*Strategic Management*, 9e: Chapter 1 study guide

What makes effective strategy?

Given the difﬁculty in practice of developing effective strategy, it is relevant to explore what makes it effective. To some, it might appear that there is one obvious answer: effective strategy delivers the purpose set out for the strategy in the beginning. However, this begs several important questions:

 Was the purpose itself reasonable? For example, perhaps the purpose was so easy that any old strategy would be successful.

 What do we do when it is difﬁcult to deﬁne the purpose clearly, beyond some general objective of survival or growth? Such vagueness may make it difﬁcult to test whether an effective strategy has been developed.

 Since the whole purpose of strategy is to explore what we do in the *future*, can we afford to wait until it has been achieved before we test whether it is effective?

Essentially, we need some more robust tests of effective strategy. These lie in two areas. First, those related to the real world of the organisation and its activities: *application-related*. Second, those that rely on the disciplines associated with the basic principles of *academic rigour*: originality, logical thought and scientiﬁc method. It might be argued that academic rigour has no relevance to the real world, but this would be wrong. All organisations should be able to apply these basic principles to the process of strategy development.

1. Tests of effective strategy: application-related

At least three tests are available that provide some means of assessing whether a strategy is effective:

1. *The value-added test*. An effective strategy will deliver increased value added in the marketplace. This might show itself in increased proﬁtability but might also be visible in gains in longer-term measures of business performance such as market share, innovative ability and satisfaction for employees.

2. *The consistency test*. An effective strategy will be consistent with the circumstances that surround a business at any point in time. It will consider its ability to use its resources efﬁciently, its environment, which may be changing fast or slowly, and its organisational ability to cope with the circumstances of that time.

3. *The competitive advantage test*. For most organisations, an effective strategy will increase the sustainable competitive advantage of the organisation. Even those organisations that traditionally may not be seen as competing in the marketplace – such as charities or government institutions – can be considered as competing for resources. Charities compete with others for new funds, government departments compete for a share of the available government funds.

In practice, such tests can be applied to strategy proposals at any time.

2. Tests of effective strategy: academic rigour

Another ﬁve tests might also be employed that relate to the above but are more fundamental to the basic principles of originality, logical thought and scientiﬁc method:

1. *The originality test*. The best strategy often derives from doing something totally different. One test that has academic validity is therefore that of originality. However, this needs to be used with considerable caution or it becomes just another excuse for wild and illogical ideas that have no grounding in the topic.

2. *The purpose test*. Even if there are difﬁculties in deﬁning purpose, it is logical and appropriate to examine whether the strategies that are being proposed make some attempt to address whatever purpose has been identiﬁed for the organisation. Such a deﬁnition of purpose might be taken to include the aspirations and ambitions of the leaders of the organisation, along with its stakeholders.

3. *The logical consistency test*. Do the recommendations ﬂow in a clear and logical way from the evidence used? And what conﬁdence do we have in the evidence used? Do we trust such evidence? Might it be unreliable because it has come from a competitor?

4. *The risk and resources test*. Are the risks and resources associated with the strategies sensible in relation to the organisation? They might be consistent with the overall purpose but involve such large levels of risk that they are unacceptable. Moreover, they may require resources that are substantially beyond those available to the organisation – not just ﬁnance, but perhaps people and skills.

5. *The ﬂexibility test*. Do the proposed strategies lock the organisation into the future regardless of the way the environment and the resources might change? Or do they allow some ﬂexibility, depending on the way that competition, the economy, the management and employees and other material factors develop?

3. Tests of effective strategy: a word of caution from Sumanthra Ghoshal

In judging effective strategy, we need to recognise that strategy is a social science and that it is difﬁcult to apply the simplicities of the physical sciences, such as chemistry and atomic theory. The social sciences are more complex because they involve fuzzy data, human judgements, ethics and beliefs.[[1]](#endnote-1) In the words of the late Professor Sumanthra Ghoshal, ‘The choice among theories falls very much on a scholar’s personal preferences rather than on either the discipline of empirical estimation of the rigour of formal, deductive logic’.[[2]](#endnote-2) In other words, in judging effective strategy, we will inevitably bring our own biases which come from our personal beliefs and ethics.

4. Key strategic principles

 The lack of agreement on the precise meaning of strategic management makes it difficult to identify what is meant by effective strategy. If strategy development is to be beneficial, then a careful exploration and definition of the purpose of the task is essential early in the process. Two areas of test are suggested in this search: application-related and academic rigour.

 Application-related might be considered as having three major components: value added, consistency with the environment and the delivery of competitive advantage.

 Academic rigour can usefully be considered as having five components: originality, relevance to the defined purpose, logical consistency, risks and resources, flexibility.

 We need to recognise that effective strategy also involves our own individual judgement founded upon our beliefs and ethics.

1. Hayek, F A Von (1989) ‘The pretence of knowledge (Nobel Lecture)’, *American Economic Review*, December, pp 3–7. Quoted and more fully explored in the paper by Ghoshal below. [↑](#endnote-ref-1)
2. Ghosal, S (2005) ‘Bad management theories are destroying effective management practices’, *Academy of* *Management Learning and Education*, Vol 4, No 1, p 87. [↑](#endnote-ref-2)