

A SYSTEMS APPROACH TO STRATEGIC MANAGEMENT

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ABSTRACT

Strategic management involves decision-making about an organization's objectives together with the formulation and implementation of plans, particularly regarding the allocation of resources, to support their achievement. As such, strategic management is a dynamic and complex process involving consideration of internal and external factors, and the short and long term.

The effectiveness of an organization's strategic management can critically impact upon its viability and there are many reasons why the strategic management process may fail. Such reasons include failure to:

- think creatively about the likely affects of plans
- obtain external/internal participation and commitment
- co-ordinate and control resources.

In this paper it is argued that many of the reasons for failure may be attributed to the successive dominance of different reductionist approaches to strategic management. From a systems perspective it may be argued that such approaches represent partial approaches to strategic management that neglect the complex, embedded and dynamic nature of modern organizations. Accordingly, the reasons why strategic plans fail are taken to provide a framework for the evaluation of the potential contribution of a range of systems methodologies to the strategic management process. The systems methodologies considered in this paper include: Viable System Methodology, Strategic Assumption Surfacing and Testing, Soft Systems Methodology, and Critical Systems Heuristics. In light of this, a systems approach to strategic management is proposed that sees value not only in using the approaches in isolation but also in using them in a complementary and flexible way.

In summary, the argument is articulated in this paper that there are two main contributions that the systems discipline might make to strategic management:

- To impart guidance on which strategic planning approaches to use when and also on how to view them as a complementary set that is capable of being used in a flexible way to address all aspects of the strategic managerial task.
- To provide a range of methodologies that can be put in service of the strategic planning process.

INTRODUCTION

Strategic management involves decision-making about an organization's objectives together with the formulation and implementation of plans, particularly regarding the allocation of resources, to support their achievement. As such, strategic management is a dynamic and complex process involving consideration of internal and external factors, and the short and long term. The effectiveness of an organization's strategic

A Systems Approach to Strategic Management

management can critically impact upon its viability and there are many reasons why the strategic management process may fail. In this paper it is argued that many of the reasons for failure may be attributed to the successive dominance of different reductionist approaches to strategic management. From a systems perspective it may be argued that such approaches represent partial approaches to strategic management that neglect the complex, embedded and dynamic nature of modern organizations. In light of this, a systems approach to strategic management is proposed that sees value not only in the using the approaches in isolation but also in using them in a complementary and flexible way. Further, the reasons why strategic plans fail are taken to provide a framework for the evaluation of the potential contribution of a range of systems methodologies to the strategic management process. The systems methodologies considered in this paper include: Viable System Methodology, Strategic Assumption Surfacing and Testing, Soft Systems Methodology, and Critical Systems Heuristics. Following this evaluation, the argument will be advanced that such systems methodologies can make a significant contribution to the effectiveness of the strategic management process.

APPROACHES TO STRATEGIC MANAGEMENT

Mintzberg et al overview ten approaches to strategic management in the book *Strategy Safari*:

1. The Design School.
This school sees strategy formation as a process of conception. Clear and unique strategies are formulated in a deliberate process. In this process, the internal situation of the organization is matched to the external situation of the environment.
Contributions: Order. Reduced ambiguity. Simplicity. Useful in relatively stable environments. It supports strong, visionary leadership.
Limitations: Simplification may distort reality. Strategy has many variables and is inherently complex. Bypassing learning. Inflexible. Weak in fast changing environment. There is the risk of resistance.
2. The Planning School.¹
This school sees strategy formation as a formal process. A rigorous set of steps are followed, from the analysis of the situation to the execution of the strategy.
Contributions: Gives clear direction. Enables firm resource allocation. Analysts can pre-screen the facts and they can judge the crafted strategies. Control.
Limitations: Strategy can become too static. There is a risk of groupthink.
Predicting is difficult. Top managers must create the strategy from an ivory tower.
Strategy is partly an art.

¹ A rather narrow view of systems theory is advanced by Mintzberg et al. in viewing it as a basis for the planning school approach. This view may be justified only if systems theory is merely associated with its traditional forms of hard operational research and cybernetics but this would be to do an injustice to the broader school of systems theory that embraces interpretivist, commonly referred to as soft systems, and critical approaches.

A Systems Approach to Strategic Management

3. The Positioning School.

This school sees strategy formation as an analytical process. It places the organization within its context, and looks at how the organization can improve its strategic positioning within that context.

Contributions: This school made strategic management into a science, enabling future progress. Provides content in a systematic way to the existing way of looking at strategy. Focus on hard (economic) facts. Particularly useful in early stages of strategy development, when data is analyzed.

