*Strategic Management*, 9e: Chapter 6 study guide

Six questions to shape the purpose of the organisation

**1.** What is our area of activity – and what should it be?

**2.** What kind of organisation do we wish to be?

**3.** What is the relative importance of shareholders and stakeholders?

**4.** Do we want to grow the organisation?

**5.** What is our relationship with our immediate environment and with society in general?

**6.** How do we bring all these considerations together?

All these questions are somewhat *prescriptive* in their approach: they assume that clear answers can be given and that the actions that might follow are within the power of those people shaping the purpose of the organisation.[[1]](#endnote-1) Neither of these assumptions is necessarily correct. For example, it may be difﬁcult and unwise to deﬁne too clearly the area of activity because it may preclude opportunistic alternatives. Moreover, decisions on the type of organisation, growth and society depend on external forces, like governments and economic growth, which are not within the control of those asking the questions. *Emergent* approaches will also be needed if the organisation is to develop its purpose successfully. However, as a starting point in the development of purpose, it is useful to explore the questions.

What is our area of activity – and what should it be?

Fundamental to purpose is an examination of the area of activity that is undertaken – the business in which a company is engaged, or the service offered by a non-proﬁt organisation. This is at the heart of the deﬁnition of strategic management explored in Chapter 1. For example, and with all the certainty of hindsight, we can conclude that Howard Schulz was probably right to concentrate the purpose of Starbucks on growth of the Italian coffee bar concept. Many other successful companies, like Microsoft and Intel, also focus their purpose on a narrow business. But the Starbucks concept of focusing on growth does carry the danger that it may become difﬁcult to sustain over time. In contrast to a concentrated purpose, some companies have successfully adopted broad roles for purpose: for example, the US conglomerate General Electric is involved in a range of industries from electric turbines to television broadcasting.

The ﬁrst issue in purpose is therefore one of *focus* – should we concentrate the purpose or allow it to range broadly? From an examination of the evidence on the proﬁtability of focused versus diversiﬁed organisations,[[2]](#endnote-2) there is no clear answer to this question – purpose can be broad or narrow. However, smaller companies will probably beneﬁt from focus or they risk possessing insufﬁcient competitive advantage in one area because of becoming merely competent in several areas. More generally, purpose needs to be narrow enough to be actionable and broad enough to allow scope for development.

Excluding start-up organisations, the strategy writer Peter Drucker explored the issue of the area of activity from a different perspective. He recommended that the area of activity is examined by a consideration of *customers*.[[3]](#endnote-3) He argued that it was the organisation’s customers that deﬁned the nature of the organisation and therefore shaped the breadth of its purpose.

More recently, strategists would add to his answer by suggesting that the *competitive resources* of an organisation will also deﬁne its purpose.[[4]](#endnote-4) For example, the coffee shops and skill resources at Starbucks would make it difﬁcult for the company to deﬁne its purpose as being engaged in car manufacturing. The resource-based view – see Chapter 4 – certainly suggests that the chosen area of activity should be related to the competitive advantage of the organisation. In practice, there needs to be a *balance* between customers and resources.

Neither of these customer/resource considerations explores where the organisation *should* locate its activities. Purpose is about the future direction of the organisation just as much as the present. All organisations can redeﬁne and redirect their activities in the future. This may be particularly important if their survival is threatened in the present or if they see unique and attractive opportunities that would require a redeﬁnition of purpose.

What kind of organisation do we wish to be?

Given the many hours of time and effort that individuals devote to organisations, it is arguable that the purpose of the organisation is, at least in part, to provide living space for those engaged in its activities. All organisations have some choice to develop in two related areas:

**1.** culture and style – their *organisational culture*

**2.** challenges to be posed to the members of the organisation

1. Culture and style

For example, some may choose to be hard-nosed and competitive, while others may choose to be caring, considerate and co-operative. It should be acknowledged that complete freedom of choice in organisational culture is unlikely for two reasons: it is highly dependent on the previous history of the organisation and, in most cases, can only be changed slowly.[[5]](#endnote-5) Nevertheless, it would be equally misleading to suggest that organisations are unable to make any change in their culture and it is therefore appropriate to explore this matter in the context of purpose.

