Summary Exploring Strategy - chapter 1-15

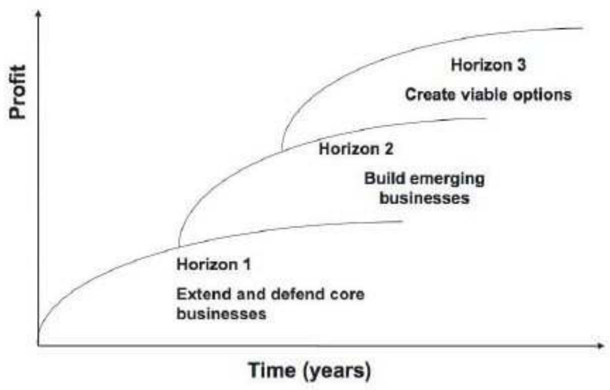
Strategy (NHL Stenden Hogeschool)

Chapter 1: Introducing strategy

1.2 What is strategy?

Strategy: The long term direction of an organisation.

- ***The long term*** strategies are typically measured over years, decades or more. This long-term perspective is emphasised by the 'three horizons'. This theory is based on managers who need to avoid focussing on the short-term issues of their existing activities.
  → The three horizons framework suggests that every organisation should think of itself as consisting of three types of business or activity, defined by their 'horizons' in terms of years.



Horizon 1 business:
the current core business.
Horinzon 2 business:
emerging activities that should provide new sources of profit.
Horizon 3 possibilities:
nothing is sure, risky start-ups or research & development projects.

Pushing out 1 as far as possible, while looking to horizons 2 and 3 'uncertainty'.

- ***Strategic direction***. Sometimes this is a coherent pattern over time and are set according to long-term objectives. Usually maximsing profects is the strategic direction, howerver profits are not always the applicable (private sector/charity organisations). Objectives behind the strategic direct need close research.
- ***Organisations*** involve compex relationships, both internally (people within the company) and externally (suppliers, customers, alliance partners, regulators and shareholders). Strategy is crucially concerned with an organisation's external *boundaries* (what to include and what to keep outside).

Good strategy is about managing as well as strategizing.

Three main levels of strategies:
- ***Corporate-level strategy*** = concerned with the overall scope of an organisation and how value is added to the constituent business of the organisational whole.
  Being clear is important, the basis of other strategic decisions (includes; geographical scope, diversity of products or services, acquisitions of new businesses).
- ***Business-level strategy*** = about how the individual businesses should compete in their particular markets, also called 'competitive strategy'.
  It concerns issues as innovation, appropriate scale and response to competitors move (might be; stand-alone businesses, entrepreneurial start-ups of units within a larger corporation).
- ***Operational strategies*** = how the components of an organisation deliver effectively the corporate- and business-level strategies in terms of resources, processes and people.

Each level needs to be aligned with the others.

Strategy statements: summarize of the organisation's strategy. Less than 35 words long.
It should have three main themes: the _fundamental goals_ that the organisation seeks (vision/mission/objectives), the _scope or domain_ of the organisation's activities and the _particular advantages_ or capabilities it has to deliver all of these.

Mission: the central to the strategy and keeps the focus ('What business are we in?')

Vision: Relates to goals and refers to the desired future state ('What do we want to achieve?')

Objectives: Quantifiable statements of the organisation's goals over some period of time ('What do we have to achieve in the coming period?')

Scope: Refers to three dimensions. Customers or clients; geographical location; and extent of internal activities.

Advantage: How the organisation will achieve the objectives in its chosen domain. In order to achieve a particular goal, the organisation needs to be better than others seeking the same goals.

A strategy statement is not only for the organisation itself, it could also be necessary to persuade investors and lenders, to reassure external clients and to inspire volunteers and donors.

1.3 Working with strategy

Managers have to communicate strategy to their teams, and will achieve greater performance from them the more convincing they are in doing so. Strategy is not just about abstract organisations: it is a kind of work that real people do.

1.4 Studying strategy

The book covers equally the three main branches of strategy as a subject:

- ***Strategy context***
  Refers to both the internal and the external contexts of organisations. All organisations need to look at the opportunities and threats of their external environments. Industry analysis looks at what makes industries attractive (or not) to operate in. Cultural analysts have used sociological insights into human behaviour. Resource-based view researchers focus on internal context (the unique characteristics of each organisation).
- ***Strategy content***
  Concerns the content (or nature) of different strategies and their probability of success. The focus lies on the merits of different strategic options. Strategy and performance researchers started, they examine innovation strategies, different kinds of internationalisation and all the complex kinds of alliance and networking strategies. 'Which strategies pay best and under what conditions'.
- ***Strategy process***
  Examines how strategies are formed and implemented. Research here provides a range of insights to help managers of managing strategy (strategic planning, choice and change and strategy-as-practice researchers).

Issues need to be explored from different points of view. A complete analysis will typically need the insights of economics, psychology and sociology.

The Exploring Strategy Model: Includes understanding the *strategic position* of an organisation (contexts); assessing *strategic choices* for the future (content); and managing *strategy in action* (process). At first you have to understand the strategic position, then making strategic choices and finally turning strategy into action. Position, choices and action should be seen as closely related, and in practice none has priority over another. The three elements (circles) are overlapping and non-linear.

Strategic position: Is concerned with the impact on strategy of the external environment, the organisation's strategic capability (resources and competences), the organisation's goals and the organisation's culture.

- ***Environment***
  Organisations operate in a complex political, economic, social and technological world.
- ***Strategic capability***
  Each organisation has its own strategic capabilities, made up of its resources (machines and buildings) and competences (technical and managerial skills). Capability regards to the strengths and weaknesses.
- ***Strategic purpose***
  Most organisation claim for themselves a particular purpose; encapsulated in their vision, mission and objectives. What does it seek to achieve?
- ***Culture***
  Organisational cultures can also influence strategy. How does culture shape strategy?

Strategic choices: Involves the options for strategy in terms of both the directions in which strategy might move and the methods by which strategy might be pursued.

Typical strategic choices with their fundamental questions are:

- ***Business strategy***
  How the organisation seeks to compete at the individual business level. Mostly based on cost or differentiation. 'How should the business unites compete?'
- ***Corporate strategy and diversification***
  The highest level of an organisation is concerned with corporate-level strategy, focused on questions of portfolio scope. 'Which business to include in the portfolio?'
- ***International strategy***
  Internationalisation is a form of diversification, but into new geographical markets. 'Where internationally should the organisation compete?'
- ***Innovation and entrepreneurship***
  Organisations have to innovate constantly. Entrepreneurship is an act of innovation too. 'Is the organisation innovating appropriately?'
- ***Acquisitions and alliances***
  Many organisation prefer to grow by building with their own resources. Other organisations might develop through mergers and acquisitions. 'Whether to buy another company, ally or to go it alone?'

Managing strategy in action: About how strategies are formed and how they are implemented.

The issues with their own fundamental questions are:

- ***Strategy evaluation***
  'Are the options suitable in terms of matching opportunities and threats; are they acceptable in the eyes of significant stakeholders; and are they feasible in terms of the capabilities the organisation has available?'
- ***Strategy development processes***
  Strategies are often developed through formal planning processes. In practice, the strategies an organisation actually pursues are often emergent.
  'What kind of strategy process should an organisation have?'
- ***Organising***
  As the strategy is developed, the organisation needs to organise for successful implementation with structures and systems.
  'What kinds of structures and systems are required for the chosen strategy?'
- ***Leadership and strategic change***
  Managing change involves leadership, which includes different styles and different levers.
  'How should the organisation manage necessary changes entailed by the strategy?'
- ***Strategy practice***
  'Who should do what in the strategy process?'

The Exploring Strategy Model can vary in three important contexts:

- ***Small businesses***
  They need to attend closely to the environment, because they are vulnerable to change. The most important positioning issue will often be strategic purpose.
- ***Multinational corporations***
  Positioning in a complex global marketplace will be very important. Strategic choices are likely to be dominated by international strategy questions about which geographies to serve.
- ***Public sector and not-for-profits***
  Positioning issues of competitive advantage will even be important in these contexts (schools and hospitals within quality or service).

1.6 The strategy lenses

Strategy lenses: Ways of looking at strategy issues differently in order to generate many insights.

None of the four lenses offer a complete view of a strategic situation. It encourages the exploration of different perspectives. The four lenses briefly are:

1. ***Strategy as design***
   Views strategy development as a logical process of analysis and evaluation.
   The view that strategy development can be 'designed' in the abstract. This means systematic, analytical and logical.
2. ***Strategy as experience***
   Views strategy development as the outcome of people's taken-for-granted assumptions and ways of doing things.
   The view that the future strategy of an organisation is often heavily influenced by its experience and that of its managers. It suggests that the personal experience and interests of key decision-makers need to be understood.
3. ***Strategy as variety***
   View that strategy bubbles up from new ideas arising from the variety of people in and around the organisation.
   Emphasises the importance of promoting diversity in and around organisation, in order to allow the seeding of as many genuinely new ideas as possible; looking for future strategies at the bottom instead of the top.
4. ***Strategy as discourse***
   View that the language is important as a means by which managers communicate and explain and change strategy, but by which they also gain influence and power and establish their legitimacy and identity.
   Points to how command of strategy discourse becomes a resource for managers by which to shape 'objective' strategic analyses to their personal views and to gain influence, power and legitimacy.

CHAPTER 2: THE ENVIRONMENT

The macro-environment: This consist of broad environmental factors that impact to a greater or lesser extent on almost all organisation (use the PESTEL framework).

Industry (or sector): This is made up of organisations producing the same products or services (use the five forces framework).

Competitors and markets: Here the concept of strategic groups can help identify different kinds of competitors.

2.2 The macro-environment

PESTEL framework: Categorises environmental influences into six main types: political, economic, social, technological, environmental and legal.

Political:	The role of governments
Economics:	Macro-economic factors (exchange rates, business cycles and growth rates)
Social:	Changing cultures and demographics
Technological:	Innovations (such as internet)
Environmental:	'Green' issues (pollution and waste)
Legal:	Legislative constraints or changes (safe legislation or restrictions on mergers)

Key drivers for change: The environmental factors likely to have a high impact on the success or failure of strategy. Key drivers will vary by industry or sector.

Without a clear sense of the key drivers for change, managers will not be able to take the decisions that allow for effective action. Key drivers can have a high potential impact or are uncertain. Scenarios typically build on PESTEL analysis and key driver for change, but do not offer a single forecast of how the environment will change. Not to predict → but to be alert.

Scenario analyses can be carried out as follows:

1. ***Identifying the scope;*** refers to the subject of the scenario and the time span.
2. ***Identifying key drivers for change;*** the PESTEL analysis can be used to uncover issues.
3. ***Selecting opposing key drivers;*** to generate a range of different but plausible scenarios.
4. ***Developing scenario 'stories';*** knit together plausible stories that incorporate both key drivers and other factors into a coherent whole.
5. ***Identifying impacts of scenarios;*** it is important for an organisation to carry out robustness checks in the face of each scenario and develop contingency plans in case they will happen.

Some scenario experts advise managers to avoid producing just three scenarios. It is better to have two or four scenarios, avoiding an easy mid-point (not a range of; optimistic, middling and pessimistic scenarios).

2.3 Industries and sectors

Industry: A group of firms producing products and services that are essentially the same, mentioned as industries or sectors.
Example: Automobile industry, airline industry, health sector or education sector.
Market: A group of customers for specific products or services that are essentially the same.
Example: The automobile industry has markets in America, Europe and Asia.

Porter's five forces framework: Helps identify the attractiveness of an industry in terms of five competitive forces: the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and the extent of rivalry between competitors.

For Porter, an attractive industry structure is one that offers good profit potential. Where the five forces are high, industries are not attractive to compete in (too much competition an pressure).

The framework can provide a useful starting point for strategic analysis, even when profit criteria may not apply.

'The threat of entry'
How easy it is to enter the industry. An attractive industry has high barriers to entry in order to reduce the threat of new competitors.

Barriers to entry: The factors that need to be overcome by new entrants if they are to compete in an industry.

Typical barriers are as follows:

- ***Scale and experience***

In some industries, economies of scale are extremely important (production). This scale effect is increased where there are high investment requirements for entry. Barriers also come from experience curve effects (advantage to do things more efficiently than an inexperienced new entrant).

- ***Access to supply or distribution channels***

In many industries manufacturers have had control over supply and/or distribution channels (ownership or supplier loyalty). In some industries this barrier has been overcome by entrants who bypassed retail distributors (sold directly to consumers through e-commerce).

- ***Expected retaliation***

The believe that the retaliation of an existing firm will be too great to prevent entry or that entry would be too costly. The knowledge that incumbents are prepared to retaliate is often sufficiently discouraging to act as a barrier.

- ***Legislation or government action***

Legal restraints on new entry vary from patent protection (pharmaceuticals) to regulation of markets (pension selling), through to direct government action (tariffs).

- ***Differentiation***

To offer a product or service with higher perceived value that the competition. Differentiation reduces the threat of entry because of increasing customer loyalty.

Substitutes: Products or services that offer a similar benefit to an industry's products or services, but by a different process.
Example: Trains are a substitute for cars; television and videogames or aluminium for steel.

'The threat of substitutes'
Substitutes can reduce demand for a particular type of product as customers switch to alternatives. Even to the extent that this type of product or service becomes outdated.

There are two important points to bear in mind about substitutes:
- ***The price/performance ratio:*** critical to substitution threats. It is the ratio of price to performance that matters, rather than simple price (even if the product is more expensive, consumers can see performance advantages).
- ***Extra-industry effects:*** the core of the substitution concept. The value is to force managers to look outside their own industry to consider more distant threats and constraints. The higher the threat of substitution, the less attractive the industry.

Buyers: The organisation's immediate customers, not necessarily the ultimate consumers.

'The power of buyers'
Buyer power is likely to be high when some of the following conditions prevail:
- ***Concentrated buyers***
  Where a few large customers account for the majority of sales, the power is increased; a few retailers dominate the market.
- ***Low switching costs***
  Where buyers can easily switch between one supplier and another, they have a strong negotiating position and can squeeze suppliers who are desperate.
- ***Buyer competition threat***
  If the buyer can supply itself, or if it has the possibility to acquiring such a capability, it tends to be powerful. It is doing the suppliers' job themselves (also called: *backward vertical integration*).

The high buying power (think about Tesco or Carrefour) has become a major source of pressure for the companies supplying them.

Suppliers: Those who supply the organisation with what it needs to produce the product or service.

'The power of suppliers'
The supplier power is likely to be high where there are:
- ***Concentrated suppliers***
  Where there are just a few producers who dominate supply.
- ***High switching cost***
  When it is expensive or disruptive to move from one supplier to another, the buyer becomes dependent and weak.
- ***Supplier competition threat***
  Where they are able to cut out buyers who are acting as middlemen; they are moving closer to the ultimate customer (also called: *forward vertical integration*).

'Competitive rivalry'
Low barriers to entry increase the number of rivals who wants to offer the best deals. The more competitive rivalry, the worse it is for incumbents within the industry.

Competitive rivals: Organisations with similar products and services aimed at the same customer group (i.e. not substitutes).
Example: Air France and British Airways.

There are a number of additional factors directly affecting the degree of competitive rivalry:

- ***Competitor balance***
  Where competitors are equal size there is the danger of intensely rivalrous behaviour, as one competitor attempts to gain dominance over others (example: through price cuts).
- ***Industry growth rate***
  With strong growth, organisation can grow with the market. With low growth, any growth is likely to be at the expense of a rival and meet with fierce resistance (price competition). The industry life cycle influences growth rates and hence competitive conditions.
- ***High fixed costs***
  Industries with high fixed costs tend to be highly rivalrous. Companies will seek to spread their costs by increasing their volumes (to do so, they cut prices; triggering price wars).
- ***High exit barriers***
  The high barriers to exit (closure) tends to increase rivalry. They fight to maintain market share. Exit barriers might be high for a few reasons: high redundancy cost or high investment in specific assets.
- ***Low differentiation***
  In a commodity market, rivalry is increased; there is a little to stop customers switching between competitors. The only way to compete is price.

