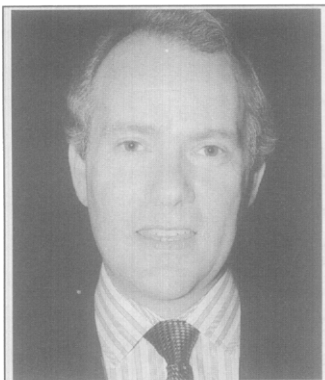


# Strategy Past; Strategy Futures

Peter McKiernan

AS STRATEGY SCRAMBLES FROM adolescence to adulthood it is beginning to ask questions about its new identity. Like many young adults, it is concerned about its roots and about where it is heading. The choice of a future direction is influenced by those origins and the viewpoint they have formed. This can be coloured by history, discipline, culture or, simply, the prevailing 'dominant paradigm'. The latter, when transferred into an organizational 'recipe',\* can induce strong cases of cognitive calcification, so limiting interpretation and creativity. This is as true for academics as it is for practitioners. In a recent survey,† strategy scholars were asked for their perception of seminal contributions to the development of thought in the area. A number of patterns were discernible in their answers. First, consensus on a

Strategy is a youthful discipline, with much of its research material derived from studies in the last 30 years. Its roots, however, go back much further. Modern studies can be partitioned into four schools—Planning and Practice, Learning, Positioning and Resource-Based, each with long scholastic and practical traditions. The schools are not mutually exclusive nor do they cover all the contributions to the field. But they are a useful way of identifying the pathways to the present so that a clearer view can be formed of potential strategy futures. This article paints four such futures; some based upon an extension of the past and other, alternative, trajectories. The aim of the paper is to stimulate thinking to help the progress of the youth from adolescence to adulthood. © 1997 Elsevier Science Ltd



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common pathway was limited due to the many disciplinary avenues down which the development of strategy has had to travel. So their selections were many and varied. Second, there was a distinct difference in the choices by scholars from the strategy

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\*After the work of Grinyer, P.H. and Spender, J.C., see references.

†Conducted by the author in preparation for the 'Historical Evolution of Strategic Management; Volumes I and II', Dartmouth, 1996.



content, and by those from the strategy process, schools. The danger herein is the development of an intellectual schism that could impede the integrative evolution of the field. Third, all quoted contributions came from the last 30 years, with over 80% of them in the last decade. This probably reflects the reality of an emergent subject; with few specialist journals, and schools dominated by a handful of authors each decade since the 1960s.

If we are to search for a strategy future, it is always helpful to have explored the past. Cummings<sup>1</sup> suggests that most recent converts to corporate strategy have little knowledge of where the pathways to the present began. Two generic sources have momentum. One is the biological route that recognizes the perennial presence of natural competition, acknowledges the partial role of Darwinian selection, builds to encapsulate Gause's principle of competitive exclusion and adds the central gifts of imagination and logic to differentiate the strategist from the rest. Henderson<sup>2</sup> argues that Darwin is probably a better guide to business competition than economists are.

The other source is a more traditional heritage by way of military analogy. In the East, China's oldest military classic, 'The Art of War' (c 500 BC), with its claim that the highest form of leadership is to overcome the enemy by strategy, provided a succinct exposition of planning, organization, tactics and the seizure of opportunities. In the West, the parallel is with the ancient Athenian position of '*strategos*', coined during the democratic reforms of Kleisthenes (508 BC) in reference to the military and political sub-units that formed the Athenian war council. Certainly, contemporary terminology in strategic management has a military flavour. Further, it can be argued that in certain areas of the subject e.g. procurement, empowerment, intelligence, control and communications, the military are decades ahead of the academics. Hence, this pathway cannot be denied easily.

Fourth, the picture painted had a distinct North American hue, even among a sample with a predominance of European authors. Clearly, important inputs to the subject's development have enjoyed that heritage. But it would be erroneous to accept, unquestioningly, that any single geographic source has monopolized the development of the subject. For instance, the two major historic strands outlined above have different cultural origins. Moreover, much of the Greek inspired military pathway can be traced through mediaeval Europe where it is pivotal in Machiavelli's 'Prince'. Drawing on case material from the 'strategoi', he warned that;

'for intellectual training, the Prince must read history, studying the actions of eminent men to see how they conducted themselves during war and to discover the reasons for their victories or their defeats, so he can avoid the latter and imitate the former'.

