessed July 20, 2015.

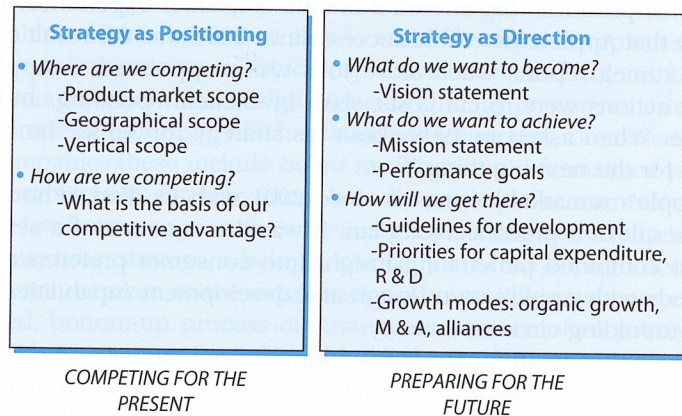
Joseph Stalin in politics, Elvis Presley and Marilyn Monroe in entertainment, Mike Tyson and O. J. Simpson in sport, and Bobby Fischer in chess. Fulfillment in our personal lives is likely to require broad-based lifetime strategies.²

These same ingredients of successful strategies—clear goals, understanding the competitive environment, resource appraisal, and effective implementation—form the key components of our analysis of business strategy.

The Basic Framework for Strategy Analysis

Figure 1.2 shows the basic framework for strategy analysis that we shall use throughout the book. The four elements of a successful strategy shown in Figure 1.1 are recast into two groups—the firm and the industry environment—with strategy

FIGURE 1.6 Describing firm strategy: Competing in the present, preparing for the future



Describing Strategy

These same two questions—“Where is the firm competing?” and “How is it competing?”—also provide the basis upon which we can describe the strategy that a firm is pursuing. The *where* question has multiple dimensions. It relates to the products the firm supplies, the customers it serves, the countries and localities where it operates, and the vertical range of activities it undertakes.

However, strategy is not simply about “competing for today”; it is also concerned with “competing for tomorrow.” This dynamic aspect of strategy involves establishing objectives for the future and determining how they will be achieved. Future objectives relate to the overall purpose of the firm (mission), what it seeks to become (vision), and how it will meet specific performance targets.

These two dimensions of strategy—the static and the dynamic—are depicted in Figure 1.6 and are illustrated by the Coca-Cola Company. As we shall see in Chapter 8, reconciling these two dimensions of strategy—what Derek Abell calls “competing with dual strategies”—is one of the central dilemmas of strategic management.²⁶

How Is Strategy Made? The Strategy Process

How companies make strategy and how they should make strategy are among the most hotly debated issues in strategic management. The corporate planning undertaken by large companies during the 1960s was a highly formalized approach to strategy making. Strategy may also be made informally: emerging through adaptation to circumstances. In our opening discussion of Queen Elizabeth and Lady Gaga, I discerned a consistency and pattern to their career decisions that I identified as strategy, even though there is no evidence that either of them engaged in any systematic process of strategy formulation. Similarly, most successful companies are not products of grand designs. The rise of Apple Inc. to become the world’s most

valuable company (in terms of stock market capitalization) has often been attributed to a brilliant strategy of integrating hardware, software, and aesthetics to create consumer electronic products that offered a unique consumer experience. Yet, there is little evidence that Apple's incredible success since 2004 was the result of any grand design. Dick Rumelt reports when Steve Jobs was reappointed as Apple's CEO in 1997, his first actions were to cut costs, slash investment spending, and prune the product range. When asked in 1998 about his strategy for Apple, he replied: "I'm going to wait for the next big thing."²⁷

Clearly, Apple's remarkable success since 2001 with its iPod, iPhone, and iPad was not the result of a preconceived plan. It was the outcome of a set of strategic decisions that combined penetrating insight into consumer preferences and technological trends with Apple's own design and development capabilities, and astute responses to unfolding circumstances.

So, what does this mean for strategy making by companies and other organizations? Should managers seek to formulate strategy through a rational systematic process, or is the best approach in a turbulent world to respond to events while maintaining some sense of direction in the form of goals and guidelines?