There are four main types of industry structure:

1. Monopolistic industries
There is a lack of choice between rivals, there is potentially very great power over buyers and suppliers; which can be very profitable. Mostly pure monopolies are rare because government regulators typically prohibit them.

Monopoly: Formally an industry with just one firm and therefore no competitive rivalry.
Example: Google in early 2010 (65% of the search market).

2. Oligopolistic industries
Oligopolistic firms have a strong interest in minimising rivalry between each other so as to maintain a common front against buyers and suppliers; therefore it can be very profitable.

Oligopoly: Where just a few firms dominate an industry, with the potential for limited rivalry and great power over buyers and suppliers.

3. Hypercompetitive industries
Rivals tend to invest heavily in destabilising innovation, expensive marketing initiatives and aggressive price cuts, with negative impacts on profits (often occurs in oligopoly).

Hyper competition: Where the frequency, boldness and aggression of competitor interactions accelerate to create a condition of constant disequilibrium and change.

4. Perfectly competitive industries
Perfect competition: Where barriers to entry are low, there are many equal rivals each with very similar products, and information about competitors is freely available.

It is important to use the framework for more than simply listing the forces; the bottom line is an assessment of the attractiveness of the industry. The analysis should conclude with a judgement about whether the industry is a good one to compete in or not with an implication of these forces.

The analysis should do investigation of the implications of these forces, for example:
✓ Which industries to enter (or leave)
✓ What influence can be exerted?
✓ How are competitors differently affected?

Although originating in the private sector, five forces analysis can have important implications in the public sector too.

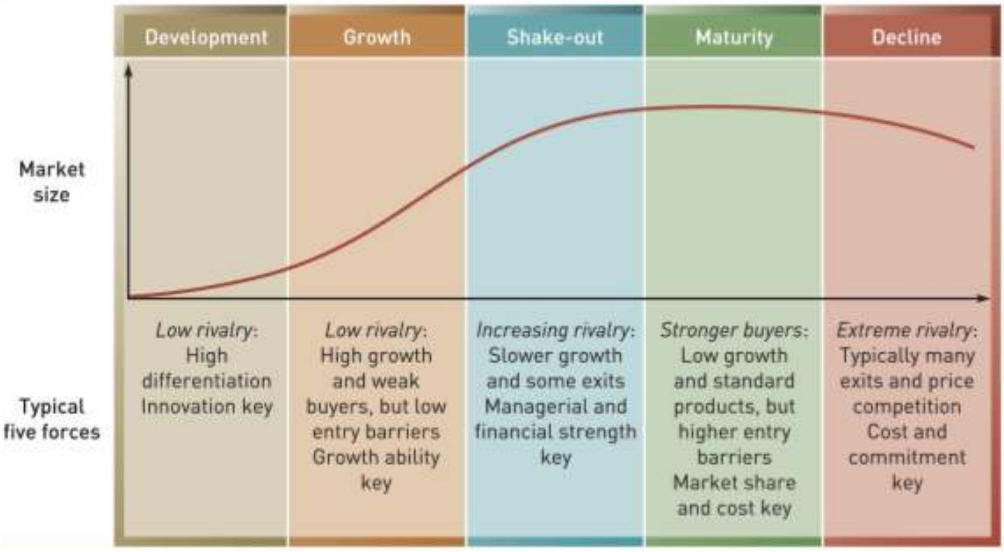
When using the framework, it is important to bear three issues in mind:

- ***Defining the 'right' industry***
  Most industries can be analysed at different levels; different markets and even different segments. The competitive forces are likely to be different for each of these markets and segments and can be analysed separately.
- ***Converging industries***
  Convergence is where previously separate industries begin to overlap or merge in terms of activities, technologies, products and customers. Therefore, industry definition is often difficult too because industry boundaries are continuously changing.
- ***Complementary organisations***
  The existence of organisations that are complementors rather than simple competitors (also known as the sixth force). While Porter sees organisations battling for a share of industry, complementors may cooperate to increase the total value available.

Complementor: If customers value your product more when they have the other organisation's product than when they have toe product alone. / If it's more attractive for suppliers to provide resources to you when they are also supplying the other organisation than when they are supplying you alone.
Example: Microsoft Windows software and McAfee computer security: each is better because of each other. They increase the value of both their products

Value net: A map of organisations in a business environment demonstrating opportunities for value-creating cooperation as well as competition.

The industry life cycle concept: Proposes that industries start small in their development stage, then go through period of rapid growth ('adolescence'), culminating in a period of 'shake-out'. The final stages are first a period of slow/zero growth and then the final stage of decline ('old stage'). Each stage has implications for the five forces. One stage does not follow predictably after another: industries vary widely in the length of their growth stages.



The development stage is an experimental one, typically with a few players, little direct rivalry and highly differentiated products.

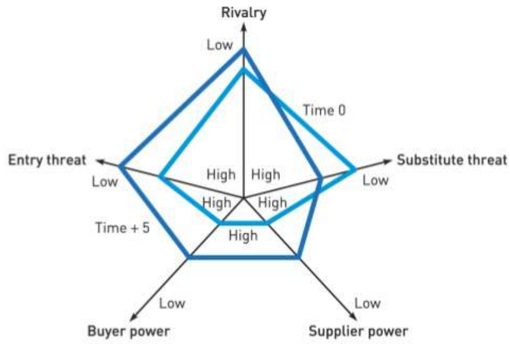
The rapid growth phase is with low rivalry due to the plenty of market opportunity for everybody. However, the existing competitor has not build up much scale, experience or loyalty. Plus, there can be a shortage of components or materials that fast-growing businesses need for expansion.

The *shake-out stage* begins as the growth rate starts to decline. The weakest of the new entrants get out of the business.

The *maturity stage;* barriers to entry tend to increase, control over distribution is established and economies of scale and experience curve benefits come into play. Products or service tend to standardise.

The *decline stage* can be a period of extreme rivalry, especially where there are high exit barriers.

You can compare the five forces over time in a simple ***'radar plot'***. The five forces can be displayed on five axes. Comparing the five forces over time on a radar plot thus helps to give industry structure, where possible new industries to enter can be compared in terms of attractiveness.



Cycles of competition: Sequences of move and counter-moves (such as price cuts). If these cycles of competition become very rapid and aggressive, then industry structure becomes unstable. It will fall into hyper competition (low profitability for most competitors).

2.4 Competitors and markets

Strategic group: Organisations within an industry or sector with similar strategic characteristics, following similar strategies or competing on similar bases.

There are many characteristics that distinguish between strategic groups but these can be grouped into two major categories →→→

Which characteristics are relevant differs from industry to industry, but typically important are those that separate high performers from low performers. Characteristics that are shared by top performers, but not by low performers, are likely to be particularly relevant for mapping strategic groups. This can be visualized with two axes, as example; one axis might be the extent of the product range and the other axis the size of marketing spend.

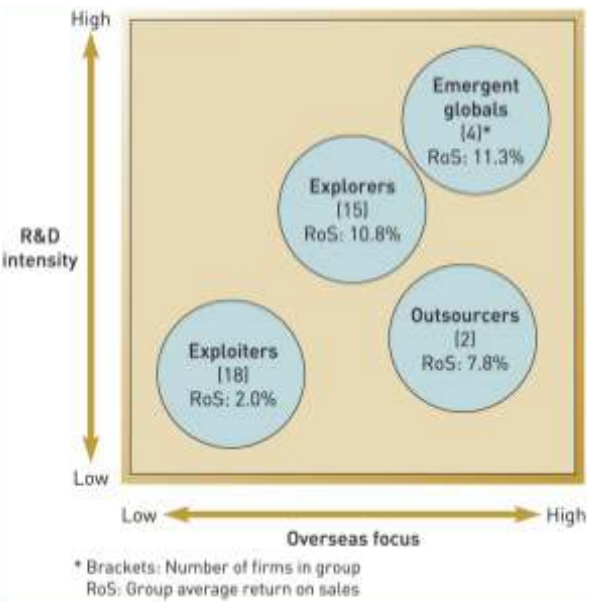
It is useful to consider the extent to which organisations *differ* in terms of **characteristics** such as:

Scope of activities

- Extent of product (or service) diversity
- Extent of geographical coverage
- Number of market segments served
- Distribution channels used

Resource commitment

- Extent (number) of **branding**
- **Marketing effort** (e.g. advertising spread, size of salesforce)
- Extent of **vertical integration**
- Product or service **quality**
- **Technological leadership** (a leader or follower)
- **Size** of organisation



The strategic group concept is useful in at least three ways:

○***Understanding competition***
Managers can focus on their competitors with their strategic group instead of the whole industry. They can also establish the dimensions that distinguish them from other groups.

○***Analysis of strategic opportunities***
It shows where the 'strategic spaces' are within an industry; the white spaces in the map.

○***Analysis of mobility barriers***
Moving across the map to take advantage of opportunities is not costless. Therefore, strategic groups are characterised by mobility barriers, obstacles to movement from one strategic group to another.

Market segment: A group of customers who have similar needs that are different from customer needs that are different from customer needs in other parts of the market. Often called 'niches'.

Three issues are important in market segment analysis:

- ***Variation in customer needs***
  Focusing on customer needs that are highly distinctive from those typical in the market is one means of building a secure segment strategy. Think about buyer behaviour as an indicator.
- ***Specialisation***
  This is also called a 'niche strategy'. Organisations that have experience in servicing a particular market segment should not only have lower cost, but also have built relationship which may be difficult for other to break down.
- ***Strategic customers***
  It is crucial to understand whose needs matter. For a manufacturer, the strategic customer is the retailer (the retailer's needs, not just the ultimate consumers' needs)

The strategic customer: Person at whom the strategy is primarily addressed because they have the most influence over which goods or services are purchased.

Red Oceans: Where industries are already well defined and rivalry is intense.

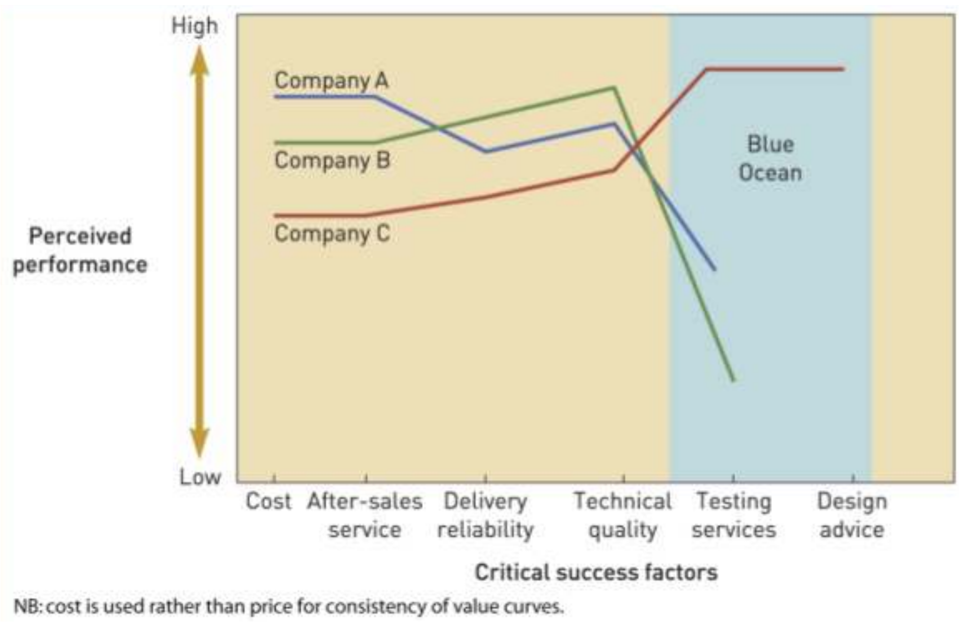
Blue Oceans: New market spaces where competition is minimised. Finding or crating market spaces that are not currently being served; finding strategic gaps.

Strategy canvas: Compares competitors according to their performance on key success factors in order to develop strategies based on creating new market spaces. There are three features which are important in this canvas.

1. Critical success factors (CFS): Those factors that are either particularly valued by customers or which provide a significant advantage in terms of cost. An important source of competitive advantage or disadvantage.

2. Value curves: A graphic depiction of how customers perceive competitors' relative performance across the critical success factors. What is the value of the CFS per company?

3. Value innovation: The creation of new market space by excelling on established critical success factors on which competitors are performing badly and/or by creating new critical success factors representing previously unrecognised customer wants; the blue ocean.



Company C exemplifies two critical principles in Blue Ocean thinking: *focus and divergence.*

2.5 Opportunities and threats

The Strengths, Weaknesses, Opportunities and Threats (SWOT) analyses shape many companies' strategy formulation. The techniques and concepts in this chapter should help in identifying environmental threats and opportunities, for instance:

- The PESTEL analysis
- The key drivers for change
- The Porter five forces analysis
- Blue Ocean thinking

CHAPTER 3: STRATEGIC CAPABILITIES

It is not so much the environment which explain the differences in performance, but the differences in their strategic capabilities in terms of the resources and competences they have of have tried to develop.

Organisations are not identical, but have different capabilities; they are 'heterogeneous'.

Resource-based view (RBV): That the competitive advantage and superior performance of an organisation is explained by the distinctiveness of its capabilities.

3.2 Foundations of strategic capabilities

Strategic capabilities: The capabilities of an organisation that contribute to its long-term survival or competitive advantage. Not static, they need to change.

There are two components of strategic capability:

- **Resources:** The assets that organisations have or can call upon. 'What we have'.
- **Competences:** The ways those assets are used or deployed effectively. 'What we do well'.

The three core elements are;

- *Physical* (R: machines / C: flexibility)
- *Financial* (R: balance sheet / C: ability to raise funds)
- *Human* (R: managers / C: how people can gain and use experience).

The efficiency and effectiveness depend not just on their existence, but on the systems and processes by which they are managed, the relationships and cooperation between people, their adaptability and more.

Dynamic capabilities: Organisation's ability to renew and recreate its strategic capabilities to meet the needs of changing environments.

Capabilities that are necessary for efficient operation (such as: maintaining quality) are unlikely to be sufficient for sustaining superior performance. There is also the danger that, despite a changing environment, such capabilities can become 'rigidities'. Capabilities are to be effective over time they need to change; they cannot be static.

There are three generic types of dynamic capabilities: those concerned with *sensing opportunities and threats* (strategic position), those concerned with *seizing opportunities* (strategic choices) and those concerned with *re-configuring the capabilities of an organisation* (enacting strategies).

Threshold capabilities: Those needed for an organisation to meet the necessary requirements to compete in a given market and achieve parity with competitors in that market. 'Required to be able to compete in a market'.

Without threshold capabilities the organisation could not survive over time (think about start-ups). There are threshold recourses and threshold competences to meet customers' requirements. Threshold capabilities do not of themselves create competitive advantage; it should be distinctive or unique capabilities that are value to customers and to competitors.

Identifying and managing threshold capabilities raises two significant challenges:

- ***Threshold levels of capability will change:*** as critical success factors change / through the activities of competitors and new entrants.
- ***Trade-offs:*** may need to be made to achieve the threshold capability required for different customers (businesses have found it difficult to compete in market segments that require large quantity of standards products and also added-value specialist products).

Distinctive capabilities: Required to achieve competitive advantage.