From here, similar principles can be identified in

the writings of the great French and German military strategists, Foch and von Clausewitz, in the 19<sup>th</sup> century.

We witness that the history of strategy is global and not entirely American; ancient and not modern. However, we can divide the modern contributions into four schools of thought; Planning and Practice, Learning, Positioning and Resource-Based. These are not mutually exclusive. There has been active interplay between them. A good way to visualize them is as strands woven together to form a strong rope. Authors e.g. Andrews, Rumelt, who appear in one have also been influential in others. Nor are they complete; other research streams e.g. game theory, have nudged the field along. Yet each captures a part of a broad and rich strategy heritage. From a knowledge of each, we can attempt to identify patterns of evolution that may guide us to some strategy futures.

## The Planning and Practice School

The Industrial Revolution produced several British pioneers in the development of modern management thought (e.g. Steuart, Smith, Watt, Owen, Arkwright). The principles of authority, specialization, control, standard operating procedures, personnel policies, cost accounting, scientific management and planning were laid down largely as mechanistic procedures (though such concepts were well known to the Sumerians, Egyptians, Hebrews and Chinese in a previous era). Later American contributions (e.g. Towne, Metcalfe, Halsey, Taylor, the Gilbreths) consolidated this science of management in explaining internal organizational activities. By the early part of the 20<sup>th</sup> century, this mechanistic approach had embraced the integration of these activities. But, as Spender<sup>3</sup> points out:

'prior to the 1930s, there seemed to be little difference between theories of organizations, their management and their strategies'.

As with the military analogy, strategy was essentially about large and long term decisions; a view that still pervades the literature. Barnard<sup>4</sup> provided the necessary insights. First, he separated organization theory from both management and strategy, leaving the latter as a 'function of executive leadership'. Second, he shifted the debate away from its focus on efficiency to a focus on effectiveness. This necessitated a coupling of the organization to its environment. Such environmental 'fit' formed the bedrock of modern analytical approaches to strategy formulation and, in conjunction with the efficiency approaches, opened the way for the introduction of the SWOT technique to the strategists' armoury.

In the modern era, Barnard's contribution is reflected in the seminal Harvard casebook of Learned, Christensen, Andrews and Guth<sup>5</sup>. Andrews, who

wrote the text, split strategy into formulation and implementation and, after the influence of Chandler, highlighted four components:

1. what the firm might do (market opportunity);
2. what the firm could do (corporate competence);
3. what the firm wants to do (ambition);
4. what the firm should do (social responsibility).

So strategy decisions dealt with the 'fit' between the external (1 & 4) and the internal (2 & 3) environments. This contribution also borrowed the notion of 'distinctive competence' from Selznick<sup>6</sup>, so emphasizing competitive advantage from the fertilization of the resource base (see later). Porter<sup>7</sup> recognises this creation of competitive advantage, from a clever utilization of a heterogeneous resource set, to be a salient step in the evolution of the subject. Spender<sup>8</sup> traces it to the evolutionary systems models utilized by Henderson and Follett. Whatever its origin, the resource-based view developed, subsequently, into a separate field of endeavour in the subject's evolution (see later).

The sequential nature of activities and the inherent logic of the Harvard schema suggested that strategy formation could be 'designed'<sup>9</sup> from first principles in a simple, yet informal, way. In a parallel development, Ansoff<sup>10</sup> provided a more systematic model of the strategic decisions, characterized by detail and definition in its 'planning' process. The planner was more significant than the chief executive; strategy output was generic rather than uniquely defined and the terminology of *corporate*, rather than *business*, strategy was germane.

Both approaches stressed environmental appraisal, market positioning and resource capability in analysing the whole organization. These ingredients formed the basis of many of the 'planning' texts of the 1960s and 1970s.<sup>11-13</sup> Such models suggested that well-developed planning systems were indispensable to executive management as well as a necessary, but not sufficient, condition for performance enhancement. They were mechanical, prescriptive and about corporate, rather than strategic, planning. However, the chief strategy architects (Chandler, Andrews and Ansoff) had established the modern concept of strategy and, as Schendel<sup>14</sup> acknowledges:

'There is little written today that cannot be traced back to their work'.

