Strategic choice

A characteristic of successful companies is that they understand that they need to examine all of their strategic options. This article considers some of the ways in which companies can analyse choices. It uses a hypothetical example to illustrate some of the tools that can be used, and shows how the points of view of the various stakeholders can be mapped and taken into account.

Introduction

My favourite book on strategic management is not by one of the strategy gurus such as Michael Porter, Henry Mintzberg or Gary Hamel and C K Prahalad. Surprisingly, it is *Winnie The Pooh*.

The book begins with a teddy bear being dragged unceremoniously downstairs. The story goes as follows:

‘Here is Edward Bear going down stairs, bump, bump, bump on the back of his head. It is as far as he knows the only way of coming downstairs, but sometimes he feels that there really is another way, if only he could stop bumping for a moment and think of it … ’ (Milne, 1973, Chapter 1, p 1)

This indicates the importance of always obsessively looking for other available options, and therefore at strategic choice.

Organisations often seem hell-bent on pursuing strategies which are patently not working, and which are destroying shareholder value. Reasons for this myopic vision include the following:

- excessive commitment to the past investment in a specific strategy (see, for example, Ghemawat, (1991));
- difficulty in injecting learning into the organisation’s decision making (Senge (1990) and Argyris (1991));
- the lack of a deliberate, as opposed to an emergent or even ‘submergent’, strategy (Mintzberg (1997) and Grundy (1995));
- a failure to manage stakeholders and their agendas (Grundy (1998), *Harnessing Strategic Behaviour*).

This article dissects strategic choice, and shows specifically how stakeholder influences can be managed more effectively than they often are at present. It considers the following issues:

- moving from tactics to strategic choice;
- strategic attractiveness;
- financial attractiveness;
- implementation difficulty;
- uncertainty and risk;
- stakeholder acceptability.

From tactics to strategic choice

Many organisations focus on reactive, tactical decision making rather than on making more balanced strategic choices. In addition to day-to-day financial pressures (especially that of delivering the current year’s profit target), senior managers are afflicted by many personal and political agendas.

I call these the PASTA factors (personal and strategic agendas). They are very much like white and green pasta. When cooked, the pasta becomes tangled, sticky and messy. Something similar happens in organisations when personal agendas become hopelessly intermingled with strategic agendas. Managers even lose sight of the origins of these agendas (Grundy (1998), *Harnessing Strategic Behaviour*), and they may fail to challenge the logic of their decisions.
Unable to agree on an overall framework for strategic choice, they then ‘muddle through’ their strategy on a highly tactical basis. The result is frequently strategic drift, as they become unable to cope with external competitive challenges, resulting in tactical fire fighting and financial decline.

The decline of Marks & Spencer and Sainsbury’s in the late 1990s illustrates how a vicious cycle of tactical decision making can result in weaker performance and thus further use of desperate tactics. In fact, much decision making in business seems to be of a tactical rather than strategic nature. Contrast Figure 1, which illustrates a tactical style of decision making with Figure 2, which is based on strategic choice.

In Figure 1 we see a combination of tactical error, competitor attack and internal complacency producing a spiral of tactics, weaker performance, further tactics and even weaker performance.
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In Figure 2, notice that, instead, in addition to carrying out an objective examination of our current strategic position, we also need to think about the future competitive environment and also future competitive position. This will then generate some more challenging and exciting options for the business, and these will then need to be evaluated and prioritised. The evaluated options will become strategic breakthroughs (that is, external or internal programmes which make a major impact on competitive position and financial performance, and areas for continuous improvement). The number of these strategic breakthroughs will be relatively small. Typically there will be only one to three in a particular business area over a particular time period of somewhere between 18 months to three years. This follows the Japanese philosophy of breakthrough, or hoshin (Grundy (1995)).

For example, if we track Tesco’s strategic breakthroughs over 1994–97 and 1997–2000 we can identify the following:

1994–97

- Clubcard;
- customer service (One-In-Front);
- brand and product repositioning;

1997–2000

- product extension (non-food and financial services);
- new formats and Internet home shopping;
- international development.

Tesco’s continuous improvements during this period included its own brand, management development and process simplification.

It is imperative to ensure that strategic breakthroughs are championed by appropriate stakeholders in the business.