Distinctive resources underpin competitive advantage and that others cannot imitate or obtain (powerful brand). *Distinctive competences* are ways of doing things that are unique to that organisation and effectively utilised so as to be valuable to customers and difficult for competitors to obtain/imitate (building of excellent relations).

Core competences: The linked set of skills, activities and resources that, together, deliver customer value, differentiate a business from its competitors and, potentially, can be extended and developed.

3.3 'VRIN' strategic capabilities as a basis of competitive advantage

VRIN: Value, Rarity, Inimitability and Non-substitutability.
→ Key criteria by which capabilities can be assessed in terms of their providing a basis for achieving competitive advantage.

Value: Strategic capabilities are of value when they provide potential competitive advantage in a market at a cost that allows an organisation to realise acceptable levels of return. 'Do capabilities exist that are valued by customers and provide potential competitive advantage?'

There are four components of value:

- Taking advantage of opportunities and neutralising threats
- Value to customers (to seriously meet customers' critical success factors)
- Providing potential competitive advantage (by delivering a product or service that competitors do not have)
- Cost (provided at a cost that still allows the organisation to make the returns)

Rare capabilities: Those possessed uniquely by one organisation or by a few others.
'The capabilities exist that no (or few) competitors possess?'

Competitive advantage might be longer-lasting (patented products / rare resources / talented individuals). There are two important points to bear in mind about the extent to which rarity might provide competitive advantage:

- *Meeting customer need:* the products or services need to meet the customer needs and are therefore of value to them.
- *Sustainability:* rarity could be temporary. Other organisations will very likely seek to imitate or obtain the rareness of you; consider other bases of sustainability.

Inimitable capabilities: Those that competitors find difficult to imitate or obtain.
'Are capabilities difficult for competitors to imitate?'

This could be done by built around the competence of specific individuals (doctor in 'leading' medicine). However, since these individuals may leave or join competitors, this resource may be a fragile basis of advantage (organisations try to attract and keep their individuals attracted by; trainings, motivating and rewarding).

It can be difficult to imitate the capabilities to manage, develop and deploy a system to the benefit of customers. Therefore, two conditions are met:

- *Superior performance:* capabilities lead to performance that are significantly better than competitors.

- *Linked competence:* The linkage of the capabilities, inside and outside the organisation, can be especially significant.

1. Complexity:

- *Internal linkages:* Linked activities and processes that, together, deliver customer value. It is difficult to replicate this; it has developed on the basis of custom and practice built up over years and is specific to the organisation concerned.
- *External interconnectedness*: They are developing activities together with the customer such that the customer becomes dependent on them *(=co-specialisation*)

2. Causal ambiguity:
Competitors find it difficult to discern the causes and effects underpinning an organisation's advantage. Two different forms:

- *Characteristic ambiguity:* It might be difficult because it is based on tacit knowledge or rooted in the organisation's culture ('know-how'). Competitors might not comprehend this.
- *Linkage ambiguity:* When competitors do not know which activities and processes are dependent on which others, to form linkages that create core competences.

3. Culture and history:
Competences may become embedded in an organisation's culture; 'naturally' and 'taken for granted'. Such competences have developed over time and in a particular way. The origins and history by which competences have developed over time are referred to as *path dependency*.

4. Change:
Continually seeking to stay ahead of their competitors by evolving new bases (changing) of doing so; dynamic capabilities.

Non-substitutability: Providing value that are rare and difficult to substitute.
'Is the risk of capability substitution low?'

It can be two different forms:

- Product or service substitution: A product or service as a whole, might be a victim of substitutions (postal service became e-mail systems).
- Competence substitution: Not only products, also competences can be substituted. Workers in a fabric that are substituted by expert systems and mechanisation.

Organisational knowledge: The collective intelligence, specific to an organisation, accumulated through both formal systems and the shared experience of people in that organisation.

It is less likely that organisations will achieve competitive advantage through resources (systems that are valuable but not rare) and more likely that it will be achieved through the way they manage and develop organisational knowledge more broadly.

Explicit knowledge ('objective') is transmitted in formal systematic ways. This could be system manuals or files.
Tacit knowledge is more personal, context-specific and therefore hard to formalise and communicate. This could be the experience of a top management team in making many successful acquisitions.

3.4 Diagnosing strategic capabilities

Benchmarking: How an organisation compares with others; typically competitors.
There are two approaches to benchmarking:

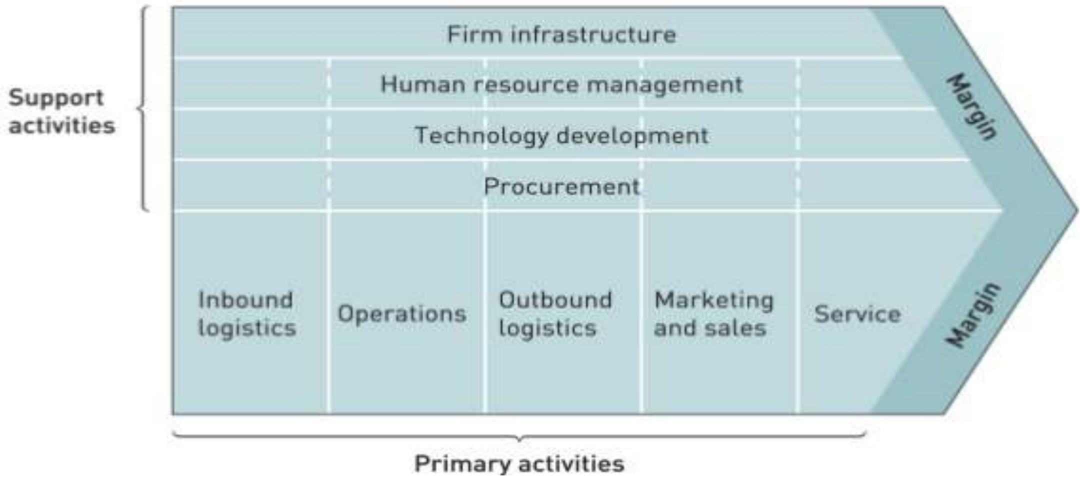
- *Industry/sector benchmarking*
  Insights about performance standards can be gleaned by comparing performance against other organisations in the same industry sector ór between similar service providers against a set of performance indicators.

- *Best-in-class benchmarking*
  Compares an organisation's performance or capabilities against 'best-in-class' performance, and seeks to overcome some of the above limitations (British Airways improved maintenance and refuelling by studying the processes of Formula One motor race).

Bench marking has two major limitations:
- *Surface comparisons:* When benchmarking there are some underlying reasons. Managers need to seek out these reasons and hence understand how capabilities could be improved.
- *Measurement distortion:* When 'you get what you measure', which is not what is intended strategically, it can result in changes in behaviour that are unintended or dysfunctional.

Value chain: Describes the categories of activities within an organisation which, together, create a product or service.

The important point is that the concept of the value chain invites the strategist to think of an organisation in terms of sets of activities.



Primary activities: Directly concerned with the creation of a product or service.
- *Inbound logistics*
  Activities concerned with receiving, storing and distributing inputs tot the product or service (including materials handling, transport etc.).
- *Operations*
  Transform these inputs to the final product or service (packaging, testing).
- *Outbound logistics*
  Collect, store and distribute the product to customers (warehousing, distribution).
- *Marketing and sales*
  Provides the means whereby consumers or users are made aware of the product or service and are able to purchase it.
- *Service*
  Activities that enhance or maintain the value of a product or service (repair, training).

Support activities: Helps to improve the effectiveness or efficiency of primary activities.
- *Procurement*
  Processes that occur in many parts of the organisation for acquiring the various resource inputs to the primary activities. Can be vitally important in achieving scale advantages.
- *Technology development*
  May be concerned directly with a product, processes or with a particular resource.
- *Human resource management*
  Are concerned with recruiting, managing, training, developing and rewarding people.
- *Infrastructure*
  The formal systems of planning, finance, quality control, information management and the structure of an organisation.

The value chain can be used to understand the strategic position in three ways:

- ***As a generic description of activities*** it can help managers understand if there is a cluster of activities providing benefit to customers located within particular areas of the value chain (perhaps one is good at outbound logistics linked to marketing and supported by technology) development).
- ***In analysing the competitive position of the organisation*** using the VRIN criteria.
- ***To analyse the cost and value of activities*** of an organisation by:
  - *Identifying sets of value activities:* (a) which separate categories of activities best describe the operations of the organisation and (b) which of these are most significant in delivering strategy and achieving advantage?
  - *Relative importance of activity cost internally:* Which activities are most significant in terms of the cost of operations.
  - *Relative importance of activities externally:* How does value and the cost of a set of activities compare with the similar activities of competitors?
  - *Where and how can costs be reduced:* Ask questions about the cost structure of the organisation in terms of the strategy being followed.

Value network: The set of inter-organisational links and relationships that are necessary to create a product or service.

- *What are the activities and cost/price structures of the value network?*
- *Where are the profit pools?*
  <u>Profit pools:</u> Refer to the different levels of profit available at different parts of the value network. Some parts of a value network may be more profitable than others because of the differences in competitive intensity.
- *The 'make or buy' decisions*
  *'*To outsource or not'; Which activities most need to be part of the internal value chain?
- *Partnering?*
  *W*ho might be the best partners and what kind of relationships are important to develop with each partner?

Value chain analysis can also help with understanding <u>*the activity systems*</u> of an organisation: What are the activities, why are they valuable to customers, how do the various activities fit together and how are they different from competitors?

The starting point is to identify 'higher order strategic themes'. The next step is to identify the clusters of activities that underpin each of these themes and how these do or do not fit together. This ends in an *activity systems map*.

The central theme is related to other higher-order strategic themes; each of which is underpinned by clusters of activities. Three points need to be emphasised:

- ***Relationship to the value chain***
  The various activities represented in an activity map can also be seen as parts of a value chain.
- ***The importance of linkages and fit***
  The need is to understand (a) the fit between the various activities and how these reinforce each other and (b) the fit externally with the needs of clients. There are three implications:
  - The danger of *piecemeal change* or tinkering with such systems which may damage the positive benefits of the linkages that exist.
  - The consequent *challenge of managing change.*
  - The need to understand where there is an *absence of fit* which can be extremely damaging.
- ***Relationship to VRIN***
  It is these linkages and this fit that can be the bases of sustainable competitive advantage.
- ***Disaggregation***
  It could be that managers may identify capabilities at too abstract a level. If the strategic benefits of activity systems are to be understood greater disaggregation is likely to be needed.
- ***Superfluous activities***
  The question can be asked: 'Are there activities that are not required in order to pursue a particular strategy?' 'How do activities contribute to value creation?'

SWOT: Summarises the strengths, weaknesses, opportunities and threats likely to impact on strategy development. *It is most useful when it is comparative in relation to competitors.*

The aim is to identify the extent to which strengths and weaknesses are relevant to, or capable of dealing with, the changes taking place in the business environment.

There are two main dangers in a SWOT exercise:
- ***Listing:*** It can generate a very long list; prioritisation of issues matters.
- ***A summary, not a substitute:*** A SWOT is not a substitute for the other analysis. This is because managers rely on preconceived, often inherited and biased views. Second is the danger of lack of specificity.

The TOWS matrix: Builds directly on the information in a SWOT exercise (an extension). Each box can be used to identify options that address a different combination of the internal factors (strengths and weaknesses) and the external factors (opportunities and threats).

3.5 Managing strategic capability

There are different ways in which managers might develop strategic capabilities:
- ***Internal capability development***
  Capabilities that can be added or upgraded
  - *Leveraging capabilities:* Strategic capabilities in one area of the organisation, where managers might seek to extend this throughout all the business units.
  - *Stretching capabilities:* Build new products or services out of existing capabilities.
- ***External capability development***
  Develop capabilities by looking externally (acquisitions or alliances and joint ventures).
- ***Ceasing activities***
  Could current activities, which are not central to bases of competitive advantage, be outsourced or reduced in costs.
- ***Monitor outputs and benefits***
  When it is not possible to fully understand capabilities. Sometimes managers may know that there are activities that have a positive impact on competitive advantage, but may not fully understand just how such positive impact arises.

The bases of competitive advantage often lie in the day-to-day activities that people undertake in organisations:
- *Targeted training and development* may be possible.
- *Staffing policies* might be employed to develop particular competences.
- *Organisational learning* may be recognised as central, particularly in fast-changing conditions.
- *Develop people's awareness* that what they do in their jobs can matter at the strategic level.

4. STRATEGIC PURPOSE

4.1 Introduction

Strategic purpose: Why are we on earth? Why are we here?

Stakeholders: Those individuals or groups that depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends. People who benefit from the company or who are having a relationship with the company.
Examples: Suppliers, competitors, financial community, activist groups, customers, managers, unions, employees, trade associations, government, political groups, owners or shareholders.

4.2 Organisational purpose

The core of a strategist job is to define and express a clear and motivating purpose for the organisation. Those who work within the organisation and those who observe it from the outside should have an explanation for themselves: why the organisation is doing what it is doing.

The stated purpose of the organisation must address the question: *'What is the organisation there to do that makes a difference, and to whom?'* If stakeholders can relate to this purpose it can be motivating.

Mission statement: aims to provide employees and stakeholders with clarity about the overriding purpose of the organisation. It should answer the questions:

- ✓ What business are we in?
- ✓ How do we make a difference?
- ✓ Why do we do this?

Not every business has a mission statement.

Vision statement: concerned with the desired future state of the organisation; an aspiration that will enthuse, gain commitment and stretch performance. It should answer the question:

- What do we want to achieve (within the coming twenty years)?

Statements of corporate values: communicate the underlying and enduring core 'principles' that guide an organisation's strategy and define the way that the organisation should operate. When you ask *'Would these values change with circumstances'* and you answer 'yes', then they are not the core and not enduring.

Objectives: statements of specific outcomes that are to be achieved. This is always used by organisations. Objectives are frequently expressed in:

- Financial terms (desired profit levels or sales)
- Market terms (desired market share, customer service)
- Social terms (environment)

When you set up objectives, there are three related issues that managers need to consider:

- ***Objectives and measurement*** (their achievement can be measured)
- ***Identifying core objectives*** (not only financial but also other aspects of business performance to survival and raise prosperity)
- ***Objectives and control*** (to make sure everyone understands the objectives, also lower in the hierarchy; define a set of detailed objectives at each level in the hierarchy)

4.3 Corporate governance

Corporate governance: concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organisation.

These are the stakeholders that influence an organisation. It is the way you control your organisation (internally), but also the way that your organisation is controlled by the government (externally). Who has the power to make a decision?

Growing importance of government has three reasons:

- ***The separation of ownership and management control***

It means that most organisations operate within a hierarchy, or chain, of governance. Defining different roles in governance.

- ***Corporate failures and scandals***

About how different parties in the governance chain should interact and influence each other. 'Who can make which decision?'

- ***Increased accountability to wider stakeholder interests***

Corporations need to be more visibly accountable and/or responsive, not only owners and managers, but have a wider social interest.

Governance chain: shows the roles and relationship of different groups involved in the governance of an organisation.

In small family business, the governance chain is simple and only has three layers (as example). In large business influence on governance can be more complex.

The ultimate beneficiaries may not even know in which companies they have a financial stake, the investment funds are typically controlled by trustees.

The relationship in such governance chains can be understood in the terms of the ***principal-agent model***. Principals pay agents to act on their behalf. The beneficiaries are the ultimate principals and fund trustees are their agents in terms of achieving good returns on their investments. Principals says what you have to do, the agent is carrying it out. This also counts further on in the model.

In large companies board members are likely to be very remote from the ultimate beneficiaries. In such circumstances, the danger is twofold:

- ***Self-interest*** (managers will be striving for own promotion or increasing bonuses).
- ***Misalignment of incentives and control*** (as influence passes down, the expectations of one group are not passed on to the next appropriately).