This was quickly spread and developed by the consultancy professionals and organizational planning teams who provided new techniques with which to facilitate its practical implementation (e.g. BCG, PIMS, Shell's scenarios).

## The Learning School

The theoretical ease with which objectives could be set, markets appraised and resources deployed in a

logical engineering manner had a strong attraction to executives and academics. Hence, the planning approach became deeply embedded in the strategic psyche. By the 1990s, it was still the dominant model in many strategic management texts and course designs in the Anglo-American world. However, observations of both the process and effectiveness of strategy in practice clashed with this rational-analytic view. In reality, some 'planned' strategies failed to realize their intended outputs and other, successful, strategies emerged informally. Organizational studies scholars began to challenge the planners' notions of intentional choice and outcome. They spoke of bounded rationality and the role of power, internal politics and chance in strategy decision making. They emphasized organizational adaptability, since the rational planning process was constrained by both external and internal variables whose behaviour was unpredictable or simply unknown.

The 'learning' school was eclectic in membership. It sympathized with the natural selection model, which assumed that the environment was so unpredictable and complex that synoptic models did not present any protection from the constant buffeting organizations had to face. Each was forced to adapt to survive. Lindblom<sup>15</sup> had already noted that companies should adapt to, or 'muddle through', this complexity. So Wildavsky<sup>16</sup> suggested that, in attempting to include the totality of organizational activity, planning had dissipated into nothing. The unfortunate planner could no longer discern its shape; it was beyond control, 'located everywhere in general and nowhere in particular'.

Empirical investigations<sup>17</sup> showed that companies progress using a form of 'logical incrementalism', navigating the future by evolutionary adjustments to the core business and controlled venturing elsewhere. Rather than 'muddling', such incrementalism is purposeful and proactive, integrating the analytical and behavioural aspects of strategy formation. Planning is not rejected but seen as one of many enablers of strategic change. Johnson<sup>18</sup> takes issue with the notion of 'logical' within the incrementalist approach, arguing that it suggests a degree of rationality which is constrained in organizations by politics and paradigms. The resultant strategy is frequently the result of a symbolic, programmatic and cognitive cocktail which can often appear illogical.

As an executive process, strategy formation is cloaked in organizational politics; of individuals and groups with conflicting demands, of legitimacy, symbolism, rituals, beliefs, myths and heritage that can expand into a network beyond the bounds of a single company, through interlocking directorships. Creditably, strategy scholars<sup>19-21</sup> have tried to make sense of this complexity by searching for explanations and patterns. So strategy can be an identifiable pattern in a series of decisions; a combination of the deliberate

(planning) and the emergent<sup>22</sup> depending on the organizations' culture and context. In a parallel, but unrelated, development, a detailed analysis of the latter was being undertaken by industrial economists. The research propelled market structure to the forefront of conceptual activity and paved the way for the positioning school.

## The Positioning School

Arguably, the greatest impact on the modern strategic management field from the area of industrial organization economics (IO) came from Porter.<sup>23,24</sup> The origins of his work follow a rich vein of US empiricism as researchers struggled with the applicability of microeconomic theory in its pure form. Initially, Chamberlin<sup>25</sup>, a Harvard doctoral student, articulated the theory of monopolistic competition. He rejected the restrictive assumptions of prevailing economic theory as 'remote and unreal'. He suggested that the determination of most prices was the result of both monopolistic and competitive forces rather than to be explained by one or the other, as was previously assumed. The linking mechanism was to be a firms' ability to attract customers through product differentiation, thus earning quasi monopoly rents in a quasi competitive arena. Mason<sup>26</sup> developed this theme by analysing firm policies and concluded that this required a consideration of how firms react to market situations and of the constituent elements of market structure, of which product differentiation was only one. It was differences in market structure that governed any differences in their policy decisions, e.g. on price. There followed a systematic investigation of key US industries (aluminum, tobacco, lead, petroleum) by Harvard economists in which Bain<sup>27</sup> challenged traditional price theory by introducing the threat of potential entrants to a sector. He defined and classified entry barriers and introduced much of the language now familiar to modern strategists. By establishing a strong positive correlation between industry concentration and profitability, the notion that market Structure determined firm Conduct and so Performance (the S-C-P model) was indelibly written into the IO folklore.