Design versus Emergence

Henry Mintzberg is a leading critic of rational approaches to strategy design. He distinguishes *intended*, *emergent*, and *realized* strategies. **Intended strategy** is strategy as conceived of by the leader or top management team. Even here, intended strategy may be less a product of rational deliberation and more an outcome of negotiation, bargaining, and compromise among the many individuals and groups involved in the strategy-making process. However, **realized strategy**—the actual strategy that is implemented—is only partly related to that which was intended (Mintzberg suggests only 10–30% of intended strategy is realized). The primary determinant of realized strategy is what Mintzberg terms **emergent strategy**—the decisions that emerge from the complex processes in which individual managers interpret the intended strategy and adapt to changing circumstances.²⁸

According to Mintzberg, rational design is not only an inaccurate account of how strategies are actually formulated but also a poor way of making strategy: "The notion that strategy is something that should happen way up there, far removed from the details of running an organization on a daily basis, is one of the great fallacies of conventional strategic management."²⁹ The emergent approaches to strategy making permit adaptation and learning through a continuous interaction between strategy formulation and strategy implementation in which strategy is constantly being adjusted and revised in the light of experience.

The debate between those who view strategy making as a rational, analytical process of deliberate planning (the *design school*) and those who envisage strategy making as an emergent process (the *emergence* or *learning school* of strategy) has centered on the case of Honda's successful entry into the US motorcycle market during the early 1960s.³⁰ The Boston Consulting Group lauded Honda for its single-minded pursuit of a global strategy based on exploiting economies of scale and learning to establish unassailable cost leadership.³¹ However, subsequent interviews with the Honda managers in charge of its US market entry revealed a different story: a haphazard, experimental approach with little analysis and no clear plan.³² As Mintzberg observes: "Brilliant as its strategy may have looked after the fact, Honda's

managers made almost every conceivable mistake until the market finally hit them over the head with the right formula.”³³

In practice, strategy making involves both thought and action: “Strategy exists in the cognition of managers but also is reified in what companies do.”³⁴ This is typically through a process in which top-down rational design is combined with decentralized adaptation. The design aspect of strategy comprises a number of organizational processes through which strategy is deliberated, discussed, and decided. In larger companies these include board meetings and a formalized process of strategic planning supplemented by more broadly participative events, such as strategy workshops. I will discuss processes of strategic planning more fully in Chapter 6.

At the same time, strategy is being continually enacted through decisions that are made by every member of the organization—by middle managers especially. The decentralized, bottom-up process of strategy emergence often precedes more formalized top-down strategy formulation. Intel’s historic decision to abandon memory chips and concentrate on microprocessors was initiated in the decisions taken by business unit and plant managers that were subsequently promulgated by top management as strategy.³⁵

In all the companies I am familiar with, strategy making combines design and emergence—a process that I have referred to as “planned emergence.”³⁶ The balance between the two depends greatly upon the stability and predictability of the organization’s business environment. The Roman Catholic Church and La Poste, the French postal service, inhabit relatively stable environments; they can plan activities and resource allocations in some detail quite far into the future. For WikiLeaks, Credit Bank of Iraq, or Somali pirate gangs, strategic planning will inevitably be restricted to a few guidelines; most strategic decisions must be responses to unfolding circumstances.

As the business environment becomes more turbulent and less predictable, so strategy making becomes less about detailed decisions and more about guidelines and general direction. Bain & Company advocates the use of strategic principles—“pithy, memorable distillations of strategy that guide and empower employees”—to combine consistent focus with adaptability and responsiveness.³⁷ McDonald’s strategy statement in Strategy Capsule 1.5 is an example of such strategic principles. Similarly, Southwest Airlines encapsulates its strategy in a simple statement: “Meet customers’ short-haul travel needs at fares competitive with the cost of automobile travel.” For fast-moving businesses, strategy may be little more than a set of “simple rules.” For example, Lego evaluates new product proposals by applying a checklist of rules: “Does the product have the Lego look?” “Will children learn while having fun?” “Does it stimulate creativity?”³⁸

We shall return to the role of rules and principles to guide an organization’s evolution and coordination in our final chapter, where we explore some of the implications of complexity theory for strategic management.

The Role of Analysis in Strategy Formulation

Despite the criticism of rational, analytical approaches to strategy formulation by Henry Mintzberg and others, the approach of this book is to emphasize analytic approaches to strategy formulation. This is not because I wish to downplay the role of intuition, creativity, or spontaneity—these qualities are essential ingredients of successful strategies. Nevertheless, whether strategy formulation is formal or informal,

whether strategies are deliberate or emergent, systematic analysis is a vital input into the strategy process. Without analysis, strategic decisions are susceptible to power battles, individual whims, fads, and wishful thinking. Concepts, theories, and analytic tools are complements of, and not substitutes for, intuition and creativity. Their role is to provide frameworks for organizing discussion, processing information, and developing consensus.