The criteria for strategic choice need to be predefined and explicit rather than loose and unstructured. The strategic option grid (see Figure 3) allows personal and strategic agendas to be thoroughly unscrambled. The row headings are generic criteria for appraising strategic options, and the column headings are strategic options (more than four columns can be used if necessary). Sometimes options are created by combining other options (and so, for example, option 3 could be a combination of option 1 and option 2). Each option generates a different pattern of stakeholder influence, and thus of stakeholder acceptability. Each of the boxes in the strategic option grid can be scored high, moderate or low to indicate the option’s overall attractiveness. (Note that the areas of uncertainty and risk and implementation difficulty have to be scored in reverse, that is, something that is ‘highly difficult’ is given a ‘low attractiveness’ score.)

Figure 4 shows an example of the use of the
strategic option grid. It scores the telephone enquiry system of a railway that was to be privatised. Option 1 (closure) was strategically and financially attractive, but it was uncertain, difficult and less acceptable. Options 2 and 3 (cut costs and increase prices, respectively) looked marginally more attractive, but it was option 4 (obtain more centralised funding, raise prices and cut costs) which saved the organisation.

We now look at strategic choice criteria in more depth, and especially at the influence of stakeholders.

### Strategic attractiveness

Strategic attractiveness can be defined in terms of a number of factors, which include the following:

- market growth (present);
- market volatility;
- competitive intensity;
- future market growth;
- fit with own capability;
- fit to own brand;
- likely edge over competitors;
- scale of opportunity;
- focus or possible dilution of own strategy.

These criteria can be represented visually. One useful way of picturing them is to tailor force field analysis (Grundy (1995), based on Lewin's much earlier technique). In this system, upward vertical lines are drawn in proportion to the perceived importance of positive strategic attractiveness factors, and downward vertical lines indicate the relative importance of the negative factors.

*Figure 5* illustrates this technique for a hypothetical acquisition of Marks & Spencer by Tesco. The analysis would help key stakeholders to make a much more informed and objective strategic choice. It suggests that such an acquisition would be very much a mixed bag, and our verdict based on this analysis would be that acquiring Marks & Spencer would be of dubious strategic attractiveness for Tesco.

### Financial attractiveness

Financial attractiveness is based on the key value and cost drivers which underpin a strategic option. A value driver is defined as ‘anything which directly or indirectly...

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Closure (option 1)</th>
<th>Cost cutting (option 2)</th>
<th>Price rises (option 3)</th>
<th>Options 2 &amp; 3 +more funding (option 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic attractiveness</td>
<td>***</td>
<td>*</td>
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<td>***</td>
</tr>
<tr>
<td>Financial attractiveness</td>
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<td>Implementation difficulty</td>
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<td>Uncertainty and risk</td>
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<td>Stakeholder acceptability</td>
<td>*</td>
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<td>***</td>
</tr>
<tr>
<td>Total score</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>13</td>
</tr>
</tbody>
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*Figure 4 Strategic option grid for railway telephone enquiry system [***: high attractiveness, ****: moderate attractiveness, ***: low attractiveness.]*
generates cash inflows, present and future, into the business’ (Grundy (1998), Exploring Strategic Financial Management). A cost driver is defined as ‘anything which directly or indirectly generates cash outflows, present and future, out of the business’.

These value and cost drivers can also be represented visually using force field analysis. Figure 6 shows the analysis for the hypothetical acquisition of Marks & Spencer by Tesco. Key criteria here could be

- incremental sales volumes generated;
- premium pricing achieved;
- discounts avoided;
- costs reduced;
- costs avoided (for example by having one head office rather than two);
- accelerated or retarded strategy development;
- share price impact.

Note that while the impact on share price criterion is not strictly a cash inflow or outflow to the business, it does impact shareholder value directly. As it happens,
**Implementation difficulty**

Implementation difficulty needs to be anticipated over the total time of implementation, and not just during its early phase. Figure 7 illustrates the inherent difficulty of the hypothetical acquisition of Marks & Spencer. Typical criteria of difficulty include the following:

- inherent complexity;
- clarity of implementation strategy;
- determination and commitment;
- resistances;
- availability of resources and skills.

More specifically, Figure 7 draws out the enabling and constraining factors relating to the acquisition.

Our verdict based on this analysis would be that the acquisition would be very difficult, and thus of low attractiveness in terms of the implementation difficulty criterion.