The behaviour that reﬂects an organisation’s culture is for much of the time instinctive. For example, when individuals join a new organisation, there is a period of socialisation when they ﬁne-tune their approach to the new culture. After this period, only in speciﬁc circumstances do they become conscious of the culture in which they are operating. One of these situations is the development and debate surrounding the organisation’s mission and objectives. The way things are done will almost certainly be reﬂected in the development of such vital issues. For example, Starbucks has a quite distinctive culture – open, friendly, personal responsibility, growth oriented, focused – that is reﬂected in the company’s objectives: perhaps it also became more aggressive in 2007 following the abrupt departure of the Starbucks’ chief executive at that time.

To some extent, the kind of organisation will be dictated by the environment in which it operates:[[6]](#endnote-6) for example, a fast-moving, buccaneering market like that for third-generation mobile telephones may not be well served by an organisation that chooses to be staid and sober in its purpose and culture. However, there are other aspects of choice in relation to purpose and culture that deserve consideration. The culture of an organisation can be changed: for example, the culture of Starbucks will be altered by the re-appointment of Howard Schulz in 2008 as its chief executive. This will lead to a shake-up in the company’s growth objectives accompanied by a shift towards a more aggressive culture.[[7]](#endnote-7) More generally, the purpose of the organisation might therefore range from the *personal satisfaction* provided to someone involved in charity work to the *group goals* involved in meeting a challenging new product launch.

2. Degree of challenge implied in purpose

In addition to culture, organisational purpose may also be deﬁned in terms of the *challenge* that purpose should pose to the organisation’s members.[[8]](#endnote-8) This approach will have an additional impact on the working style of the organisation.

*No organisation can depend on genius; the supply is scarce and always unpredictable. But it is the test of an organisation that it can make ordinary human beings perform better than they are capable of, that it brings out whatever strength there is in its members and uses it to make all the other members perform more and better.*

Clearly, organisations have a choice here to offer no challenge. But some strategists would argue that those organisations which offer a challenge are more successful because they ‘make common people do uncommon things’, to paraphrase Lord Beveridge.

What is the relative importance of shareholders and stakeholders?[[9]](#endnote-9)

For some companies, the purpose of the organisation is ultimately to advance the interests of its owners, usually the shareholders. Typically, this means that purpose is deﬁned in terms of increasing the wealth of the shareholders. Other ways of pursuing increased shareholder wealth include encouraging higher share prices and larger dividends in the short term and, for those strategies concerned with the longer term, including some measure of long-term proﬁt growth. This approach to purpose is called the *shareholder perspective* on purpose.

With such an approach to purpose, the problem is often the separation between ownership by the shareholders and control of the enterprise by its senior managers. Since the 1930s, it has been recognised that, as companies grow larger, two trends emerge.[[10]](#endnote-10) Shareholdings become more widespread and diffuse, so giving individual shareholders less power. At the same time, managers gain control over a larger range of assets and acquire increasingly greater remuneration and power. Thus purpose, according to this view, tends to drift from a clear focus on owners, who have lost the power to inﬂuence events, towards the senior management, who may pursue other interests if they keep the shareholders happy with steady increases in dividends and a generally rising share price.

Another wholly different view of purpose views the ownership of the organisation merely as one input to its continued existence.[[11]](#endnote-11) In this view, shareholders supply the ﬁnancial capital to which is added the managerial expertise of the organisation’s senior managers, the labour input of other workers, the expertise and skills of its suppliers and so on. In this sense, the organisation is a joint venture between several its participants, each of whom has a stake in the purpose of the organisation. This is called the *stakeholder perspective* on purpose.

Clearly, the shareholder and stakeholder perspectives have considerable potential for conﬂict. For example, shareholders’ higher dividends might need to come at the expense of paying managers and workers lower salaries. These matters are explored in more depth in Section 6.3 later in this chapter.

Do we want to grow the organisation?

Some writers have argued that organisations need to see growth as at least part of their purpose. For example, the management guru Tom Peters argued that ‘A ﬁrm is never static – it is either growing or stagnating’,[[12]](#endnote-12) and the strategy writers Gertz and Baptista claimed that ‘No company ever shrank to greatness.’[[13]](#endnote-13) For some people, such phrases are vapid sloganising, but there is an established tradition in economic writing that assumes that organisations will wish to grow. For example, the well-respected work of the economist Edith Penrose – see Chapter 2 – assumes that ﬁrm will wish to grow.[[14]](#endnote-14) Yet organisations may have a choice on growth and not all organisations will wish to grow – they may be perfectly satisﬁed to continue their present course. The decision on growth is an important one but entirely dependent on the organisation and its environment – the choice is not automatic.

What is our relationship with the immediate strategic environment and with society in general?