The results may be that decisions are taken that are not in the best interest of the final beneficiary.

The governance chain, then, typically operates imperfectly for at least five reasons:

1. Lack of clarity on who the end beneficiaries are
2. Unequal division of power between the different 'players' in the chain
3. With different levels of access to information available to them
4. Potentially agents in the chain pursuing their own self-interest
5. Using measures and targets reflecting their own interests rather than those of end beneficiaries.

Stakeholders varies. In the private sector in some part of the world it is shareholders, but in other parts of the world it is a broader or different stakeholder base. There are differences in how the purposes of an organisation are shaped and how strategies are developed as well as the role and composition of boards. At the most general level there are two governance structures.

1. Shareholder model of governments

Shareholding is relatively dispersed and shareholders have legitimate primacy in relation to the wealth generated by the corporations rather than employees, representatives or banks.

<u>*Example:*</u> UK or US.

The shareholder (who has the stocks) makes the decisions. The *advantages* are: benefits for investors, benefits to the economy and benefits for management. The disadvantages are: disadvantages for investors, disadvantages for the economy (risk of short-termism) and corporate reputation and top management greed.

In the end you can make faster decision. However, they will look at the short term, they want to make profit and are not thinking about the future state.

2. Stakeholder model of governments
Wealth is created, captured and distributed by a variety of stakeholders. This may include shareholders but could include family holdings, as well as employees or union representatives.
Example: (West-Europe; Germany, Italy or Japan)

The stakeholder makes the decisions. It takes longer to decide than in the other model. The advantages are: long-term horizons, advantages for stakeholders, advantages for investors (closer level of monitoring of management). Disadvantages are: disadvantages for management (close monitoring could led to slowing down), disadvantages for investors (the dominant shareholders tend to have the major influence) and disadvantages for the economy.

	Shareholder model	Stakeholder model
Benefits	For investors: • Higher rate of return • Reduced risk For the economy: • Encourages entrepreneurship • Encourages inward investment For management: • Independence	For investors: • Closer monitoring of management • Longer-term decision horizons For stakeholders: • Deterrent to high-risk decisions
Disadvantages	For investors: • Difficult to monitor management For the economy: • The risk of short-termism • And top management greed	For management: • Potential interference • Slower decision-making • Reduced independence For the economy: • Reduced financing opportunities for growth • Weak market for corporate control

Family-controlled firms: Here share ownership may be concentrated in family hands (can be large, such as Wal-Mart).
State ownership: Many large corporations are either state-owned or owned by sovereign wealth funds that are, themselves, state-controlled (Abu Dhabi or Kuwait Investment Authorities).
Public services: Have a wide variety of arrangements for governing bodies, but there are some commonalities.

International pressures but also history may influence how governance models change. Many governments have also been proactive in reforming aspects of corporate governance. Reforms have taken many forms.

A central governance issue is the role of boards of directors and of directors themselves. Since boards have the ultimate responsibility (success or failure and benefits for shareholders or stakeholders), they must be concerned with strategy.

Under the shareholder model there is a single-tier board structure; a majority of non-executive directors and the role of driving the company forward as well as an oversight role on behalf of shareholders. The stakeholder model can involve a two-tier board structure. This could be a supervisory board and a management board.

4.4 Social responsibility and ethics

Corporate social responsibility (CSR): the commitment by organisations to 'behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.

Contractual stakeholders: having a legal relationship with an organisation (example: customers, suppliers or employees).
Community stakeholders: are not having the equivalent protection of the law (example: local communities and pressure groups).

Corporate social responsibility stances: The way you should think you should deal with social responsibility. The way you feel (by heart) about social responsibility. From 'we don't care from we want to change the environment.'

	Laissez-faire	Enlightened self-interest	Forum for stakeholder interaction	Shaper of society
Rationale	Legal compliance: make a profit, pay taxes and provide jobs	Sound business sense	Sustainability or triple bottom line	Social and market change
Leadership	Peripheral	Supportive	Champion	Visionary
Management	Middle-management responsibility	Systems to ensure good practice	Board-level issue; organisation-wide monitoring	Individual responsibility throughout the organisation
Mode	Defensive to outside pressures	Reactive to outside pressures	Proactive	Defining
Stakeholder relationships	Unilateral	Interactive	Partnership	Multi-organisation alliances

These different stances represent four stereotypes:
- ***Laissez-faire***

The only responsibility of business is to make a profit and provide for the interest of shareholders. *'We do not care about social responsibility.'*
- ***Enlightened self-interest:***

Recognition of the long-term financial benefit to the shareholder of well-managed relationships with other stakeholders. The justification for social action is that it makes good business sense (reputation is important to financial success).
- ***Forum for stakeholder interaction:***

The performance of an organisation should be measured in a more pluralistic way than just through the financial bottom line. *'Want to do good by heart, good things for a society with your organisation.'*
- ***Shaper of society***

These are activists, seeking to change society and social norms, financial considerations are secondary importance.

Managers' increasing sympathy with CSR is not solely for ethical reasons but because there is a belief that there are advantages to businesses in so doing, and dangers if they do not.

Externally CSR aspects are: environmental issues, products, markets and marketing, suppliers, employment, community activity and human rights.
Internal CSR aspects are: employee welfare, working conditions, job design and intellectual property.

4.5 Stakeholder expectations

Managers should need to take a view on:
1. Which stakeholders will have the greatest influence
2. Which expectations they need to pay most attention to
3. What extend the expectations and influence of different vary

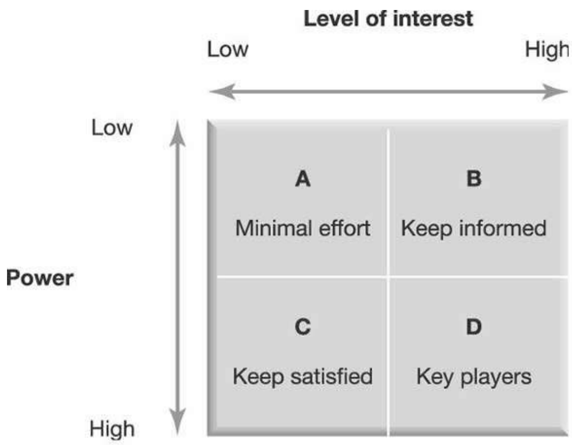
External stakeholders can be divided into four types:
○ ***Economic stakeholders***
(suppliers, competitors, distributors, shareholders)
○ ***Social/political stakeholders***
(policy makers, regulators, government agencies)
○ ***Technological stakeholders***
(key adopters, standards agencies, owners of competitive technologies)
○ ***Community stakeholders***
(affected by what an organisation does; no formal relationship)
The influence of these different types of stakeholders is likely to vary in different situations.

Since the expectations of the stakeholder group will differ, it is normal for conflict to exist regarding the importance or desirability of aspects of strategy. In most situations, a compromise will be reached. The more companies globalise, the more they add further complications as they operate in multiple areas.

Stakeholder mapping: identifies stakeholder expectations and power and helps in understanding political priorities.

It is important to understand the influence of the stakeholder. Two issues are important:
✓ The *interest* each stakeholder has in imposing its expectations on the organisation's purposes and choice of strategies
✓ The *power* each stakeholder has to influence strategy

Stakeholder mapping can help in understanding the following issues:
- *Determining purpose and strategy* 'Which stakeholders need to be most considered?
- Whether the *actual levels of interest and power* of stakeholders properly reflect the corporate framework of the organisation.
- Who the key *blockers and facilitators* are likely to be and the appropriate response.
- Whether *repositioning* of certain stakeholders is desirable and/or feasible.
- *Maintaining* the level of interest or power of some key stakeholders.



Power: the ability of individuals or groups to persuade, induce or coerce other into following certain courses of action.

There are different sources of power. Changes in the business environment can significantly shift the power balance between organisations and their stakeholders. The distribution of power will also vary in relation to the strategy under consideration.

Sources of power	
Within organisations	**For external stakeholders**
• Hierarchy (formal power), e.g. autocratic decision making • Influence (informal power), e.g. charismatic leadership • Control of strategic resources, e.g. strategic products • Possession of knowledge and skills, e.g. computer specialists • Control of the human environment, e.g. negotiating skills • Involvement in strategy implementation, e.g. by exercising discretion	• Control of strategic resources, e.g. materials, labour, money • Involvement in stategy implementation, e.g. distribution outlets, agents • Possession of knowledge or skills, e.g. subcontractors, partners • Through internal links, e.g. informal influence

Indicators of power	
Within organisations	**For external stakeholders**
• Status • Claim on resources • Representation • Symbols	• Status • Resource dependence • Negotiating arrangements • Symbols

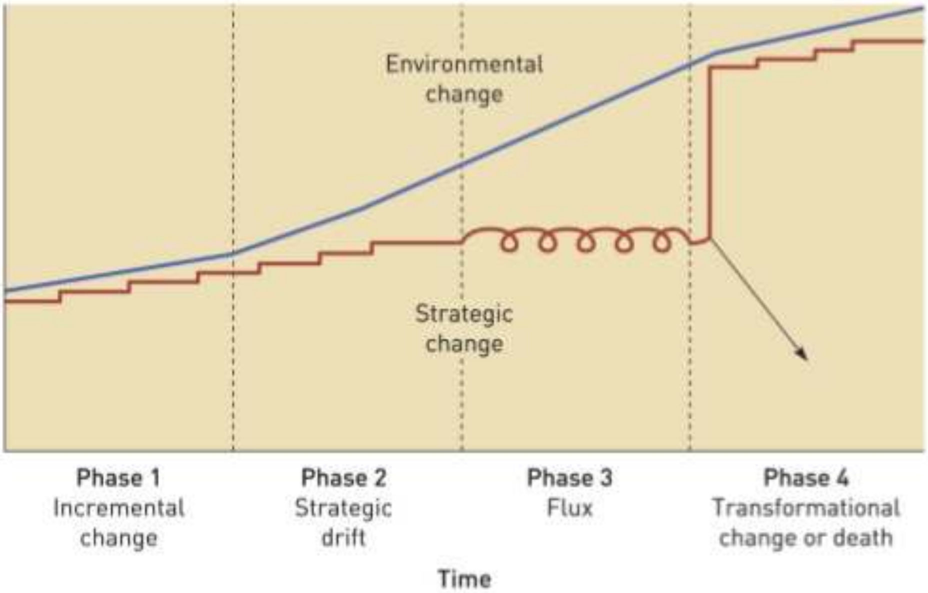
Since there are a variety of different sources of power, it is useful to look for indicators of power:
- The *status* of the individual or group (job grade or reputation)
- The *claim* on resources (budget size)
- *Representation* in powerful positions
- *Symbols* of power (office size or use of titles and names)

Only for external stakeholders: *resource dependence.*

5. CULTURE AND STRATEGY

5.2 Strategic drift

Strategic drift: is the tendency for strategies to develop incrementally on the basis of historical and cultural influences, but fail to keep pace with a changing environment.



Blue line: What the clients want (the cars get better, or always more luxury)
Red line: Course of the organisation. It is what we do. We adjust and adjust.

Phase 1 shows a slow change where organisation are adapting to change of the buying behaviour. In most successful businesses there will also be a slow change but not everyone will see this. The three main reasons that the strategy remains largely unchanged or changes slowly:
- Alignment with environmental change

The environment is changing gradually and the organisation is keeping in line closely with those changes. There is no sense to change the strategy dramatically.
- The success of the past

Because of the success in the past, managers see no point in changing the strategy. They will argue that they should stick to what they know best.
- Experimentation around a theme

Experimenting without moving too far from their capability base.

Phase 2 shows environmental change accelerating, but it is not sudden. The problem that gives rise to strategic drift is that many organisations are not keeping pace with these changes. There are five reasons for this:
- ***Steady as you go:*** managers are wary of changing what they are likely to see as a winning strategy. It may not be easy to see the meaning of the change as they are happening. *'It goes alright so why change?'*
- ***Building on the familiar:*** You build on what you know. They will be looking for answers that are familiar, which they understand and which have served them well in the past (prejudgments). *'We are always doing it like this, why change?'*
- ***Core rigidities:*** If an organisation has capabilities that are unique, it can be become difficult to change if they effect the core rigidities. First: taken-for-granted capabilities rarely get questioned and are past

their usefulness. Second: doing things over time become more as a routine and are difficult to unravel. *'You cannot change and you do not want to.'*

- ***Relationships become shackles:*** maintaining the current relationships with customers, suppliers and employees make it difficult to make fundamental changes to strategy.
- ***Lagged performance effects:*** Customers may be loyal so there will be not any signs. In the early stages financial performance may continue to hold up. But still there have to be a cutting in costs or simply try harder.

Over time, if strategic drift continues, there will be symptoms that become evident: the financial performance, loss in market share or decline in the share price will show this. Phase 3 the strategies may change but in no very clear direction. There may also be management changes, often at the very top.

Pyramid of flux: you change, and change but you do not know why and what.
Example: V&D

In the end; you change or die. In phase 4, the transformational change or death, there will be three different possibilities:

1. The organisation may die;
2. The organisation gets taken over by another organisation;
3. The organisation goes through a period of transformational change.

Example: change in products, markets or market focus.

Transformational change does not take place frequently in organisations and is usually the result of a major downturn in performance.

5.3 Why is history important?

When you take the history of an organisation seriously, it can have at least four benefits:

- ***Avoiding regency bias***

Understand the current situation in terms of the past can provide useful lessons.

- ***'What if' questions***

History can encourage managers to question this. The current position may be seen less solid and possibilities for change in the future more possible.

- ***History as legitimisation***

History can be used as a resource to justify future strategies (evidence).

- ***Innovation based on historic capabilities***

Lessons of the past can give rise to new ideas and innovation.

Path dependency: Early events and decisions establish 'policy paths' that have lasting effects on subsequent events and decision. Earlier choices that you make get you into a certain part. Earlier choices decide what you do.
Example: The decision you made at the HAVO about which profile 'E&M'.

Path dependency relates to any form of behaviour that has its origins in the past and becomes entrenched. Path dependency is a way of thinking about how historical events and decisions, within and around an organisation, have an effect on that organisation for good or ill in at least three ways:

- **Building strategy around the path-dependent capabilities** that may have developed within an organisation (path dependency has been shown to explain organisational strategies; firms tend to enter markets, focus on market segments and diversify in line with the previous path-dependent capabilities they have developed.
- **Path creation** suggests that some managers may actively seek to improve and deviate from path-dependent ways of doing things. They will recognise what they can and cannot change. Managers need to see the past in relation to the future and ask what is relevant from the past that can help with the future.
- **Management style** may also have it roots in history. Not only because of the founder (which can have a strong influence) but also in the interaction between past ways of doing things and the lessons learned.

There are four ways historical analysis can be undertaken by managers:

1. ***Chronological analysis***

Setting down a chronology of key events, showing changes in the organisation's environment.

2. ***Cyclical influences***

Understanding when cycles (economic cycles or industry activity; mergers and acquisitions) might occur and how industry and market forces might change during such cycles can inform decisions.

3. ***Anchor points***

These are significant for an organisation at particular points in time. They could be significant events, policies laid down or major successes or failures. These may have profound effects on current organisational strategy and strategic thing.

4. ***Historical narratives***

How do people of an organisation talk about history and explain it? Try to understand the meaning and gain insights from personal accounts of history and see if they understand the foundation.

History is important to understand how it influences current strategy for better or for worse. It is here that understanding the organisation's culture becomes important. The current culture is the legacy of its history.

5.3 What is culture and why is it important?

Organisational culture: the taken-for-granted assumptions and behaviours that make sense of people's organisational context and therefore contributes to how groups of people respond and behave in relation to issues they face.