This is not to endorse current approaches to strategy analysis. Strategic management is still a young field and the existing toolbox of concepts and techniques remains woefully inadequate. Our challenge is to do better. If existing analytical techniques do not adequately address the problems of strategy making and strategy implementation under conditions of uncertainty, technological change, and complexity, we need to augment and extend our strategy toolkits. In the course of this book, you will encounter concepts such as *real options*, *tacit knowledge*, *hypercompetition*, *complementarity*, and *complexity* that will help you address more effectively the challenges that firms are facing in today's turbulent business environment. We must also recognize the role and the limitations of strategy analysis. Unlike many of the analytical techniques in accounting, finance, market research, or production management, strategy analysis does not generate solutions to problems. It does not offer algorithms or formulae that tell us the optimal strategy to adopt. The strategic questions that companies face (like those that we face in our own careers and lives) are simply too complex to be programmed.

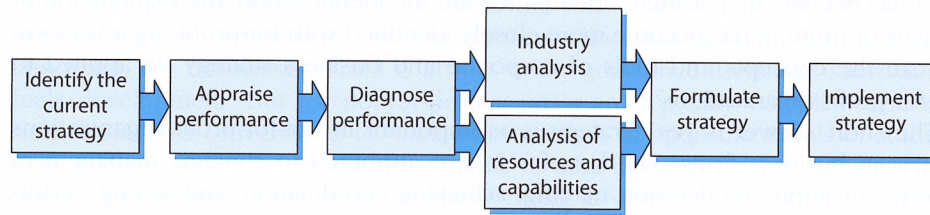
The purpose of strategy analysis is not to provide answers but to help us understand the issues. Most of the analytic techniques introduced in this book are frameworks that allow us to identify, classify, and understand the principal factors relevant to strategic decisions. Such frameworks are invaluable in allowing us to come to terms with the complexities of strategy decisions. In some instances, the most useful contribution may be in assisting us to make a start on the problem. By guiding us to the questions we need to answer and by providing a framework for organizing the information gathered, strategy analysis places us in a superior position to a manager who relies exclusively on experience and intuition. Finally, analytic frameworks and techniques can improve our flexibility as managers. The concepts and frameworks we shall cover are not specific to particular industries, companies, or situations. Hence, they can help increase our confidence and effectiveness in understanding and responding to new situations and new circumstances.

Applying Strategy Analysis

So, how do we go about applying our tools of strategy analysis in a systematic and productive way that allows us to make sound strategy recommendations?

Inevitably, the procedure we follow depends upon the situation being addressed—in particular whether we are developing a strategy for a firm as a whole or making a specific strategic decision: acquiring a competitor, entering a foreign market, or outsourcing manufacturing. Let us consider a typical strategy situation that we shall encounter, either as students tackling a strategy case study or as consultants on a client engagement: recommending a business strategy.³⁹

Let us consider the principal steps of such an analysis (which are displayed in Figure 1.7):

FIGURE 1.7 Applying strategy analysis

- 1 *Identify the current strategy.* Assuming we are dealing with an existing business, as opposed to a new venture, the first task is to identify the current strategy of the business (drawing upon the sections above on “Where do We Find Strategy?” and “Describing Strategy”).
- 2 *Appraise performance.* How well is the current strategy performing? In the next chapter we shall consider the use of financial analysis to measure firm performance.
- 3 *Diagnose performance.* Having determined the level and trend of the firm’s performance, the next challenge is *diagnosis*: in the case of poor performance, can we use a combination of financial and strategic analysis to determine the sources of unsatisfactory performance? In the case of good performance, can we identify the factors driving this? As Dick Rumelt observes, the core question in most strategy situations is: “What’s going on here?”⁴⁰ Chapter 2 offers guidance on such diagnosis.
- 4 *Industry analysis.* Analyzing the fit between strategy and the firm’s industry environment is a fundamental input into both diagnosing recent performance and generating future strategic options. Chapters 3 and 4 address industry analysis.
- 5 *Analysis of resources and capabilities.* Equivalently, analyzing the fit between strategy and the firm’s resources and capabilities is a fundamental input into both diagnosing recent performance and generating future strategic options. Chapter 5 describes the analysis of resources and capabilities.
- 6 *Formulate strategy.* Performance diagnosis, industry analysis, and the analysis of resources and capabilities provide a basis for generating strategic options for the future, the most promising of which can be developed into a recommended strategy. Chapter 7 outlines how the intersection of internal strengths and external success factors combine to offer a basis for competitive advantage.
- 7 *Implement strategy.* Executing the chosen strategy requires linking the strategy to performance goals and resource allocations and establishing appropriate organizational structure and management systems. Chapter 6 outlines how this can be done.

Strategic Management of Not-For-Profit Organizations

When strategic management meant top-down, long-range planning, there was little distinction between business corporations and not-for-profit organizations: the