This Mason-Bain paradigm was refined and tested over the next two decades. Harvard economists (e.g. Caves, Hunt) began to focus on the changing environmental contexts as firms shifted from unsuccessful diversifications in the 1960s and 1970s to leveraged buy-outs and divestments in the later 1970s and early 1980s. They incorporated firm behaviours and mobility into their analyses, breaking with conventional oligopolistic thinking by dropping the assumption of firm homogeneity. This led to the introduction of strategic groups within sectors and to the analysis of strategic decision making patterns. One of

the challenges to conventional IO thinking came from one of Caves's doctoral students, Michael Porter.

Porter<sup>23</sup> saw the root of competitive strategy as linking the firm to its environment. Industry structure, to be analysed by the famous five forces, determined the extent of competition and so the profit potential. A firm positioned itself within the sector where it could best defend against or influence these forces, e.g. behind strong entry barriers. This was an 'outside in' approach; though Porter paid homage to a capabilities analysis within the firm. His approach strongly reflected its American SCP heritage yet it still represented a dramatic shift in thinking. The SCP school had made environment the key determinant of performance. As Schendel emphasized:

'by making managerial choice in an explicitly environmental context the focal point of analysis, Porter succeeded in turning IO Economics on its head'.

## The Resource Based View of the Firm

The positioning approach provided prescriptions to executives in terms of the five force analysis and the generic strategies of low cost, differentiation and focus. It took a strong hold in board rooms and business schools. Still, it invoked steady criticism from the academic fraternity, not least for the lack of any stable definition of industry or market from which to perform the analysis or the restrictive mutual exclusivity of its generic strategies. Moreover, strategy researchers throughout the 1980s confirmed firm specific factors as the major determinants of performance differences between firms in the same sector.<sup>28</sup> For an explanation, attention switched to the analysis of the firms' resource base in the hope of identifying the unique blend and balance which would deliver a competitive advantage. Commonly referred to as the 'inside-out' view, this school emphasized the accumulation of scarce resources through skill acquisition and learning, thus placing the firm at centre stage.

The resource based view has a long history. The rich vein can be traced from Marshall,<sup>29-31</sup> through Coase<sup>32</sup> and Andrews<sup>33</sup> to Penrose<sup>34</sup>:

'It is the heterogeneity, not the homogeneity, of productive resources available.... that gives the firm its unique character'.

Conventional economics focused on a traditional resource base of land, labour and capital, which all behaved well according to the assumption of diminishing returns to scale and so *could be modelled easily*. Penroses's bundle of resources included management's increasing experience and knowledge of the external world which *could not*. It was the interaction of resources with each other and with this human experience that provided firms with unique

advantages. Transferring and monitoring resources between firms was thus made difficult, denying rivals the chance of replication and so securing superior returns. Such complexity needed a new articulation and modern scholars were quick to oblige.<sup>35-40</sup> This academic discourse was disseminated to the waiting executive audience by Prahalad and Hamel<sup>41</sup> who saw real sources of competitive advantage as lying in:

'Management's ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities'.

This development of core competencies had been witnessed in some of the world's leading organizations (e.g. Honda, Canon, Sony, Yamaha, Komatsu). Hence, there was some urgency attached to its widespread adoption among Western firms.

### *Futures 1: Planning and Learning Schools*

As environments become more complex, the limitations of the linear, stage-based model of strategic management and its associated rational-analytic techniques, developed within the Planning and Practice school, become pronounced. There is a shift from traditional forecasting of the future by extrapolation of the past to the painting of alternative futures through scenario creation. The aim is to improve the 'fit' between the organization and its environment. This process relies on a variety of internal corporate perceptions of the future and, through conversation rather than quantification, explores the role of language in organizational learning. Language and culture are inextricably bound and, as more attention is now being given by language scholars to the place of language in the nation state and the individual, we expect to witness increased activity at the organizational level in the hope of understanding the 'emotional intelligence' deployed. For instance, government inward investment programmes have brought foreign nationals together with indigenous labour forces. Flexible language can confront inflexible language, interpretations can become fuzzy and disputes so arise.