It could be said that these are the basic assumptions and beliefs that are shared by members of an organisation. *'The ways we do things around here'.* Different cultural contexts are likely to influence individuals.

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1. National and regional cultures

Attitudes to work, authority, equality and other important factors differ from one country to another. Such differences have been shaped by powerful cultural forces concerned with history. It is important to understand subnational (usually regional) cultures. There may also be differences between urban and rural locations

<u>*Example:*</u> Wal-Mart was not a success in Germany, they failed to understand how German shopping behaviour differed from US.

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2. The organisational field

The culture of an organisation is shaped by work-based groupings, such as an industry or a profession. '*It is the organisation where you work who has its own culture.'*

Organisational field: community of organisations that interact more frequently with one another than those outside the field and that have developed a shared meaning system.

Recipe: a set of assumptions, norms and routines held in common within an organisational field about the appropriate purposes and strategies of field members. When the organisation shares something (technology, regulations, education or training) it can be called a recipe, also called a *'shared wisdom'*.

<u>*Example:*</u> The roles within an 'law' organisation are different; you have lawyers, police, courts, prisons. However they are all committed to the principle that justice is a good thing which is worth striving for.

Within the organisational field, legitimacy is an important influence. Strategies can be shaped by the need for legitimacy; through regulation (standards and codes), normative expectations (what is socially expected) or just being appropriate (recipe).

Legitimacy: concerned with meeting the expectations within an organisational field in terms of assumptions, behaviours and strategies.

Stepping outside the normal strategy may be risky because important stakeholders (customers or bankers) may not see such a move legitimate. Therefore, organisations tend to mimic each other's strategies.

3. Organisational culture
Culture can consist of different layers according to Edgar Schein (1 outside, 4 inside).

1. ***Value*** (high level of customer service)
2. ***Beliefs*** (more specific; should not trade with a particular country)
3. ***Behaviours*** (day-to-day way the organisation operates; work routines)
4. ***Taken-for-granted*** (core of an organisation's culture; what is normal but you find it difficult to say, it's just so).

Paradigm: Set of assumptions held in common and taken for granted in an organisation.
→ These assumptions represents collective experience. They can underpin successful strategies by providing a basis of common understanding within an organisation. However, when major strategic change is needed or a merge is happening it can be a major problem; they can be incompatible.
Example: What do you find important, what do you believe, what behaviour is normal.

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4. Functional / Divisional
If you work at a part or division of an organisation.
Example: Small business and retail management is different than SPH or the Hotel people.

Subcultures: The differences between different groups or divisions. They may also be pursuing different types of strategy.
Example: Differences between functional groups such as finance, marketing and operations.

There are three primary reasons that belongs to the taken-for-granted nature of culture:

- ***Cultural 'glue':*** The benefit of the taken-for-granted nature is that it reduces constant supervision.
- ***Captured by culture:*** A disadvantage is that managers, faced with difficulties, search for what they can understand in terms of the existing culture.
- ***Managing culture:*** Because it is difficult to observe, identify and control that which is taken for granted, it is also difficult to manage.

The culture has an effect on the strategy. When the corporate performance is not going well, managers first try to improve the implementation of existing strategy (lower cost, improve efficiency, tighten controls or improve the way of doing things). When this does not work, a change of strategy may occur but a change in line with the existing culture. If this does not work either, they have to abandon the taken-for-granted mentality and adopt a new one.

The cultural web: Shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by the taken-for-granted assumptions, or paradigm of an organisation.

The elements of the cultural web are as follows:

The **paradigm** is at the core; the set of assumptions held in common and taken for granted in an organisation. Also called the collective experience. The assumptions are very basic but may or may not align with the logic of a strategy. Outside observers may find it easier to identify the paradigm, for insiders who are part of the culture might find it not so easy to say.
Example: Charity who wants to do good for the needy (paradigm), but this cannot be achieved without the purpose of raising money (strategy).

- ***Routines:*** 'The way we do things around here' on a day-to-day basis. This provides a basis for distinctive organisational capabilities.
- ***Rituals:*** Activities or special events that emphasise, highlight or reinforce what is important in the culture (training programmes, promotion and assessment procedures, drinks in the pub after works, gossiping around photocopying machines).

- ***Stories:*** Told by members of an organisation to each other, to outsiders or new recruits. Experience stories where heroes, villains, successes and disasters take place to let people know what is conventionally important in an organisation.
- ***Symbols:*** Objects, events, acts or people that convey, maintain or create meaning over and above their functional purpose (office and layouts, cars and job titles, form of language).
- ***Power:*** Ability of individuals or groups to persuade, induce or coerce other into following certain courses of action. The power structures are distributions of power to groups of people in an organisation.
- ***Organisational structures:*** The roles, responsibilities and reporting relationships in organisations.
- ***Control systems:*** The formal and informal ways of monitoring and supporting people within and around an organisation and tend to emphasise what is seen to be important in the organisation (measurements, reward systems).

If an analyse of the culture of an organisation is to be undertaken, bear in mind: *the questions to ask* (that might help build up an understanding of culture), *the statements of cultural values* (the statements of values and beliefs are often carefully considered and carefully crafted statements of the aspiration of stakeholders, rather than descriptions of the actual culture) and *pulling it together* (characterise the culture the culture that the information conveys).

If managers are to develop strategies that are different from those of the past, they can use the following aspects:
- Strategic capabilities;
- Strategy development;
- Managing strategic change;
- Leadership and management style;
- Culture and experience.

6. BUSINESS STRATEGY

It is important to ask 'what strategy should a business unit adopt' in its market. Strategic business units (***SBU's***) are central in this chapter.

Strategic choices contains three different elements:
- *Business strategy:* Choices about business positioning relative to competitors.
- *Strategic direction:* Choices of products, industries and markets to pursue.
- *Strategy methods:* How to pursue strategies, organic, acquisition or alliance 'How do we do that?'

6.2 Identifying strategic business unites

Strategic business unit (SBU): Supplies goods or services for a distinct domain of activity.

This might be a small business focused on a single market, such as a restaurant. However, it mostly refers to the distinct businesses within a large diversified corporation.
Example: Gall & Gall, Bol.com, Albert Heijn or Etos.

Within bigger organisation, the SBU will be a distinct part who has its own parts. It's about how the organisation divides its big blocks. Sometimes these SBU's are called divisions or profit centres. These SBU's will have responsibility for its own business strategy.
Example: Volkswagen (Porsche, Skoda), Heineken (Heineken NL, Heineken USA).

The SBU concept has three effects within large organisations: SBU's decentralise initiative to smaller units within the corporation as a whole. Second, SBU's allow large corporations to vary their business strategies according to the different needs of the various external markets they serve. Finally, the SBU concept encourages accountability.

There are two basic criteria that can help identifying appropriate SBU's:
- ***Market-based criteria:*** Different parts of an organisation can be the same SBU if they are targeting the same customer types, through the same sorts of channels and facing similar competitors.
- ***Capabilities-based criteria:*** Different parts of an organisation can be the same SBU if they have similar strategic capabilities.

6.3 Generic competitive strategies

Competitive strategy: concerned with how a strategic business unit achieves competitive advantage in its domain of activity.
Competitive advantage: How an SBU creates value for its users both greater than the costs of supplying them and superior to that of rival SBU's.

To be *competitive* at all, the SBU have to let users see sufficient value that they are prepared to pay more than the costs of supply. To have an advantage, the SBU must be able to create greater value than competitors. To achieve this, Michael Porter argues that there are two fundamental means of achieving competitive advantage:

1. Have lower costs than its competitors.
2. Have products or services that are so exceptionally valuable to customers so they can charge higher prices than its competitors.

To define competitive strategies, Porter adds two other 'competitive scope' dimensions:

3. Focus on narrow customer segments (particular groups; 'youth')
4. Focus on a broad range of customers (characteristics 'age', 'wealth')

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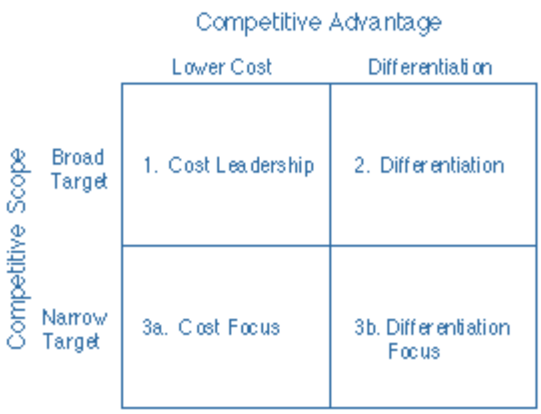
1. Cost leadership



Cost leadership strategy: Involves becoming the lowest-cost organisation in a domain of activity.
Example: Primark, Action, Aldi Lidl (broad target group, many clients, low costs).

There are four key cost drivers that can help deliver cost leadership:

- ***Input costs*** are often very important (labour or materials). Many companies seek competitive advantage through locating their labour-intensive operations in countries with lower labour costs.
- ***Economies of scale*** refer to how increasing scale usually the average costs of operation over a particular time period. This is important wherever there are high fixed costs, you pay these anyway (produce more and pay less in the end, same fixed costs). For the cost-leader it is important to reach the output level of the *minimum efficient scale*.
- ***Experience*** can be a key source of cost efficiency. The experience curve implies that the cumulative experience gained by an organisation with each unit of output lead to reductions in unit costs. The more experience, the more efficiency. Efficiency can be in: labour productivity or more efficient designs or equipment. The experience curve has three implications for business strategy:
  1. Entry timing into a market is important (early entrants will have a step forward than late entrants)
  2. Gain an hold market share
  3. Opportunities for cost reduction are endless.
- ***Product/Process design*** also influences costs. You can build products from expensive components, but rather with cheap standard components. Or communicate through cheap web-based methods instead of expensive telephone. It is important to recognise *whole-life costs*; the costs to the customer (purchase, use and maintenance).

There are according to Porter, two requirements for cost-based strategies; to have the lowest cost structure than all competitors and that low cost should not be pursued in total disregard for quality (meet market standards).

When you try to implement these requirements, two options are available:

- ***Parity*** with competitors in product or service features valued by customers so you can ask the same price as competitors (but lower your costs).
- ***Proximity*** (closeness) to competitors in terms of features; customers are seeing small cuts in prices to compensate for the slightly lower quality.

2. Differentiation strategies

Differentiation: Involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.
Example: Bijenkorf; ask high prices but for a broad target group.

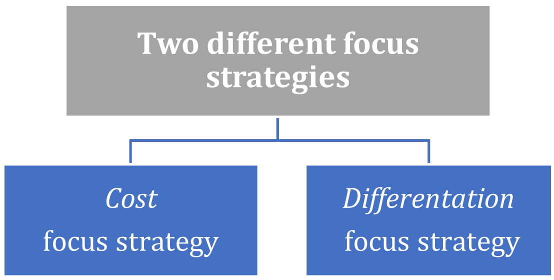
Differentiation is possible along different dimensions; store size, location or products. Managers can identify potential for differentiation by using perceptual mapping (strong VS poor) of their products or services against those of competitors. The attributes on which to differentiation need to be chosen carefully according to two key factors:

- ***The strategic customer:*** Identify clearly on whose needs the differentiation is based; prioritising customers can be a valuable source of differentiation.
- ***Key competitors:*** It's easier to concentrate on a particular niche but be aware of the other competitors (they might get into this product space as well).

Differentiation allows higher prices, but usually comes at a cost. It involves additional investments.

3. Focus strategies

Focus strategy: Targets a narrow segment of domain of activity and tailors its products or services to the needs of that specific segment to the exclusions of others.



Cost focus strategy: Targeting with price. Areas where broader cost-based strategies fail because of the added costs of trying to satisfy a wide range of needs.
Example: Product that not everyone needs but you can make it cheap. Import it and sell it online. Narrow target group but to sell it as cheap as possible (doorknobs).

Differentiation focus strategy: Gaining a price premium over rivals. Looks for specific needs that broader differentiators do not serve so well. Focus on one particular need helps to build specialist knowledge and technology, increases commitment to service and can improve brand recognition and customer loyalty.
Example: Ferrari. Very distinctive (different than the rest, special). Very upper class brands or boutiques.

A successful focus strategy depend on at least one of three key factors:

- ***Distinct segment needs:*** Focus strategies depend on the distinctiveness of segment needs. When the distinctiveness erodes, it becomes harder to defend the segment against broader competitors.
- Distinct segment value chains: Focus strategies are strengthened by distinctive value chains that will be difficult or costly for rivals to construct. When the distribution channels and processes will be similar, the broad-based differentiator will push a product through its own value chain at a lower cost than a rival focuser.
- Viable segment economics: Segments can easily become too small to serve economically as demand or supply conditions change.

4. Stuck in the middle

Porter's argument is that managers are generally best to choose a strategy and then stick rigorously to it. If you do not, you will be **stuck in the middle**; doing no strategy well.

However, Porter also acknowledges that there are circumstances in which the different strategies can be combined:

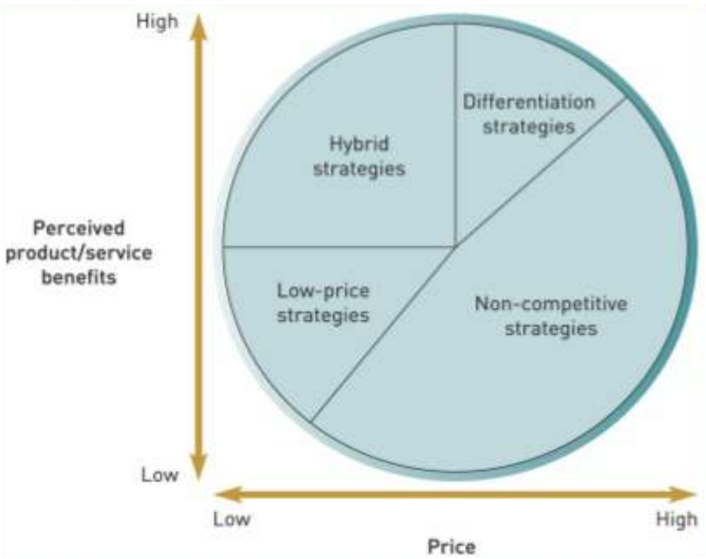
- ***Organisational separation:*** It is possible for a company to create separate strategic business units each pursuing different generic strategies and with its different costs. The challenge is to prevent negative spill-overs from one SBU to another.
  <u>*Example:*</u> A company pursuing differentiation which has high head-office costs. Therefore their low-cost SBU's will also have to bear these high costs.
- ***Technological of managerial innovation:*** Sometimes technological innovations allow radical improvements in both cost and quality.
  <u>*Example:*</u> Internet retailing reduces the costs of book-selling as increasing products stock and online advice.
- ***Competitive failures:*** Where competitors are also stuck in the middle, there is less competitive pressure to remove competitive disadvantage.

6.3.5 Strategy clock

Strategy Clock: Provides another way of approaching the generic strategies. It has two distinctive features; it is more market-focus (focusses on prices to customer instead than costs to the organisation) and it allows for more continuous choices than Michael Porter's sharp contrast between cost-leadership and differentiation.

The Strategy Clock identifies three zones of feasible strategies:

- **The differentiation zone**
  Contains a range of feasible strategies for building on high perceptions of product or service benefits amongst customers:
  - *The 12 o'clock position:* A strategy of differentiation without price premium.
  - *The 1/2 o'clock position:* A strategy of differentiation with price premium.
  - *The 2 o'clock position:* A strategy of focused differentiation (higher prices and reduced benefits are sustainable).



