

The firm and its environment

BUSINESS AND ENVIRONMENT - EXAM LEVEL

Module 1 - Business and environment (exam level)

Sources: Whittington et al. (2023), *Fundamentals of Strategy* (6th ed.), chapters 1 and 2; Collis and Rukstad (2008); videos 1.1 to 1.6 and College 1 by Nijholt.

Definition of strategy

Strategy is the long-term direction of an organisation (Johnson and Whittington). Other definitions: Chandler (long-term goals, actions and allocation of resources), Drucker (theory of how you gain competitive advantage), Porter (deliberately choosing a different set of activities for a unique mix of value), Mintzberg (*a pattern in a stream of decisions*) and Rumelt (good strategy has an essential logic with three elements: diagnosis, guiding policy and coherent actions).

- **When to use:** for "what is strategy" and to compare perspectives: top-down direction (Chandler, Porter) versus a pattern that becomes visible afterwards (Mintzberg).
- **Pitfall:** strategy is not the same as a list of goals or an annual plan. Direction takes the internal organisation and the external environment into account.
- **Link:** the environment is in modules 1 and 2, the internal side (resources and capabilities) in module 3.

Three horizons, purpose, vision, mission and objectives

The **three horizons** show that an organisation at the same time defends core activities (horizon 1), builds new opportunities (horizon 2) and explores options for later (horizon 3).

Purpose answers why the organisation exists. **Vision** is the desired picture of the future, **mission** the core business, **objectives** the concrete, measurable goals. Montgomery: purpose is about *how* you contribute and *for whom*.

- **Pitfall:** in real company texts these concepts get mixed up. On the exam, Nijholt wants to know whether you recognise a *strategic objective*: measurable and time-bound.

Strategy statement (Collis and Rukstad)

A strategy statement summarises the strategy in about 35 words and has three parts:

1. **Objective (goal):** quantifiable and time-bound; not the same as mission or values.
2. **Scope:** customers and offering (products, markets, segments), geography and vertical integration. A good scope also says what you do *not* do.

3. **Competitive advantage:** the **customer value proposition** plus the **internal alignment** (the activity system that only you can deliver in this way, with trade-offs).
- **Applying:** find the three parts in a case text; judge whether the objective is measurable and whether the scope excludes choices.
 - **Pitfall:** "most profitable player" is not a quantified objective. Targets alone are not a strategy: the "what makes us special" is then missing.
 - **Link:** the sources of the advantage (resources and capabilities) return in module 3.

Rumelt: good and bad strategy

You recognise bad strategy by **fluff**, failure to face the challenge, mistaking goals for strategy, and bad strategic objectives (a "dog's dinner" of everything that seems important). Good strategy has a **diagnosis**, a **guiding policy** and **coherent actions**.

Levels of strategy

- **Corporate level:** scope of the group. Vertical, horizontal (diversification) and geographic; so the portfolio of businesses and the question which value the parent adds.
- **Business level:** competing in an industry or market; a business has its own value proposition.
- **Functional level:** R&D, IT, marketing; contributes to realising the higher-level strategies.

The book stresses that the levels must fit together (integration). Example from the video: Philips (own businesses) versus units Philips no longer owns, such as Signify.

Exploring Strategy Framework

The book arranges strategy in three blocks: **strategic position** (external environment, resources and capabilities, goals and culture), **strategic choices** (business, corporate, international, acquisitions, entrepreneurship) and **strategy in action** (evaluating, leadership, organising, changing). Modules 1 and 2 cover the external position.

Strategy development: rational-analytic versus emergent

- **Rational-analytic / conventional account (prescriptive):** analyse, plan, execute; this is how it *should* work.
- **Emergent (descriptive, Mintzberg):** how strategy arises in reality: through learning, experimenting and mistakes, bottom-up.

The book (pp. 14-15) distinguishes **intended** and **emergent** strategy. The further elaboration by Mintzberg and Waters (1985) is extra material, not core exam material:

Concept	Meaning
Intended strategy	what management planned
Deliberate strategy	the part of the plan that is realised
Unrealized strategy	the part of the plan that is not realised
Emergent strategy	arises without a plan, from daily decisions
Realized strategy	deliberate plus emergent; what the organisation really does

- **Pitfall:** the two views do not exclude each other. A descriptive theory is not “applied”; it explains. A descriptive theory explains how strategy arises, a prescriptive one says what you should do.
- **Examples:** Ikea (knock-down packages), Slack/TinySpeck.