Limitations: Similar to those of the planning school. Neglects power, politics, culture, social elements. Is biased towards larger organizations. Numbers-oriented.
4. The Entrepreneurial School.

This school sees strategy formation as a visionary process that takes place within the mind of the charismatic founder or leader of an organization. The school stresses the most innate of mental states and processes – intuition, judgment, wisdom, experience, and insight.

Contributions: A sound vision and a visionary leader can help organizations to sail cohesively through muddy waters. Especially in early or very difficult years for the organization. Deliberate in the broad lines, flexible and emergent in the details.

Limitations: Sailing a predefined course can blind someone for potential unexpected dangers or developments. How can you find the right leader, with all of the many needed qualities? Entrepreneurial, visionary leaders have a tendency to go too far. Being leader is an extremely demanding job from this perspective.
5. The Cognitive School.

This school sees strategy formation as a mental process. It analyzes how people perceive patterns and process information. It concentrates on what is happening in the mind of the strategist, and how it processes the information.

Contributions: Sees strategy as a cognitive process in the mind of the strategist. Strategies emerge as concepts, maps, schemas and frames of reality. Stresses the creative side of the strategy process. Strong at the level of an individual strategist. very useful to explain why our minds are imperfect

Limitations: Not very practical beyond the conceptual stage. Not very practical to conceive great ideas or strategies. Currently not very useful to guide collective strategy processes.
6. The Learning School.

This school sees strategy formation as an emergent process. Managers pay close attention over time to what works and what doesn't. They incorporate these 'lessons learned' into their overall plan of action. The world is too complex to allow strategies to be developed all at once hence strategies must emerge in small steps, as an organization adapts, or 'learns'.

Contributions: Offers a solution to deal with complexity and unpredictability in strategy formation. More people can learn than just the leader. No need for omnipotent leader. Can be combined with the emergent view. Strong in complex conditions with continuous change. Strong in professional organizations.

Limitations: This school could lead to having no strategy or just doing some tactical maneuvering (muddling through). Or to strategic drift. Not useful at all during crises. Not very useful in stable conditions. Taking many sensible small steps does not necessarily add up to a sound total strategy. You should not cross a chasm by taking small steps. There are costs associated with learning.

A Systems Approach to Strategic Management

7. The Power School.

This school sees strategy formation as a process of negotiation between power holders within the organization, and/or between the organization and its external stakeholders.

Contributions: Can help to let the strongest people survive in the corporate jungle. Can help to ensure that all sides of an issue are fully debated. Can help to break through obstacles to necessary change. Democratic. Can help to decrease resistance after a decision is made. Realistic. Particularly useful to understand strategic alliances, joint-ventures, etc.

Limitations: Politics can be divisive, use a lot of energy, cause wastage and distortion and is costly. Can lead to aberrations. Can lead to having no strategy or just doing some tactical maneuvering. Overstates the role of power in strategy formation.

8. The Cultural School.

This school sees strategy formation as a collective process. Tries to involve the various groups and departments within the organization with strategy formation being seen as a fundamentally collective and cooperative process. The strategy that is developed is a reflection of the corporate culture of the organization.

Contributions: Emphasizes the crucial role that social processes, beliefs and values play in decision-making and in strategy formation. Explains resistance to strategic change (e.g. mergers and acquisitions) and helps to deal with dominant values in organizations.

Limitations: Vague, can feed resistance to change and can be misused to justify the status-quo. Gives few clues on how things should become.

9. The Environmental School.

This school sees strategy formation as a reactive process in response to challenges imposed by the external environment. Where other schools see the environment as a factor, the environmental school sees it as an actor.

Contributions: Gives a central role to the environment in strategy formation.

Limitations: The dimensions of the environment are often vague and aggregated. Denies real strategic choice for organizations.

10. The Configuration School.

This school sees strategy formation as a process of transforming the organization from one type of decision-making structure into another.

Contributions: An organization can be described in terms of some stable configuration of its characteristics, which it adopts for a period of time in a particular type of context. This causes it to behave in particular ways, that give rise to a particular set of strategies. The periods of stability are interrupted occasionally by periods of transformation. The way of strategy formation must adapt to its own time and context, while it takes one or more of the ten mentioned forms. Therefore strategy formation itself has configurations.

Limitations: In reality there are many shades of grey, not just a limited number of valid configurations. Also, pattern is in the eye of the beholder. If you describe the reality by using configurations, you are distorting reality in order to explain it.

Adapted from:

http://www.12manage.com/methods_mintzberg_ten_schools_of_thought.html,

(accessed 12/06/07).