- **The low-price zone**
  Allows for different combinations of low prices and low perceived value.
  - *The 9 o'clock position*: Standard low price strategy (low prices with reasonable value).
  - *The 7 o'clock position:* No frills strategy (low benefits and low prices).
- **The hybrid strategy zone**
  Allows to be between low-price and differentiation strategies. Hybrid strategies involve both lower prices than differentiation strategies, and higher benefits than low-price strategies. It can be an effective way of entering a new market, for instance overseas.
  <u>*Example:*</u> IKEA; low prices with differentiated Swedish design. Albert Heijn: low perceived and high perceived assortment. 'You see it in the supermarkets in the Netherlands. It is a price war, they fight. The price is always under pressure. Super de Boer and C1000 could not compete anymore. All the time war: *red ocean*.
- **Non-competitive strategies**
  Infeasible economics; low benefits and high prices. Typically these strategies lead to failure.

The Strategy Clock's focus on price and its scope for incremental adjustments in strategy provide a more dynamic view on strategy than Porter's generic strategies. Porter's generic strategies do remind managers that costs are critical.

VRIN characteristics: Value, rarity, inimitability and non-substitutability. Strategies are more likely to be sustained if underpinned by capabilities that combine all the VRIN characteristics.

Strategic lock-in: Where users become dependent on a supplier and are unable to use another supplier without substantial switching costs. It is related to path dependency. Imitators and substitutes are unable to attract customers.

Lock-in can be achieved in two main ways:

- ***Controlling complementary products or services.***

Where other products or services are necessary for customers using it. Also known as the *'razor and blade'* strategy: once a customer has bought a particular kind of razor, they are obliged to buy compatible blades to use it.

- ***Creating a proprietary industry standard***

Sometimes companies are so successful that they create an industry standard under their own control. As customers invest in training and systems using that standard, it becomes more expensive to switch to another product or service (Microsoft).

6.4 Interactive strategies

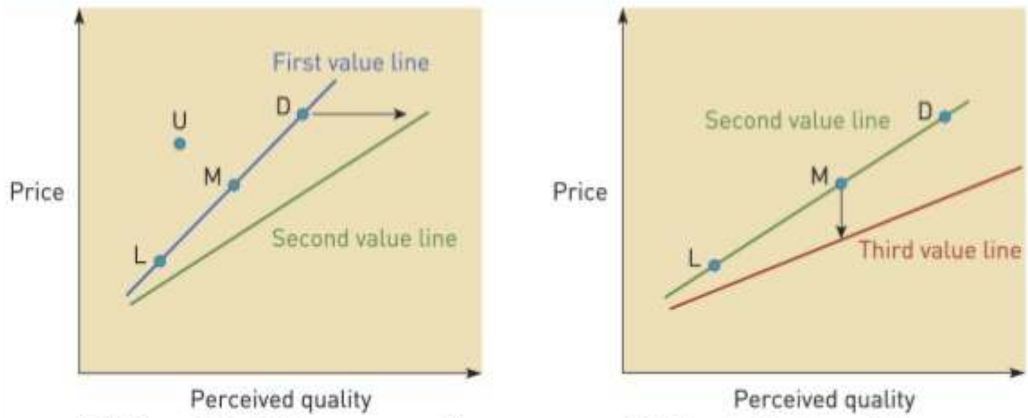
Business strategy choices interact with those of competitors. These are explained in the interactive price and quality strategies from Richard D'Aveni.

<u>**L:**</u> Cost-leading firm 'Hyundai'

<u>**D:**</u> Differentiator 'Mercedes'

<u>**M:**</u> Combination of reasonable prices and reasonable quality. 'Ford'

<u>**U:**</u> Stuck in the middle. 'Move back to the line or fail.'



(i) Differentiator (D) improves quality

(ii) Mid-point business (M) counter-attacks on price

NB axes are not necessarily to linear scales.

Plotting moves, as shown in the picture before, underlines the dynamic and interactive nature of business strategy. When a low-price competitor enters your business, an attack by cheap imports from Asia as example, there are three key decisions:

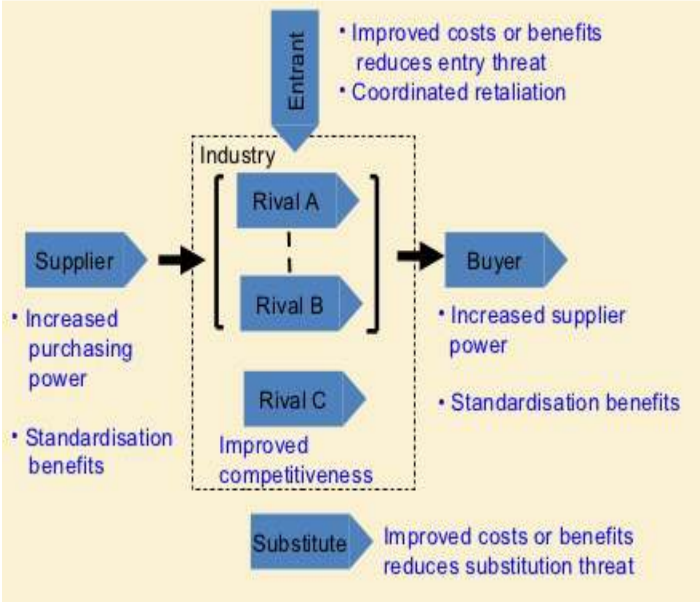
- ***Threat assessment:*** Is the threat substantial or not. It there is a threat, do not respond directly with matching the prices of the competitor; most likely you will lose the price war with the existing cost structure.
- ***Differentiation response:*** Seek out for new points of differentiation. If this is not possible, more radical cost solution should be sought.
- ***Cost response***: Merger with high-cost organisation may help reduce costs and match prices through economies of scale. Try to outsource the production or abandon manufacturing.

Successful competitive interaction in hyper competition demands speed and initiative rather than defensiveness. Richard D'Aveni highlights four key principles:

- **Cannibalise bases of success**
  (sustain old advantages distracts from developing new advantages)
- **Series of small moves rather than big moves**
  (create more flexibility to move and makes it harder for competitors to detect the moves)
- **Be unpredictable**
  (Surprise the competitors and do not be predictable)
- **Mislead the competition**
  (Signal out particular moves but then do something else. Use the game theory).

Advantage may not always be achieved just by competing. Collaboration between some organisations in a market may give them advantage over other competitors in the same market, or potential new entrants; *a cooperative strategy*.

Key benefits of cooperation are as follows:



- ***Suppliers***
  When rivals A and B cooperate it enables them to; standardise requirements, enabling suppliers to make cost reductions to all parties' benefits.
- ***Buyers***
  When rivals A and B cooperate it can help maintain or raise prices. On the other hand it can help enabling reductions in costs that all can share. It will increase their power as suppliers vis-à-vis buyers.
- ***Rivals***
  When rivals A and B are getting benefits with regard to both buyers and suppliers, other competitors without such agreements will be at competitive disadvantage (pushed out the industry).
- ***Entrants***
  Potential entrants will likely lack the advantage of the combined rivals A and B. The rivals can cut prices by the same proportions in order to protect their own relative positions while undermining the competitiveness of the new entrant.
- ***Substitutes***
  The improved costs or efficiencies that come from cooperation between rivals A and B, reduces the incentives for buyer to look to substitutes.

Game theory: Encourages an organisation to consider competitors' likely moves and the implications of these moves for its own strategy.

First, game theorists consider how a *competitor response* to a strategic move might change the original assumptions behind that move. Second, game theorists are sensitive to the *strategic signals*, or messages. They are thinking 'What if'.

Game theory is particularly relevant where competitors are *interdependent*. This exists where the outcome of choices made by one competitor is dependent on the choices made by other competitors.
<u>*Example:*</u> If rivals do not match the price cuts, there is a market share. If rivals do match the price cuts, nobody gains market share and all players suffer from the lower prices.

There are two important guiding principles that arise from interdependence:

- Get in the mind of the competitors
  (Understand the competitors' game-plan to plan your own)
- Think forwards and reason backwards.
  (Think of what competitors might do in the future, reason back to what would be sensible in the light of this now).

The prisoner's dilemma: Where organisations' strategic decisions are similar to the dilemma of two prisoners accused of serial crimes together and being interrogated in separate prison cells without the possibility of communicating with each other.

Within the prisoner's dilemma there are two choices:

- Loyally supporting each other by refusing to divulge any information to their interrogators.
- Seeking an advantage by betraying the other.

The dilemma for each of the prisoners is how much to trust in their mutual loyalty. They are clearly *interdependent*. They have to get in the mind of the other, think forwards to what they might do and then reason backwards in order to decide what their own strategy should be.

Competitors cannot communicate directly about their strategies, they would likely be judged illegal by the competition authorities; they have to get in each other's mind.
<u>*Example:*</u> Second world war. Germany might start a war and were threatening. UK was like what should we do. If we get weapons it costs a lot of money, if they do not attack we did spend money for nothing. If we do not get weapons; we might get attacked and are screwed.

Game theory encourages managers to consider how a 'game' can be transformed from lose-lose competition to win-win cooperation. There are four principles that can help here:
- ***Ensure repetition:*** The idea is that in repeated interactions over time, players can learn from each other's moves and counter-moves the benefits of cooperation.
- ***Signalling:*** Strategists need to be aware of the messages that their moves convey and read the messages of their competitor's move.
- ***Deterrence:*** Two effective forms of deterrent would be maintaining extra capacity that could be used to flood the market, or holding a minor position in a competitor's key market that could easily be expanded.
- ***Commitment:*** It is important to signal commitment. If a company invests heavily in developing its brand in a market, then competitors will know that it is highly committed, and be less likely to attack head-on.

7. CORPORATE STRATEGY AND DIVERSIFICATION

7.1 Introduction

Scope: concerned with how for an organisation should be diversified in terms of products and markets. 'How broad to make the portfolio?'

Vertical integration: the organisation acts as an internal supplier or a customer to itself.
Example: oil company supplies its petrol to its own petrol stations.

Outsourcing: organisation 'dis-integrates' by subcontracting an internal activity to an external supplier. Ask another party to help you or to do something for you.

The corporate-level: the head-office, the executives. 'How should the 'parent' add value within corporate parenting?'

Not only large commercial businesses have business units. Even small businesses may consist of a number of business units.
Example: a local builder who has contract work for local government, work for industrial buyers and for local homeowners (different market segments and different capabilities required).

7.2 Strategy directions

The Ansoff product/market growth matrix provides a simple way of generating four basis directions for corporate strategy. The organisation basically has a choice between penetrating still further within existing sphere (zone A) or increasing its diversity along the two axes of increasing novelty of markets or products.

Diversification: Involves increasing the range of products or markets served by an organisation.

Related diversification: Involves diversifying into products or services with relationships to the existing business.
Example: Zone B, developing new products for its existing markets. Zone C, bringing its existing products into new markets.

Conglomerate (unrelated) diversification: Involves diversifying into products or services with no relationship to the existing business (zone D).

Ansoff's axes can be used effectively in brainstorming strategic options, checking that all zones have been considered.

Market penetration (zone A): implies increasing share of current markets with the current product range. This is the most obvious strategic option; penetration of its existing market with its existing products. Same thing in the same market.

Consolidation: We are going to do the same thing as we did. We try to keep what we have.

The strategy builds on what they have and do not require to venture into unknown territory. The organisation's scope is exactly the same. It may face two constraints:

- ***Retaliation from competitors***
  Penetration could cause rivalry as other competitors in the market defend their share. It could involve price wars or expensive marketing battles, which may cost more. When retaliation (revenge) is a danger, organisations seeking market penetration need strategic capabilities that give a clear competitive advantage.
- ***Legal constraints***
  Greater market penetration can raise concerns from official competition regulators concerning excessive market power. The European Commission, as example, has an overview of the whole European market and can similarly intervene.

When the economic constraints are severe, for instance during a market downturn or crisis, market penetration may not be an option. Here organisations will need to consider the strategic option of retrenchment.

Retrenchment: Withdrawal from marginal activities in order to concentrate on the most valuable segments and products within their existing business. You are leaving the market in a planned way.

Product development: Where organisations deliver modified or new products (or services) to existing markets.
Example: LIDL is going to sell insurances, that you can go on holiday with LIDL.

This can involve varying degrees of diversification as mentioned before. Sony first developed its Walkman into CS's and recently to MP3's, this is an example of little diversification, although the technologies differed. Product development can be an expensive and risk activity for at least two reasons:

- ***New strategic capabilities***
  Involving new processes or technologies that are unfamiliar to the organisation can involve risks. Success frequently depended on a willingness to acquire new technological and marketing capabilities, thus its involves heavy investments and high risk of project failures.
- ***Project management risk***
  It can cause the risks of delays and increased costs due to project complexity and changing project specifications over time.

Market development: Involves offering existing products to new markets.
Example: LIDL is going to Asia with their products.

It also entails some product development as well, if only in terms of packaging or service. Market development has two basic forms:

- *New users* (a new target group)
- *New geographies* (internationalisation or the spread into new towns)

In all cases it is essential that market development strategies be based on products or services that meet the critical success factors of the new market.

Conglomerate diversification: takes the organisation beyond both its existing markets and its existing products (zone D).
Example: LIDL is going to Asia with new products within bugs or insects.

Related limited diversification: You do something new but you already have experience with it. Than it is a little bit more related than what you do not know.
Example: LIDL does something with logistics.

7.3 Diversification drivers

Growth in organisational size is rarely a good enough reason for diversification on its own: growth must be profitable. Four potentially value-creating drivers for diversification are as follows:

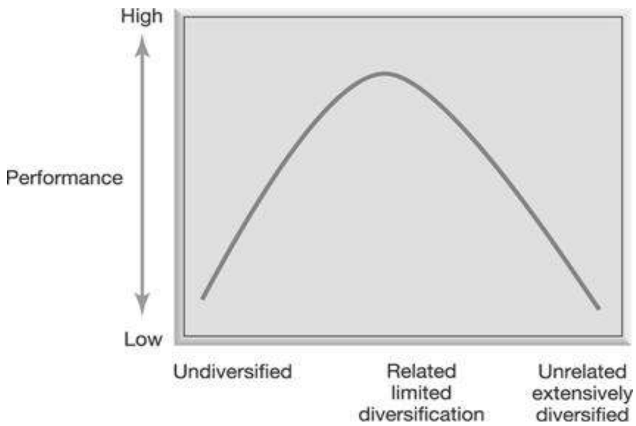
- **Exploiting economies of scope:** Refers to efficiency gains through applying the organisation's existing resources or competences to new markets or services. It may apply *tangible* resources (halls of residence) and *intangible* resources (brands or skills).
  Example: If something or product is not working, it is efficient to use these resources or competences by diversification into a new activity. An university with a hall of residence is not used during breaks, therefore they will expand the scope of activities into conferencing and tourism during vacation periods.
- ***Stretching corporate management competences ('dominant logics'):*** Refers to the potential for applying the skills of talented corporate-level managers to new businesses.
  Dominant logic: The set of corporate-level managerial competences applies across the portfolio of business.

- ***Exploiting superior internal processes:*** Internal processes within a diversified corporation can often be more efficient than external processes in the open market. Especially when external capital and labour markets do not yet work well, as in many developing economies. Conglomerates can make sense here.
- ***Increasing market power:*** Being diversified in many business can increase power vis-à-vis competitors in at least to ways. First, by having the same wide portfolio of products as the competitor increases the potential for mutual forbearance (not competing). Second, having a diversified range of businesses increases the power to cross-subsidise one business from the profits of the others.

Synergy: Refers to the benefits gained where activities or assets complement each other so that their combined effect is greater than the sum of the parts.
Example: A film company and a music publisher would be synergistic if they were worth more together than separately.