PESTEL

PESTEL analyses the macro environment: **P**olitical, **E**conomic, **S**ocial, **T**echnological, **E**cological, **L**egal. Synonyms: STEEP, SEPTEMBER.

Factor	What to think of
Political	role of the state, civil society, policy
Economic	economic cycle, discretionary spend, high fixed costs
Social	demography, culture, networks (organisational field, sociogram)
Technological	roadmaps, new technology
Ecological	pollution, product stewardship, sustainable development
Legal	institutional environment, formal and informal rules

- **Purpose:** see opportunities and threats and find the **key drivers for change** (greatest impact on the industry).
- **Difference with Five Forces:** PESTEL looks at the **non-market** environment and the macro level; Five Forces at the **market** environment (economic, competitive relations) at industry level.
- **Pitfall:** PESTEL is not a fill-in matrix and gives no ready-made answers; you must choose what really matters. Factors are linked (AI touches economic, ecological and social).

Political matrix (book p.24, Figure 2.2). Two variables show how political an environment is: the role of the **state** (customer, supplier, owner or regulator) and exposure to **civil society** (lobbyists, campaign groups, media). The defence industry scores high on both; food companies have less direct state involvement.

Ecological motives (Bansal and Roth, Figure 2.6). Three contextual pressures (ecological, organisational field, internal organisation) lead to three motives: **responsibility**, **legitimacy** and **competitiveness**. Example of competitiveness: less polluting waste lowers costs and sustainable products often command a price premium.

Forecasting

Three forms: **single-point forecast** (one number), **range forecast** (band with probabilities) and **alternative futures** (high uncertainty). Concepts: **megatrends**, **inflexion points**, **weak signals**.

- **Pitfall:** forecasting predicts; scenario analysis does not predict.

Scenario analysis

A scenario is a coherent story about a possible future, in which PESTEL factors interact with each other.

Steps: (1) determine the scope, (2) choose key drivers on impact, uncertainty and mutual independence, (3) work out scenarios as a story with a name, (4) test the impact and robustness of the strategy, (5) monitor with early warning indicators.

- **Two drivers:** 2×2 matrix, four scenarios. More drivers gives, for example, a 2×2×2 matrix.
- **Strength:** an alternative future that does justice to the interplay between PESTEL factors. No probabilities are calculated.
- **Pitfall:** drivers that strongly influence each other; thinking about the company too early; **ghost scenarios** (implicit "business as usual" assumptions about the future that steer decisions without anyone testing them).
- **Example:** Europe 2040 (wind-tunnelling) with the axes *exclusionary/inclusionary* and *resisting/demanding change*.

How you use models in a case

- **PESTEL on an article:** first name all six factors with the correct term, then choose the factor that is strongest in the article and justify it with a sentence from the text. A factor without justification earns few points.
- **Strategy statement on a text:** point out the objective, the scope and the competitive advantage. Check three things: is the objective measurable and time-bound, does the scope say what the company does *not* do, and is the advantage a value proposition with a unique way to deliver it?
- **Scenario analysis on a case:** check whether the chosen key drivers are independent of each other and whether the scope (industry, region, years) is clear. Only then move to the consequences for the strategy.

- **Mintzberg on an example:** ask whether the outcome was planned (deliberate) or arose from experience on the shop floor (emergent). The difference between intended and realized strategy is exactly the part that is not realised plus the part that is emergent.

Common mistakes

- Mentioning “competitors” under PESTEL: that is Five Forces (module 2).
- Translating scenarios into probabilities: no probabilities are calculated.
- Mixing up corporate and business strategy: corporate is about scope and portfolio, business about competing in one market.
- Writing a general management truism (“clear communication is important”) without naming a concept from the course. That earns no points.

Exam tips

- Closed book, six questions, maximum answer length per question. Write full sentences and use the English technical terms (“when in doubt, do not translate”).
- The sample exam (PESTEL on a wine article): name the factors, argue the best-fitting factor, explain the difference with Five Forces.