A Systems Approach to Strategic Management

Each of the above approaches emphasises either a particular approach to strategic planning (such as a highly formalised, systematic procedure) or an aspect of strategic planning (for example, culture, power, etc). The predominance of such reductionist approaches and their relative success and failure has led to a questioning of the effectiveness of strategic management.

WHY STRATEGIC PLANS FAIL

The traditional emphasis in the strategic management literature has been on elucidating common elements in successful strategies (see for example, Grant 2002). However, the idea that strategic plans fail is well recognised: “Walter Kiechel of *Fortune* magazine once polled consultants who claimed that less than ten percent of strategies are successfully implemented; Tom Peters referred to that figure as “wildly inflated”! (Mintzberg, 1994, p.25).”

In *The Rise and Fall of Strategic Planning*, Mintzberg (1994) documented the evidence against the strategic planning process and various reasons for the failure of strategic planning have been advanced (see for example Wilson, 1994, cited in Mintzberg, 1994). In summary:

- Planning staff took over the strategic planning process and cut executives out of the process
- The strategic planning process dominated the staff
- Planning systems were designed to produce no results due to a lack of involvement and failure in the planning and implementation systems
- Planning neglected core business development in emphasising ‘major’ developments such as mergers and acquisitions
- The planning process was rushed focussing on developing strategies that satisfied rather than a more systematic analysis of alternatives
- Cultural and organizational requirements were neglected
- Single-point forecasting was an inappropriate basis for planning in an era of restructuring and uncertainty.

In addition to the lists of reasons for failure contained in the academic literature, similar lists are also in evidence in the public domain. Wikipedia, an online encyclopedia, is one of the best known websites that allows visitors to add, remove, and edit content. A collaborative technology for organizing information on websites, the ease of interaction and operation makes a wiki an effective tool for mass collaborative authoring. Hence it may be argued that a wiki is a good source of reference that draws together views from both academic and practising managers. A list of reasons for strategic planning failure is available on Wikipedia (Wikipedia, 18/05/07) that includes the following:

1. Failure to understand the customer
 - a. Why do they buy
 - b. Is there a real need for the product
 - c. inadequate or incorrect marketing research

A Systems Approach to Strategic Management

2. Inability to predict environmental reaction
 - a. What will competitors do
 - i. Fighting brands
 - ii. Price wars
 - b. Will government intervene
3. Over-estimation of resource competence
 - a. Can the staff, equipment, and processes handle the new strategy
 - b. Failure to develop new employee and management skills
4. Failure to coordinate
 - a. Reporting and control relationships not adequate
 - b. Organizational structure not flexible enough
5. Failure to obtain senior management commitment
 - a. Failure to get management involved right from the start
 - b. Failure to obtain sufficient company resources to accomplish task
6. Failure to obtain employee commitment
 - a. New strategy not well explained to employees
 - b. No incentives given to workers to embrace the new strategy
7. Under-estimation of time requirements
 - a. No critical path analysis done
8. Failure to follow the plan
 - a. No follow through after initial planning
 - b. No tracking of progress against plan
 - c. No consequences for above
9. Failure to manage change
 - a. Inadequate understanding of the internal resistance to change
 - b. Lack of vision on the relationships between processes, technology and organization
10. Poor communications
 - a. Insufficient information sharing among stakeholders
 - b. Exclusion of stakeholders and delegates

As has already been suggested, from a systems perspective it may be argued that many of the above reasons may be attributed to the successive dominance of different reductionist approaches to strategic management. Indeed, the partial nature of the approaches to strategic management has been recognized by Mintzberg et al to pose a dilemma: "Should strategists pick and choose from among all these ideas, like diners at a buffet table, or should they try to combine them into palatable dishes, as chefs do back in the kitchen?... We have gone both ways on this question for one good reason: the answer has to be "yes" both times." (p367). It is, however, unfortunate that Mintzberg et al do not address the problems of which approach to select when (like a diner at a buffet table) and of how to use the different approaches in combination (like a chef in the kitchen); fortunately, these are problems that have received significant attention from systems thinkers.

SYSTEMS METHODOLOGIES FOR STRATEGIC MANAGEMENT

The complex, embedded and dynamic nature of modern organizations requires a systemic approach to strategic management. Whittington (2001) goes some way towards recognising this in suggesting that "In the Systemic view, the norms that

A Systems Approach to Strategic Management

guide strategy derive...from the cultural rules of the local society. The internal contests of organizations involve not just the micro-politics of individuals and departments but the social groups, interests and resources of the surrounding context.” (Whittington, 2001, p27). However, in privileging contextual aspects of organization, Whittington’s approach may be said to be aligned with merely the cultural school and as such fails to realize the full potential of a systems approach to strategic management. The systems discipline has a rich history of how to use methodologies in combination that has culminated in an approach known as critical systems practice (Jackson, 2003). This meta-methodology would not only provide guidance on which strategic planning approaches to use when but also on how to view them as a complementary set that is capable of being used in a flexible way to address all aspects of the strategic managerial task. Such an approach might make a significant contribution to the effectiveness and efficiency of the strategic management process. This is the first potential contribution of the systems discipline to strategic management.