Three potentially value-destroying diversification drivers are:
- *Responding to market decline* is one common but doubtful driver for diversification. Instead of spare funds in new business, they should find new growth investment opportunities for themselves.
- *Spreading risk across* a range of markets is another common justification for diversification. However, shareholders would prefer managers to concentrate on managing their core business as well as they can.
- *Managerial ambition* can sometimes drive inappropriate diversification. Fast growth and diversification can give managers short-term benefits in terms of bonuses and prestige. However, going beyond their areas of true expertise soon can bring financial disasters.

7.4 Diversification and performance



The implication is that some diversification is good, but not too much. The diversification-performance relationship tends to follow an inverted U-shape.

Vertical integration: Describes entering activities where the organisation is its own supplier or customer. It can be done forward or backward integration.

Forward integration: Refers to development into activities concerned with the outputs of a company's current business.
Example: If you usually not deliver to customers but you deliver to the shops. If you choose to deliver to the customer itself as well you are going forward in the supply chain.

Backward integration: Refers to development into activities concerned with the outputs of a company's current business.
Example: The company who makes the steal owns more money than us. We are going to make the steel ourselves. We are buying steel so that we can use. You go back in the supply chain and do something there that can help you.
Example: Fashion retailer who makes the clothing itself.

Integration brings together activities up and down the same value network, while diversification involves more or less different value networks. Company might do this because you see that there is money in these chains.

Horizontal integration (diversification): It is new products in new or same markets. Diversification is also described as horizontal integration.
Example: Fashion retailer can also open a bar. Car manufacturer makes also busses.

Vertical integration is often favoured because it seems to 'capture more of the profits in a value network. However the dangers are that vertical integration involves investment. Second, it is likely to involve quite different strategic capabilities.

Outsourcing: The process by which activities previously carried out internationally are subcontracted to external suppliers.
Example: Subcontracting or components in manufacturing, customer call centres.

Specialists in a particular activity are likely to have superior capabilities than an organisation for which that particular activity is nog a central part of their business.

The *transaction costs framework* helps analyse the relative cost and benefits of managing ('transacting') activities internally or externally. You should watch out underestimating the long-term costs of opportunism. Subcontractors may take advantage of their position (reducing standards or higher prices). Most relations tend to fail because:

- There are few alternatives to the subcontractor and it is hard to shop around;
- The product or service is complex and changing;
- Investments have been made in specific assets.

Transaction cost economics offers the following advice according to the three points above: If these are applicable it is likely better to vertically integrate rather than outsource.

To integrate of subcontract rests on the balance between: *relative strategic capabilities* (does the subcontractor have the potential to do better) and *risk of opportunism* (is the subcontractor going to take advantage)

7.6 Value creation and the corporate parent

Any corporate parent needs to demonstrate that they create more value than they cost; both commercial and public-sector organisations. In the competitive market for the control of businesses, corporate parents must show that they have parenting advantage, on the same principle that business unites must demonstrate competitive advantage. They must demonstrate that they are the best possible parent for the businesses they control.

There are four main types of activity by which a corporate parent can add value:

- ***Envisioning:***
  They can provide a clear overall vision or strategic intent for its business unites. A clear vision provides discipline to stop it wandering into inappropriate activities or taking on unnecessary costs.
  Example: 'A clear external image about what the organisation is about'. They can think about the mission and vision about the company. Which direction.
- ***Coaching and facilitating:***
  Help business unit managers develop strategic capabilities by coaching them to improve their skills and confidence. Improving the synergies from being with the same corporate organisation.
  Example: Trainings. Help to find the right places to open a store. Having good connections. They have contacts with real estate managers who can help.
- ***Providing central services and resources:***
  The centre is a provider of capital for investment. They can build up relevant expertise. Centralised services often have a greater leverage.
  Example: They can provide resources. They know quite a lot about marketing, administration and finance. They can help you.
- ***Intervening:***
  Intervene within its business units in order to ensure appropriate performance. They should monitor business and improve performance. The parent can also challenge and develop the strategic ambitions of business units.

However, there are also ways in which the corporate parent can destroy value and not help you:

- ***Adding management costs:***
  The staff and facilities of the corporate centre are expensive 'most luxurious offices'.
- ***Adding bureaucratic complexity:***
  There are all layers of management and the need to coordinate with sister business may slow down responses (making things more difficult).
- ***Obscuring financial performance:***

The under-performance of weak businesses can be obscured, weak businesses might be cross-subsidised by the stronger ones.

There are many ways in which corporate parents can add value. Corporate parenting tend to fall into three main types ('How the headquarter sees itself'): the portfolio manager, the synergy manager and the parental developer.

1. Portfolio manager: Operates as an active investor in a way that shareholders in the stock market are either too dispersed or too inexpert to be able to do.
Example: V&D is bought by a company. Hema is also bought by a company. They play a little bit with the companies.

It is acting as an agent on behalf of financial markets and shareholders because they cannot achieve themselves. Its role is to identify and acquire under-valued assets or businesses and improve them. Their role is not to get closely involved in the routine management of the business, only to act over short periods of time to improve performance. The costs of the centre have to be low (small corporate staff).

2. Synergy manager: A corporate partner seeking to enhance value for business units by managing synergies across business units.
Example: Ahold might see itself as a synergy manager. To create synergy between the businesses. It has Albert Heijn and Bol.com. They want Bol.com to learn from AH from logistics. AH to learn from Bol.com about online.

The focus is threefold: envisioning to build a common purpose; facilitating cooperation across businesses; and providing central services and resources.

They will face three challenges:
- *Excessive costs:* Managing synergistic relationships tends to involve expensive investments in management time.
- *Overcoming self-interest:* Managers in the business have to want to cooperate. They have to be willing (often unwilling) to sacrifice their time and resources for the common good.
- *Illusory synergies:* Claimed synergies often prove illusory when managers actually have to put them into practice. They overestimate the value of skills or resources to other businesses.

3. Parental developer: Seeks to employ its own central capabilities to add value to its businesses. They focus on the resources or capabilities they have as parents which they can transfer downwards to enhance the potential of business units.
Example: We are going to train you, we provide central services.

Parental opportunity: A business which is not fulfilling its potential but which could be improved by applying the parenting capability (such as branding or product development).

There are two crucial challenges to managing a parental developer:
- *Parental focus:* Corporate parents need to be rigorous and focused in identifying their unique value-adding capabilities.
- *The 'crown jewel' problem:* Parental developers should divest businesses they do not add value to, even profitable ones; which are performing well, the crown jewels.

7.7 Portfolio matrices

This paragraph introduces models by which managers can determine financial investment and divestment within their portfolios of business. Each model gives more or less attention to one of three criteria:
- The balance of the portfolio
- The attractiveness of the business units
- The fit that the business units have with each other

BCG matrix: Uses market share and market growth criteria for determining the attractiveness and balance of a business portfolio. You have to look at the business units and not at 'Apple' itself. Products are a too low level.

It also warns that high growth demands heavy investment (expand capacity or develop brands). There needs to be a balance within the portfolio. The growth/share axes of the BCG matrix define four sorts of businesses:

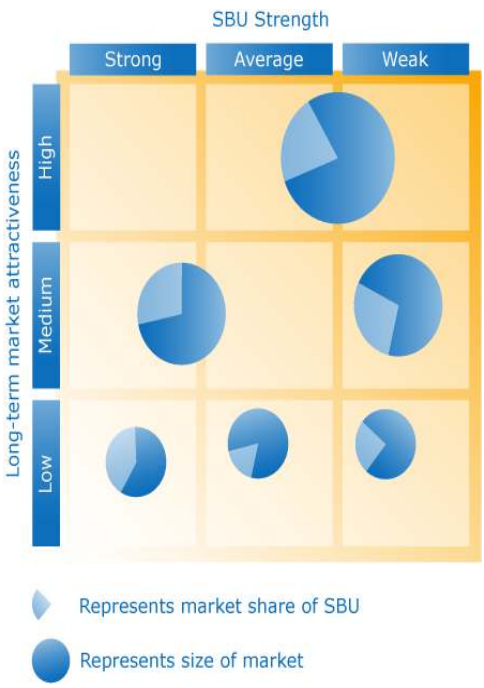
- ○ ***Star***: Business unit within a portfolio which has a high market share in a growing market. Think about Apple.
- ○ ***Question mark:*** Business unit within a portfolio that is in a growing market, but does not yet have high market share.
- ○ ***Cash cow:*** Business unit within a portfolio that has a high market share in a mature market.
- ○ ***Dogs:*** Business units within a portfolio that have low share in static or declining markets; retrenchment.

The BCG matrix provides a good way of visualising the different needs and potential of all the diverse businesses within the corporate portfolio. However, the disadvantages are:

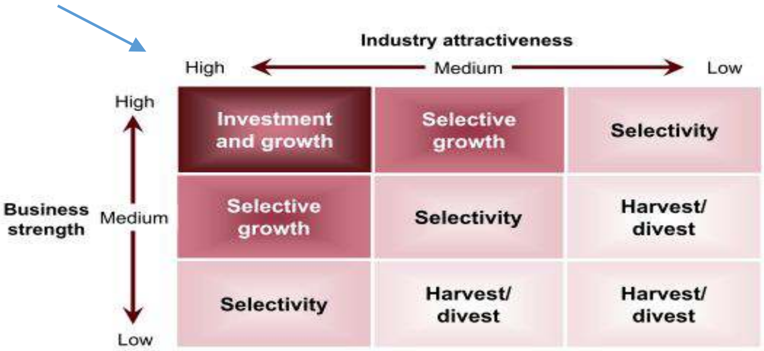
- *Definitional vagueness*
  It can be hard to decide what high and low growth or share means in particular situations.
- *Capital market assumptions*
  It assumes that capital cannot be raised in external markets (they will keep it internal).
- *Unkind to animals*
  Both cash cows and dogs receive ungenerous treatment; the first being simply milked, the second terminated or cast out of the corporate home. It can cause motivation problems or the danger of self-fulfilling prophecy. Cash cows can become dogs more quickly than expected.

Another way to consider a portfolio business is by means of *the directional policy matrix* (**GE-McKinsey matrix**). This categorises business units into those with good prospects and those with less good prospects. They positions business units according to:

1. How to attractive the relevant market is which they are operating.
2. The competitive strengths of the SBU in that market.



The matrix also offers *strategy guidelines* given the positioning of the business units. It suggests that the businesses with the highest growth potential and the greatest strength are those in which to invest for growth. The weakest should be divested.



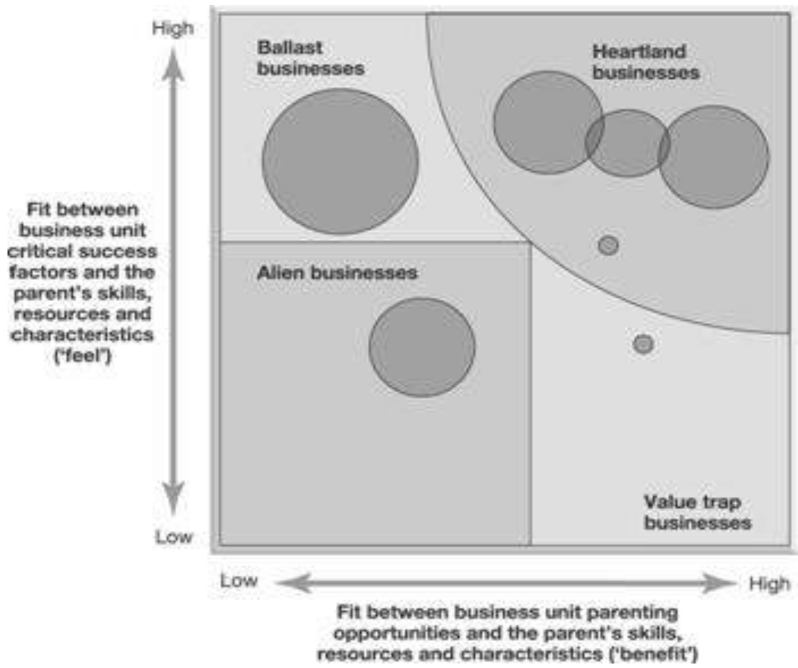
The directional policy matrix is more complex than the BCG matrix. However it can have two advantages: the nine cells acknowledge the possibility of a difficult middle ground. Second, the two axes are not based on single measures (as market share and growth). *It helps managers invest in the businesses which are most likely to pay off.*

The *parenting matrix* (**Ashridge Portfolio Display**) introduces parental fit as an important criterion for including businesses in the portfolio. If the parent cannot add value, then the parent ought to be cautious about acquiring or retaining them. There are two key dimensions of fit in the parenting matrix:

- ***Feel:*** the fit between each business unit's critical success factors and the capabilities of the corporate parent. Does it feel and understand the business it will parent?
- ***Benefit:*** The fit between the parenting opportunities, or needs, of business units and the capabilities of the parent (bringing marketing expertise).

There are four kinds of business along the two dimensions of feel and benefit:

- ***Heartland:*** Ones which the parent understand well and add value to.
- ***Ballast:*** Ones that parent understand well but can do little for.
- ***Value-trap:*** Dangerous. Appear attractive because there can be added value by the parent, but the lack of feel is there.
- ***Alien:*** Clear misfits. Little opportunity to add value and the parent does not understand.



8. International strategy

Internationalisation drivers: Drivers that include market demand, the potential for cost advantages, government pressures and inducements and the need to respond to competitor moves.
Driver: Something that is pushing you.

Geographical advantage: Advantages might come from both geographic location of the original business and from the international configuration of their value network.

Market selection: When adopting the broad approach to international strategy, the question next is which country markets to prioritise and which not.

Entry mode: Thinking about how to enter each particular market.

International strategy: Refers to a range of options for operating outside an organisation's country of origin. 'We are in Holland and we want to go international'.

Global strategy: Involves high coordination of extensive activities dispersed geographically in many countries around the world. 'We see us as a worldwide company.'
Example: Mac Donalds

8.2 Internationalisation drivers

Better international frameworks means that it is less risky to deal with unfamiliar partners. Improvements in communications make movement and the spread of ideas much easier around the world. However, not all these trends are one-way. For example, migration is becoming more difficult between some countries. International drivers are usually a lot more complicated.
Example: Chinese markets are not only different from Western ones, but vary widely within China itself.

A careful assessment of trends in each particular market should be made.

Yip's globalisation framework: Sees international strategy potential as determined by market drivers, cost drivers, government drivers and competitive drivers. The key is that internationalisation potential of industries is variable; many different factors that can support or inhibit it.

- ***Market drivers***
  Standardisation of market characteristics is a critical facilitator. First, the presence of *similar customer needs and tastes*. Second, the presence of *global customers* (Ford / Toyota; internationalised, have standardised components for all their factories around the world). Finally, *transferable marketing* promotes market globalisation (Coca-Cola is marketed in very similar ways across the world).
  Example: People in Belgium wants our products. Belgium had lower taxes or in our country it is forbidden.
- ***Cost drivers***
  Costs can be reduce by operation internationally. First, increasing volume beyond what a national market might support can give *scale economies* (production and purchasing supplies), mostly smaller countries will have this (NL). Second, internationalisation takes advantage of variations in *country-specific differences* (labour in Africa cheaper; clothing + design in New York where fashion is concentrated). Finally, favourable logistics, or the costs of moving products or services across borders relative to their final value.
- ***Government drivers***
  These can both facilitate and inhibit internationalisation. The relevant elements of policy are numerous; tariff barriers, technical standards, subsidies, ownership restrictions, patenting regimes and currency and capital flow controls.
- ***Competitive drivers***
  These relate to integrated worldwide strategies. First, interdependence between country operations increases the pressure for global coordination (plants in Mexico serving US and Japan, has to coordinate carefully between the locations; surging sales in one country will have significant knock-on effects on the other countries. Second, the presence of globalised competitors increases the pressure to adopt a global strategy in response because competitors may use one country's profits to cross-subsidise their operations in another.
  Example: Influence what you can do. In the Netherlands you can sell about 16 million people, in the world you can serve anyone so that the costs can be lower.