Purpose cannot be set without some consideration of the environment within which the organisation operates. This can conveniently be considered from the twin perspectives of the immediate strategic environment and the wider context of society in general, though there may in practice be other approaches.

In the immediate strategic environment, the main problems affecting purpose are likely to be general turbulence, strong competitive activity and the awareness of green strategy issues. There may be occasions when the environment is so chaotic or competition so powerful that survival is the only sensible purpose. All other aspects of purpose will need to be subordinated to this. It may even be that survival is not possible, in which case an orderly exit should be the purpose. The other issue is the need to build into purpose a response to green strategy issues. As explored elsewhere in this text, green strategy is not an add-on to other aspects of strategy but fundamental to strategy development. This will only happen if it forms part of the purpose of the organisation.

In the wider environment of society in general, there may be some need to deﬁne purpose in the context of the pressures and demands of that society. For example, government policy may dictate an adjustment in purpose to focus increasingly on renewable energy resources such as solar power and wind farms. Equally, society may put pressure on a company to alter its purpose, such as the campaign to have responsible environmental ‘green’ policies written into the purpose of organisations. Increasingly, such considerations have become important and are discussed further under the heading of *Corporate Social Responsibility* later in this chapter.

More generally, from the perspective of the environment within which the organisation operates, some strategists argue that all organisations will adapt their purpose to reﬂect the values and pressures of such societies.

How do we bring all these factors together?

We bring them together u sing the **Polygon of Purpose**. This is Figure 6.3 in Chapter 6 of *Strategic* *Management* ninth edition of the main text. To avoid unnecessary repetition, this is described in the text and therefore not repeated here.

The basic argument is that there are twelve elements related to the purpose of the organisation – innovation, value added, survival, etc. - that need to be considered. Some elements will be irrelevant in the circumstances of the organisation at any point in time. Other factors will be highly important. In essence, there needs to be a *balance* struck between the elements. This will depend on the organisation’s strategic context and the ambitions and vision of its stakeholders.

1. The comments of one of the anonymous reviewers of the 2nd edition are acknowledged in this section of the text. [↑](#endnote-ref-1)
2. Whittington, R (1991) *What Is Strategy and Does It Matter?*, Routledge, London, p99. Hucknman, R S and Zinner, D E (2008) ‘Does focus improve operational performance? Lessons from the management of clinical trials’, *Strategic Management Journal*, Vol 29, pp173–193. [↑](#endnote-ref-2)
3. Drucker, P (1961) Op. cit., Ch6. [↑](#endnote-ref-3)
4. For example, see Prahalad, C K and Hamel, G (1990) ‘The core competence of the corporation’, *Harvard Business Review*, May–June, pp79–91. [↑](#endnote-ref-4)
5. Handy, C (1993) *Understanding Organisations*, 4th ed., Penguin, Harmondsworth, Ch4. [↑](#endnote-ref-5)
6. Lawrence, P R and Lorsch, J W (1967) *Organisation and Environment*, Harvard University Press, Cambridge, MA. [↑](#endnote-ref-6)
7. Handy, C (1993) Op. cit., Ch4. [↑](#endnote-ref-7)
8. Drucker, P (1961) Op. cit., Ch13. [↑](#endnote-ref-8)
9. For an extended exploration of this area, see De Wit, B and Meyer, R (1998) *Strategy: Process, Context and Content*, 2nd ed., International Thompson, London, Part V, pp805–86. But note that the purpose of the organisation is a much broader concept than that explored in this text. For a more recent exploration of the fundamental issues, see Ghoshal, S (2005) ‘Bad management theories are destroying good management practices’, *Academy of Management Learning and Education*, Vol 4, No 1, pp75–91. [↑](#endnote-ref-9)
10. Berle, A A and Means, G (1932) *The Modern Corporation and Private Property*, Macmillan, New York. See also for more recent arguments in favour of shareholders: Rapaport, A (1986) *Creating Shareholder Value*: *The new standard for business performance*, The Free Press, New York, Ch1. [↑](#endnote-ref-10)
11. Handy, C (1993) Op. cit., Ch4. [↑](#endnote-ref-11)
12. Peters, T (1987) *Thriving on Chaos*, Pan Books, London. [↑](#endnote-ref-12)
13. Gertz, D and Baptista, J P (1995) *Grow to be Great*, The Free Press, New York. [↑](#endnote-ref-13)
14. Penrose, E (1959) *The Theory of the Growth of the Firm*, Oxford University Press, Oxford. [↑](#endnote-ref-14)