Further, the current conversations in, and popularity of, organizational learning should enhance two other futures. First, modern strategic management assumes a notion of 'rationality' at the individual or collective level. It is not always clear exactly what notion of rationality is employed; though there is a sense in which this is dominated by Western philosophical bases and has an emphasis on the instrumental. There are some parts of our global arena (e.g. Africa, Asia) where 'reason may be the slave of the passions'\* rather than of 'moral law'.† This requires

that our studies broaden their notion of rationality to include the procedural and intuitive forms. Moreover, care is required in our normative prescriptions which rest on our traditional techniques and models. In essence, we need to know where they work, where they do not, what adjustments are required, and what new models are needed.

Perhaps a further consequence of the ubiquitous presence of western management literature is the danger of accepting a restrictive set of 'values' in the strategy process and, especially, in corporate governance. There is little mention of ethics in recent strategy writing<sup>42</sup> and so this field is ripe for exploration and expansion beyond the guidance of Aristotle, Bentham and Kant. Strategy decisions have global and local characteristics. They depend on both an ultimate value, which may be determined by organizational executive ownership, and on what is 'right' in the context, which is probably determined by features of the indigenous local culture. Global exposure, interlocking directorships, strategic alliances and environmentalism provide a strong incentive for a change of emphasis and for new research programmes.

Second, in building scenarios, organizations filter environmental signals and, in a shared way, cognitively de-code information.<sup>43</sup> Cognitive mapping has a solid research base in academe yet, because few scholars have been fully conversant with the technical aspects of its methodology, it has not been as widespread as its content deserves. Hence, its results have not been fully articulated to executive audiences in a readily useable format. We should see greater developments in this area with the continued adoption of psychoanalytic techniques in the research process. The exploration of decision-making and its 'bounded rationality', of executive politics, of management styles, of managerial elites, of ambitions and aspirations should all be much improved. In particular, this future could be considerably enhanced by closer liaison with the knowledge base and methodologies within social anthropology (see Ref. 44), especially where group behaviours, pathways to different decisions, self reflexivity and cognitive patterns are concerned.

### *Futures 2: Positioning, Resource-based and Learning Schools*

Despite the partial demise of the 'positioning' view and the relative dominance of the resource based view in the early 1990s, each school has dealt with the same thing, i.e. competitive advantage. The emphasis in each has merely been different, though each has recognised the other's territory. For instance, Porter presents a thorough capabilities analysis in the context of competitor reaction,<sup>23</sup> acknowledges distinctive competencies as a cornerstone of strategy<sup>45</sup> and relates activities analysis to strategic position-

\*David Hume.

†Immanuel Kant.

ing.<sup>46</sup> Ironically, he also developed one of the most useful tools for internal resource analysis in the value chain.<sup>24</sup> A progressive strategy future would see adherents of the two schools seeking greater integration to lever their relative strengths. First, they need a common language.

The traditional emphasis on accounting techniques to measure internal assets has made it difficult to carry out a full resource audit. Such techniques are essentially historic and so are incongruent with the building of future competencies and capabilities. Moreover, the latter include content that is tacit e.g. knowledge, which is not measurable by such conventional means. A different language is required that can deal with 'soft' rather than 'hard' resources and a comprehensive set of new measures needs to be developed. This requires a multidisciplinary effort.

Second, they need a new theory of the firm. At the heart of the resource based view is the concept of imitability. Competitive advantage is built on a unique bundle of assets that is difficult to imitate. Its sustainability depends on the continuous development of key resources. One is culture and one is knowledge. Culture should be the one resource that is impossible to copy. Research into culture by organizational theorists (in the Learning school) is reasonably well developed. However, there has not yet been sufficient intellectual traffic between the two schools for cross-fertility to occur. Perhaps disciplinary 'silos' have prevented theory development here.

Organizationally embedded knowledge, influenced by the work of Polanyi<sup>47</sup> on tacit knowledge and Nelson and Winter<sup>48</sup> on organizational routines, became the focus of much resource-based research. But, our knowledge of the anatomy and creation of this knowledge is embryonic and its exploration has been hampered by measurement problems (see above). Though fresh research in this area has broken new ground<sup>49</sup> towards a knowledge-based theory of the firm, much work still remains to be done to progress this strategy future.