**Uncertainty and risk**

Detailed factors for uncertainty and risk are diverse, and are specific to the context of a particular option. Some generic factors are:

- environmental uncertainty (will external conditions change?);
- management uncertainty (can we make it work?);
- cultural uncertainty (will people adapt?).

Figure 8 shows an analysis for the Marks & Spencer acquisition, which looks highly uncertain and is of low attractiveness.

**Stakeholder acceptability**

Having worked through the previous four criteria (it typically takes managers a relatively short period of time to do this, at least in outline), we are in a better position to examine the stakeholder agendas. Here we can take one of two approaches to the analysis. Either we can do another force field analysis (see Figure 9), which will average out the stakeholder agendas, or we can analyse the agendas stakeholder by stakeholder.

Figure 9 gives a useful overview of where Tesco’s internal stakeholders would be likely to be coming from in the Marks & Spencer acquisition, and it shows some overall hypothetical inferred agendas. It demonstrates that while the strategy would have some ‘turn-ons’, there would also be some substantial ‘turn-offs’. This kind of analysis can be used to reflect on ‘do we really want to do this, and do we want to do it for the most appropriate reasons?’.
Figure 8  Acquisition of Marks & Spencer by Tesco: uncertainty and risk

Figure 9  Acquisition of Marks & Spencer by Tesco: stakeholder agendas

The type of analysis shown in Figure 10 can help us to disaggregate the agendas of the individual stakeholders. If we widen our thinking about stakeholders not only to those who have an influence over the decision, but also to those who are involved in implementation and are the victims of implementation, this is a more informative practice (see Piercey (1989)). To determine the attitudes of the stakeholders, we need to imagine (as fully as we can, in a kind of out of body experience) that we are actually them. Otherwise, we may misread the stakeholder agendas.

Figure 10 separates out the influence and attitudes of the stakeholders in the hypothetical Marks & Spencer acquisition.

Assumptions underpinning it include the following:

- Tesco shareholders would be likely to be nervous about the possible distractions of the acquisition.
- Marks & Spencer middle managers might not be against Tesco as it might offer them a fresh regime.

A force-field analysis for each group of stakeholders could then be conducted (for any of the ellipses in Figure 10) to determine their turn-ons and turn-offs. Sometimes the outcome of critical strategic decisions is based on the micro-agendas of a very small number of stakeholders. This again high-
lights the imperative to separate personal and strategic agendas.

Our verdict based on these analyses would be that the stakeholder acceptability of the acquisition would be medium to low.

**Summary and conclusions**

Through formalisation and visualisation of the criteria for strategic choice, and in particular a formal stakeholder analysis, more informed choices can be made.

In our hypothetical Marks & Spencer example, our analysis clearly suggested that a potentially exciting and bold move by Tesco would have some significant downsides. The option grid suggested that a straightforward acquisition of Marks & Spencer by Tesco was probably not a very good strategic idea. However, it is possible that thinking about alternative implementation strategies might have made the strategy look more attractive.

For example, Tesco might just have acquired the Marks & Spencer food retailing activities (and kept the Marks & Spencer brand), and then floated off the non-food activities as a separate public company, perhaps retaining some ownership in it. It might have invited a consortium of experienced retailers to run the non-food sites. It might conceivably have taken over Marks & Spencer's core (and profitable) non-food activities in women's lingerie and basic womenswear/menswear, and turned these around, while bringing franchises into the stores. Each of these sub-options could be worked through using the strategic options grid, especially for the detailed stakeholder positions.

Managers (and their accountants) are likely to be able to optimise shareholder value and their longer term career prospects by following a more explicit model of strategic choice and by formally incorporating stakeholder positions.

**References**

- ‘Teaching smart people how to learn’
- *Commitment – The Dynamic of Strategy*
- *Breakthrough Strategies for Growth*
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- **Harnessing Strategic Behaviour**  

- **Exploring Strategic Financial Management**  

- **Winnie-the-Pooh**  
  Milne, A A (1973) Heinemann

- **The Rise and Fall of Strategic Planning**  

- ‘Diagnosing and solving implementation problems in strategic planning’  

- **The Fifth Discipline: The Art and Practice of the Learning Organization**  
  Senge, P (1990) Century

**Further reading**

- ‘The escalation of commitment to a course of action’  