

HISTORICAL CONTEXT OF STRATEGIC MANAGEMENT

Strategic management is a young subject compared to more traditional topics like chemistry and economics. Its roots derive from both the economics studies of the last three hundred years and, more recently, the social studies of the twentieth century. Like many aspects of life and knowledge, it can help to understand their history and foundations. That is the purpose of this web-based review.

In Chapter 1, we saw that strategic management relates the activities of the organisation to the environment in which it operates. As a result of increasing wealth, changes in industrialisation, shifts in the power balance between nations and many other factors, this environment is constantly changing. Strategic management and the prevailing logic supporting it will change as the environment surrounding the organisation changes. Before we examine the theories surrounding the subject, it is therefore appropriate to put the theories into a historical context.

Until the late nineteenth century, organisations that were not owned by the nation state were too small to be considered as corporations. Small artisan factories driven by crafts may have needed strategies to survive and prosper against competitors, but formal strategic management did not exist. Table 1 shows how matters have developed since that time.

Table 1 The development of strategic management in the twentieth century, showing important environmental influences

Period	Environment	Strategy and management developments
1900–1910	- Colonial wars - Global trading of commodities	Beginnings of examination of the management task, e.g. F W Taylor and Henri Fayol
1910–30	World War 1 and its legacy	Rise of larger organisations and the consequent need for increased management control
1930s	Crash: trade barriers erected to protect some countries	- Formal management control mechanisms developed, e.g. budgeting and management accounting, particularly in the USA - Early human resource experiments in the USA
1940s	World War 2 and its legacy	Strong US industry and the birth of formal strategy

		• Beginnings of organisational theory
1950s	• Sustained economic growth coupled with first European trade and political block: European Economic Community	• First real strategy writings in formal series of papers • Organisational theory is applied to management tasks
1960s	• Continued growth until first oil price rise late in the decade	• Strategic management techniques are researched • Separate parallel development in organisational research
1970s	• Growth becomes more cyclical with another oil price shock	• Formal strategic management techniques adopted • First research writings questioning the above techniques
1980s	• Far East and global developments • Computer data handling develops fast • Beginnings of moves to privatise government institutions	• Major strategic emphasis on competitive aspects of formal strategic management • Search continues for new strategy concepts emphasising the human rather than the competitive aspects of the process
1990s	• Telecommunications, global corporations, high growth in the Pacific Rim but currency problems in Japan • Late 1990s – rise of internet trading and business opportunities	• Global concepts of strategy • Greater emphasis on the organisation's own resources rather than competition as the basis for strategy development • Business opportunities from internet support new strategy concepts of fast-moving markets, hypercompetition and learning mechanisms
2000s	• Global recession followed by recovery • Asian economies, including China and India, begin to grow fast • Collapse of Enron and other companies for ethical reasons	• New emphasis on innovation • Strategists realise that low-wage economies coupled with mature technologies in some industries, like cars, require new strategic approaches • Corporate social responsibility takes greater prominence in strategy

North America, Europe and Japan were more or less the only areas that had begun to industrialise by the end of the nineteenth century. Countries such as China, India, Korea, Malaysia, Singapore, the Philippines, Saudi Arabia, Iran and Iraq, Nigeria and South Africa were still largely without industry; they supplied commodities and raw materials to world markets but had not yet

begun to industrialise.¹ Strategic management, which is principally associated with increased industrialisation, was therefore more likely to develop in Europe, North America and Japan than other areas around the world.

1 Strategic management in the early twentieth century

During the early twentieth century, particularly in the USA and Europe, managers rather than academics began to explore and define the management task. F W Taylor in the USA and Henri Fayol in France are examples of senior industry figures who started to research and write on such issues.² Taylor and Fayol were industrialists rather than academics, holding senior positions in industry for some years. Around the same time, Henry Ford began experimenting to produce goods more cheaply and fulfil growing market demand. In the period 1908–15³ he developed strategies that we still recognise today, and included those outlined in Exhibit 1. Henry Ford did not believe in major model variations and market segmentation, however, unlike his great rival from the 1920s, General Motors, headed by Alfred P Sloan.⁴ Nor did Ford believe in the importance of middle and senior management. He actually sacked many of his senior managers and ultimately left his company in real difficulties when he died.⁵ Hence, his rival in the 1920s and beyond, General Motors, was ultimately more successful with other strategies that still exist today (see Exhibit 1).