Any evolutionary strategy future would foster closer integration of all the schools. Linking the outside-in (Positioning) with the inside-out (Resource Based) is one obvious route. Academic initiatives<sup>50,51</sup> have already begun and must be sustained as they lag behind global business practice, which has followed this path for a generation.

### *Future 3: Chaos and Complexity*

The above futures build on the relevant historic tracks and are part of a traditional evolution. They involve the development of the subject as a capstone discipline, borrowing partial analyses from adjacent social and mainstream sciences. This broadening should be accompanied by a deepening of already established knowledge. An alternative future would break with this linear tradition and embrace a radical route for

strategic management. If we accept that organisations are families of non-linear feed-back loops linked to other families (organizations) by similar loops, they should be able to operate a long way from equilibrium, at the border between stability and instability. They will operate in bounded instability, at the edge of chaos. This state is difficult to manage. The need for control and integration pulls them towards stability and eventual ossification. The need for decentralization and innovation pulls them toward instability and eventual disintegration. The left and the right need to remain in balance. As Stacey<sup>52</sup> states:

'The dynamics of successful organizations are therefore those of irregular cycles and discontinuous trends, falling within qualitative patterns, fuzzy but recognizable categories taking the form of archetypes and templates'.

For strategic management, this means that, although some short term control is possible through traditional techniques, long term development must eschew the type of linear, analytic reasoning that underpins many of these techniques. Waldrop<sup>53</sup> warns of the danger of 'locking in' to sub-optimal schema; generations of strategists could unquestionably operate stage-based, linear models, becoming hooked on these textbook paradigms. Without continued education, the lock in will be reinforced for years to come. Pascale<sup>54</sup> talked of the Law of Requisite Variety, demanding that any organism must develop an ability to manage conflict and paradox internally if it wants to stand any chance of coping with external shocks with similar characteristics. In this future, we may need to throw off the baggage of a previous economic-strategy generation and embrace self-organization, transformation and renewal. This future would link strongly to the next. It remains on its own as it requires a change in the mindset of many modern strategists. Change or not, the next future will have to be faced.

### *Futures 4: External Pull and Complexity*

Strategists will have to react to the phenomenon of change in contemporary society. The march towards liberal democracy, the growth of the nation state and tribalism, the de-militarization of the international community, the emergence of trading blocs and mega-markets (e.g. China and India), the fight against poverty, the fight for sustainable development, the drift from national to regional government and the proliferation of privatization and de-regulation provide an engaging complexity at the general environmental level. At the operating level, the digital telecommunications revolution will continue to liberate individuals from their corporate parents through efficient personal communication systems bringing with it new work patterns. Consequent decentralization could stimulate increased activity in small cells linked together by networks, so trans-

forming intra and inter company relationships. Strategists will have to grapple with virtual organizations, outsourcing, increased mobility of labour and a need for continuous education and training as the rapidity of technology and knowledge flows quickly erodes contemporary skills and abilities. The structure of industries as well as companies will change dramatically.

The challenge for strategists will be to search for patterns in this complexity;<sup>53</sup> to start with uncertainty; to embrace conversation and stories; to better understand intuition and to prevent it from potential contamination from the 'engineering' toolbox.

## Conclusion

Many tools and techniques are concerned with the provision of operational efficiency. They come and go. Trainers and consultants assure that the latest versions are dispersed widely to organizations, who, in turn, appear to have voracious appetites for them. Organizations end up doing things in the same way, especially when financial observers force upon them similar output measures. Yet, these sorts of efficiency gains are a means to an end. Strategy is not about this inward imitation. There is a paradox of progress here.

The world presents a complex agenda where generic treatments can lead to inappropriate solutions. Strategists should ensure that organizations do things differently to remain competitive and responsible.

These strategy futures are a combination of the evolutionary and the revolutionary. The former predict that we will do more of the same ourselves; integrating schools and disciplines, accepting partial analyses from further cognate areas and generally tweaking things at the margin. This may be good enough if we get the odd breakthrough. The latter is a call to drop the baggage, to accept that linearity can't cope with complexity, to adjourn our deepening of generic strategies, to become analytically 'softer', to experiment and to end any pretension that our work in strategy is novel. That would be an acceptance of the lessons of history of the Chinese, of the Egyptians, of the Greeks. Our strategy rope has a circular and repetitive pattern. If we continue to do the same things with it, let us hope it's strong enough.

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