The second potential contribution of the systems discipline relates to how systems methodologies can be put in service of strategic management and, in this paper, a number of systems methodologies will be considered: Viable System Diagnosis, Strategic Assumption Surfacing and Testing, Soft Systems Methodology, and Critical Systems Heuristics. In following sections, each systems methodology will be summarily described and the potential contribution it may make to strategic planning, with reference to the previously discussed reasons for strategic failure, drawn out.

Viable Systems Diagnosis uses a cybernetic model, the Viable System Model (VSM) (Beer, 1979, 1981, 1985), to try to tackle issues of complexity and turbulence. The VSM seeks to help us design complex organizations to make them viable in rapidly changing environments. It sets out the necessary functions of implementation, co-ordination, control, intelligence and policy that must be present in any viable enterprise and suggests what information systems have to be in place to support viability. Recursion, variety and black-box theory are essential building blocks of the VSM that serve to ensure participation at all levels, ensure that tasks and responsibilities are undertaken at the most appropriate level and ensure maximum autonomy. As such, it may be claimed that the VSD might help overcome the following reasons for strategic management failure:

- Inability to predict environmental reaction
- Failure to coordinate
- Failure to obtain senior management commitment
- Failure to obtain employee commitment
- Failure to follow the plan
- Poor communications

SAST (Mason and Mitroff, 1981) and SSM (Checkland, 1981) may be taken as representative of soft systems thinking. The emphasis in soft systems thinking is on how to cope with ill-structured problems. Rather than attempting to reduce the complexity of such problems so that they can be modelled mathematically, soft systems thinking seeks to explore them by working with the different perceptions of them that exist in people’s minds. Multiple views of reality are admitted and their implications are examined. Values are included rather than being excluded (in theory)

A Systems Approach to Strategic Management

from the methodological process. The privileged role of experts is questioned and an attempt is made to include problem-owners and other concerned individuals in carrying out the study and finding possible ways forward. The immediate aim is to reach an accommodation about action to be taken. This should emerge from a debate involving all those interested in the decision and its implementation. A longer-term aim is to encourage and institutionalise a process of continual learning among the participants of the social system being addressed.

SAST and SSM are alternative examples of soft systems approaches. One, SAST, proceeds by taking advantage of divergent viewpoints to articulate the dialectical process of thesis, antithesis and synthesis. The other, SSM, seeks to institutionalise learning through the continual seeking of 'accommodations' between the world-views of the different stakeholders concerned with a problem situation. Hence, it may be claimed that SAST and SSM might help overcome the following reasons for strategic management failure:

- Failure to understand the customer
- Over-estimation of resource competence
- Failure to obtain senior management commitment
- Failure to obtain employee commitment
- Under-estimation of time requirements
- Failure to manage change

Critical Systems Heuristics (CSH), following Ulrich (1983), represents a forerunner in the development of a systems methodology that takes as a major concern the need to counter possible unfairness in organizations and society at large. This unfairness is manifested through the exclusion of certain stakeholder parties from having an input into the decisions making process about issues that affect their lives. The methodology serves to reveal and challenge the underlying value assumptions, particularly about who is and who ought be involved, that inevitably enter into planning and decision making. As such, it may be claimed that CSH might help overcome the following reasons for strategic management failure:

- Poor communications
- Failure to obtain senior management commitment
- Failure to obtain employee commitment
- Failure to understand the customer
- Inability to predict environmental reaction

Hence, the second potential contribution of the systems discipline relates to how systems methodologies, in isolation and in combination, can be put in service of strategic management.

CONCLUSIONS

In summary, the argument is articulated in this paper that there are two main contributions that the systems discipline might make to strategic management:

A Systems Approach to Strategic Management

- To impart guidance on which strategic planning approaches to use when and also on how to view them as a complementary set that is capable of being used in a flexible way to address all aspects of the strategic managerial task.
- To provide a range of methodologies that can be put in service of the strategic planning process.

Further work is planned that will serve to develop explicit guidance on how to determine which strategic planning approach to use when and on evaluating the contribution of the different systems methodologies for strategic management purposes.

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