Exhibit 1 Early strategies still recognised today

From the period 1908–15: Henry Ford

- Innovative technology
- Replacement of men by machines
- Search for new quality standards
- Constant cost-cutting through factory redesign
- Passing on the cost reductions in the form of reduced prices for the model T car

From the period 1920–35: Alfred Sloan and colleagues

- Car models tailored for specific market niches
 - Rapid model changes
 - Structured management teams and reporting structures
 - Separation of day-to-day management from the task of devising longer-term strategy
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After the First World War came the great economic depression of the 1930s. This brought the need for a new order in international currency and, just as importantly, the desire for larger companies

to gain economies of scale. However, much of this was confined to North America and competitive strategy itself was still in its infancy.

2 Strategic management in the mid-twentieth century

The Second World War brought its specialist demands for military equipment, coupled with more destruction across much of Europe and Japan; North and South America went largely unscathed. At this time, the Middle East and Far East still remained largely outside the scope of industrial development. This period was hardly the time for strategic managers to influence events. Yet strategic game theory had its origins in developing more effective British naval tactics when hunting for German U-boats.

The late 1940s probably witnessed the period of the greatest power of North American industry and companies. It was also the real beginning of strategic management development and this then continued into the 1950s. It was accompanied by the reconstruction of industry across Europe and the beginnings of the Asian development period, particularly in Japan. Economists like Penrose⁶ were beginning to explore how firms grew, and human behaviourists like Cyert and March⁷ suggested that rational economic behaviour was an oversimplified way of considering company development.

By the late 1950s, writers such as Ansoff were beginning to develop strategic management concepts that would continue into the 1970s. During the 1960s, the early concepts of what would later become one of the main approaches to strategic management – *prescriptive strategic management* – began to take shape. Ansoff⁸ argued that there were environmental factors which accelerated the development of strategic management. Two trends can be identified:

- 1 *The accelerated rate of change.* Strategic management provided a way of taking advantage of new opportunities.
- 2 *The greater spread of wealth.* Strategic management needed to find ways of identifying the opportunities provided by the spread of increasing wealth, especially in Europe.

It was during this same period that the early research was conducted which subsequently led to the development of the second main approach to strategic management, *emergent strategic management*, although this really only came to prominence in the 1970s and 1980s.

3 Strategic management into the twenty-first century

The 1970s saw the major oil price rises. They came as a result of the world's increased need for energy and Middle Eastern success in organising an oil price cartel. The business environment was

subject to a sudden and largely unpredicted change that caused some strategists to reconsider the value of prediction in strategic management.

The past 20 years have witnessed further environmental developments that are identified briefly in Table 1. These trends have had the following effects on strategic management:

- *Free market competition.* According to various United Nations and World Bank studies, free market competition has been one element in supporting and encouraging growth in many newly developing countries.⁹ For example, greater market competition in China and India is considered to have led to increased wealth in those countries.
- *Increasing importance of Asia/Pacific markets.* Strategic management has moved out of being the preserve of North American and European countries. The lower labour costs and greater wealth in countries such as China, Korea and India have put pressure on Western and Japanese companies to cut costs or move to such countries. For example, in breakfast cereals, Cereal Partners (CP) has opened factories in Asia to take advantage of low labour costs.
- *Global and local interests.* In addition to economic growth, the world market place has become more complex in cultural and social terms. Markets have become more international, thus making it necessary to balance global interests and local demand variations. For example, in breakfast cereals, CP has adapted its breakfast cereal products to local tastes within its basic worldwide branding.
- *Need to empower and involve employees in strategic decisions.* The higher levels of training and deeper levels of skills of employees mean that they are no longer poorly trained and no longer have difficulty making a contribution to strategic management, especially in some Western countries.
- *Greater speed of technical change and rise of new forms of communication.* Technology is changing more quickly and the development of new forms of communication, such as the internet, has revolutionised strategy. For example, both Kellogg and CP have developed websites.
- *Collapse of some companies for ethical reasons.* Ethical lapses in some companies, such as Enron in the USA, have led to a renewed emphasis on ethical issues in the development and conduct of strategic management.

Key strategic principles

- Strategic management responds to the environment existing or developing at that time.
- The early twentieth century was characterised by the increased use of science and technology. This was reflected in greater structuring of management and strategy. Mass production of quality products became possible.

- In the mid-twentieth century, the accelerated rate of technological change and the greater spread of wealth led to new demands for formal strategy development.
- In the late twentieth century, there were six distinct pressures on strategic management: free market competition; the importance of the Asia–Pacific economies; global competition; greater knowledge and training of managers and employees; greater speed of technical change and rise of new forms of communication; greater recognition of ethical issues in strategic management. All six elements in the environment have directed the development of strategic management.