8.3 Geographic sources of advantage

An organisation can improve the configuration of its *value chain and network* by taking advantage of country-specific differences. There are two principal opportunities available: the exploitation of particular *locational advantages* (mostly the home country) and sourcing advantages overseas via an *international value network*.

Internationalisation needs to be bases on strategic capabilities providing a sustainable competitive advantage. However, a new competitor entering a new market typically starts with considerable disadvantages relative to existing home competitors (know the market). A foreign entrant must have significant competitive advantages to overcome such disadvantages.

Porter's Diamond: Suggests that locational advantages may stem from local factor conditions; local demand conditions; local related and supporting industries; and from local firm strategy structure and rivalry.

The four interacting determinants of locational advantage work as follows:

- ***Factor conditions***
  These refer to the production factors that go into making a product or service (materials/labour/land).
- ***Home demand conditions***
  Dealing with sophisticated and demanding customers at home helps train a company to be effective overseas.
- ***Related and supporting industries***
  Local 'clusters' of related and mutually supporting industries can be an important source of competitive advantage (grouping together). Often regionally based, personal interaction.

- ○ ***Firm strategy, industry structure and rivalry.***
  These factors in different countries can also be bases of advantage. A competitive local industry structure is also helpful: if too dominant in their home territory, local organisations can become complacent and lose advantage overseas.

Porter's Diamond has been used by governments aiming to increase the competitive advantage of their local industries. 'Rivalry can be positive'

For individual organisations, however, the value of Porter's Diamond is to identify the extent to which they can build on home-based advantages to create competitive advantage in relation to others on a global front.

Global sourcing: Purchasing services and components from the most appropriate suppliers around the world, regardless of their location.

Different locational advantages can be identified:
- ***Cost advantages*** include labour costs, transportation and communications costs and taxation and investments incentives.
- ***Unique local capabilities*** may allow an organisation to enhance its competitive advantage. Therefore internationalisation is also about developing strategic capabilities by drawing on capabilities found elsewhere in the world.
- ***National market characteristics*** can enable organisations to develop differentiated product offerings aimed at different market segments (combining US-made products with lower-cost alternatives from South Korea and still have the reputation of 'made in the USA'

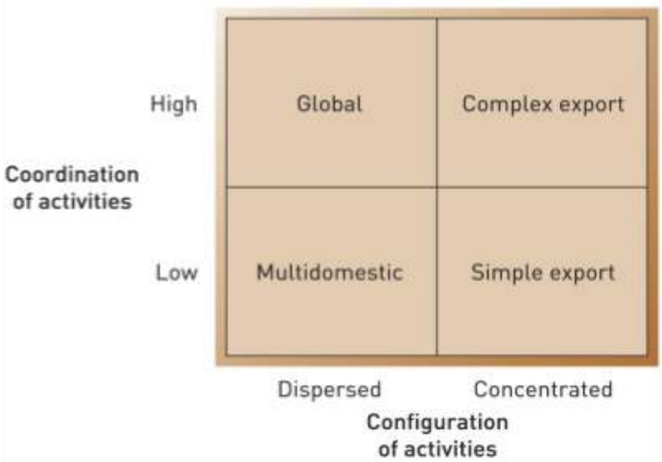
8.4 International strategies

International strategies: If you want to do international business, then you can think about how to coordinate it. Are you going to coordinate from the Netherlands, or also from other places in the world. _Example:_ Mac Donald's coordinates everything from the US and not from everywhere.

The global-local dilemma: The extent to which products and services may be standardised across national boundaries or need to be adapted to meet the requirements of specific national markets. _Example:_ The production of TV's can be done everywhere in the world, but the TV programmes are highly national-specific.

Configuration of activities: Where do you let the products made; locally or centrally. Besides that, the marketing, from out where? Where do you get your employees from. Where do you do what.

Configuration: Refers to the geographical dispersion or concentration of activities such as manufacturing and R&D.
Coordination: Refers to the extent to which operations in different countries are managed in a decentralised way or a centrally coordinated way.



The four basic international strategies are:

- ***Simple export***
  Involves concentration of activities (particular manufacturing) in one country, typically the country of origin. Marketing of the exported product is very loosely coordinated overseas. Pricing, packaging, distribution and even branding policies may be determined locally. This strategy is for organisation with a strong locational advantage.
- ***Multidomestic***
  Loosely coordinated internationally, but involves a dispersion overseas of various activities, including manufacturing and sometimes product development. Goods and services are produced locally in each national market; with their own independently treatment. The needs of the domestic market is given priority. This strategy is attractive in professional services.
- ***Complex export***
  Involves location of most activities in a single country, but builds on more coordinated marketing. The coordination are more complex than the simple export. They seek to build a stronger brand and network overseas with growing organisational maturity.
- ***Global strategy***
  Describes the most mature international strategy; with highly coordinated activities dispersed geographically around the world. The location is chosen according to the locational advantage; each activity might be located in different countries (marketing, manufacturing, product development). This requires high investments and skills in coordination.

Companies may often oscillate within and between the four strategies.

8.5 Market selection and entry

There are specific determinants of market attractiveness that need to be considered in internationalisation strategy, there are two headings: *the intrinsic characteristics of the market* and *the nature of the competition.*

Four elements of the PESTEL framework are important in comparing countries for entry:

- ***Political:*** They vary widely between countries and can alter rapidly; determine political risk.
- ***Economic:*** The potential size of the market (incomes) and the country' currency risk.
- ***Social:*** Cultural variations need to be considered (tastes, size of demographic segments).
- ***Legal:*** Policing is important and the legal regimes.

CAGE framework: Emphasises the importance of culture, administrative, geographical and economic distance. It measures the match between countries an companies.
<u>*Example:*</u> 'If you are going to Asia with the suits that we wear in the Netherlands it could be far too expensive or the fitting is not good. Does our company fits overseas.'

- ***Cultural distance***
  Relates to the differences in language, ethnicity, religion and social norms.
  'Is the culture the same? Is it easy to enter? Different than that how we act?'
- ***Administrative and political distance***
  In terms of incompatible administrative, political or legal traditions. Institutional weaknesses (corrupt administration) can open up distance between countries, but also political differences can.
- ***Geographic distance***
  Not only the kilometres separating, but involves other geographical characteristics of the country such as size, sea-access and the quality of communications infrastructure.
- ***Economic / Wealth distance***
  Wealth distances are also important. There are huge disparities in wealth internationally.

Country markets can be assessed according to three criteria:

- *Market attractiveness* to the new entrant (based on PESTEL, CAGE and five forces)
- *Defender's reactiveness*, likely to be influenced by the market's attractiveness to the defender but also by the extent to which the defender is working with a globally integrated strategy.
- *Defender's clout,* the power that the defender is able to muster in order to fight back. Clout is a function of share in the particular market.

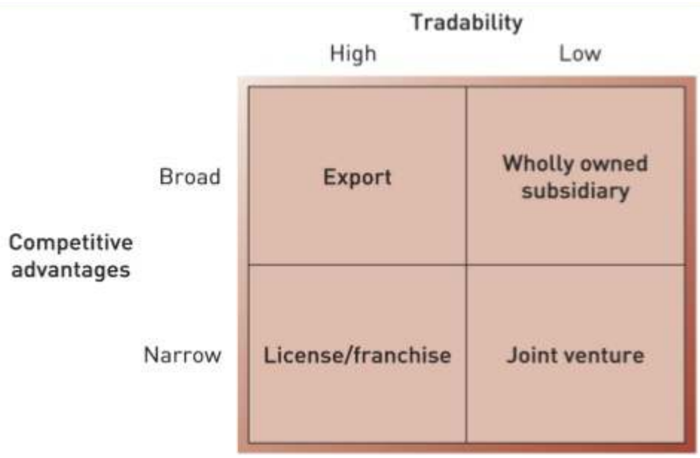
Choice of country to enter can be significantly modified by adding reactiveness and clout (Y-as) to calculations of attractiveness (X-as). Especially in case of globally integrated competitors, the overall clout of the defender must be taken into account.

Modes of entry: How to enter the market, these differ in the degree of resource commitment to a particular market and the extent to which an organisation is operationally involved in a location.

Strategic alliance: You work together.
Foreign direct investment: You open a store yourself in China

The four key entry mode types are:

- **Exporting**
  The baseline option. This is suitable where the products easily can be transported.
- **Licensing and franchising**
  Where competitive advantage are too narrow to go it alone.
  Example: Van Geels is opening a store in China but on a franchise basis. Someone in China is willing to use all the Van Geels styling and else. 'To work under your name'
- **Joint ventures**
  The establishment of jointly owned business; shared ownership. This is also when the advantages are narrow and franchising is too dangerous.
  Example: Milka and Oreo. You combine with another company.
- **Wholly owned subsidiaries**
  Through the acquisition of established companies or 'greenfield' investments.



The staged international expansion model: Proposes a sequential process whereby companies gradually increase their commitment to newly entered markets, as they build market knowledge and capabilities.

The gradualism of staged international expansion is now challenged by two phenomena:

- ***'Born-global firms'***
  New small firms that internationalise rapidly at early stages in their development International strategy is a condition of existence for such firms.
- ***Emerging-country multinationals***
  These also often move quickly through entry modes. They typically develop unique capabilities in their home market that then need to be rolled out quickly worldwide before competitors catch up.

Two fundamental principles can help guide choice of market entry mode:

- o *The breadth of competitive advantage* in the target market. 'Rely upon the company's own capabilities or draw on the capabilities of local partners?'
- o *Tradability*, the ability to rely on trading relationships, rather than the firm's own presence. This is determined by two factors (ease of transport and the quality of legal protection in the target country).

It is also important that there is the availability of suitable local partners.

8.6 Internationalisation and performance

The relationship between internationalisation and performance give some findings:

- ***An inverted U-curve***
  First there are benefits to diverse locations and diverse business unites. But still there is a lot of complexity; after a point the costs may exceed the benefits of internationalisations.
- ***Service-sector disadvantages***
  Internationalisation may not lead to improved performance for service-sector firms (other regulations, more learning costs or cultural differences).
- ***Internationalisation and product diversity***
  The interaction between internationalisation and product-service diversification. As many firms have not yet reached levels of internationalisation where negative effects outweigh possible gains.

8.7 Roles in an international portfolio

The complexity of the strategies can result in highly differentiated networks of subsidiaries with a range of distinct strategic roles:

- ***Strategic leaders*** are subsidiaries that not only hold valuable resources and capabilities but are also located in countries that are crucial for competitive success.
- ***Contributors*** are subsidiaries located in countries of lesser strategic significance, but with sufficiently valuable internal capabilities.
- ***Implementers***, though not contributing substantially to the enhancement of a firm's' competitive advantage, are important in the sense that they help generate vital financial resources
- ***Black holes*** are subsidiaries located in countries that are crucial for competitive success but with low-level resources or capabilities.

9. Innovation and entrepreneurship

This chapter focuses particularly on the choices involved in innovation and entrepreneurship. The two main themes that link innovation and entrepreneurship are timing and relationships.

9.2 Innovation dilemmas

Invention: Involves the conversion of new knowledge into a new product, process or service.

Innovation: Involves the conversion of new knowledge into a new product, process or service *and* the putting of this new product, process or service into actual use.
Example: Do you wait or do you ask the client what they want or miss.

Market pull: The view that it is the pull of users in the market that is responsible for innovation. 'Lead users' are of particular importance; build close relationships with them (such as sporting champions). They should listen in the first place to users rather than their own strategies.
Example: You ask what they want or miss.

Technology push: Innovation driven by technology, the new knowledge created by technologists or scientists. With the mobile phone; at a certain moment you had the technology of the smart phone. People did not really ask about it but it just invented.
Example: Microwave was a coincidence that it was invented but right now it is handy.

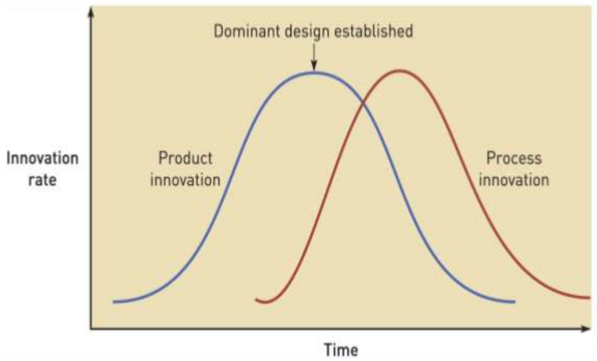
In most situations, organisations find a compromise between the two views, both industries and over time. They should find a balance between technological and market. Besides that, they should also balance product and process.

Product innovation: The final product (or service) to be sold, especially with regard to its features. 'Apple with designing attractive product features; Macbook Air.'

Process innovation: The way in which this product is produced and distributed, especially regard to improvements in cost or reliability. 'Dell with build-to-order, direct sales'.

Industries unite around a dominant design; the standard configuration of basic features. Once such dominant design is established (after product innovation), innovation switches to process innovation, as competition shifts to producing the dominant design as efficiently as possible. The model has several strategic implications:

- *New developing industries* typically favour product innovation.
- *Maturing industries* favour process innovation.
- *Small new entrants* have the greatest opportunity when dominant design are either net establishes or begging.
- *Large incumbent firms* have the advantage during periods of dominant design stability, when scale economies and process innovations matter most.



First you start with the development 'product' phase (blue line). But you also see them working at the process (red line). How can we make it faster or cheaper (to the market and logistics).
The model helps managers to focus and points out where the competitive advantage is.

Closed innovation:
The traditional approach to innovation relying on the organisation's own internal resources. Its own laboratories and marketing departments. Innovation is secretive, anxious to protect intellectual property and avoid competitors free-riding on areas.
Example: Apple

Open innovation
Involves the deliberate import and export of knowledge by an organisation in order to accelerate and enhance its innovation. Exchanging ideas openly is seen as likely to produce better products more quickly.
Example: You invite the shareholders all the time. Or 10FEET who asks students to think about new ideas within the fashion industry.

Platform leadership: How large firms consciously nurture independent companies through successive waves of innovation around their basic technological 'platform'.

The balance between open- and closed innovation depends on three key factors:

- ***Competitive rivalry:*** Closed innovation is better where rivalrous behaviours are there.
- ***One-shot innovation:*** When a major shift is coming in technology. Open innovation works best where innovation is more continuous, so encouraging more reciprocal behaviour over time.
- ***Tight-linked innovation:*** Where technologies are complex, open innovation risks introducing damagingly inconsistent elements. Apple is doing closed innovation to protect the quality of the user experience.

When focusing on involving reorganising all the elements of business into new combinations, instead of innovation, you are creating new business models.

Business model: How an organisation manages incomes and costs through the structural arrangement of its activities.
Example: Ryanair promotes via internet and cut the travel agents.

There are two basic areas for potential innovation:

- *The product*: Redefine what the product is and how it is produced (development).
- *The selling*: Changing the way in which way generating revenues (selling/distribution).

The business model emphasises the fundamental features of how business activities are organised.

9.3 Innovation diffusion

Diffusion: The process by which innovations spread amongst users. It is influenced by a combination of supply-side and demand-side factors.
Example: TV took 38 years, Apple took just 7 years to introduce the IPod.

On the supply-side, pace is determined by product features such as:
- ***Degree of improvement*** in performance above current product that provides incentive to change.
- ***Compatibility*** with other factors (complementary products and services are in place).
- ***Complexity*** in the product or marketing methods to commercialise the product.
- ***Experimentation*** either directly or through the experience of other customers (free trials).
- Relationships management; how easy it is to get information, place orders and receive support.

On the demand-side, three key factors drive the pace of diffusion:
- *Market awareness:* many successful products have failed by the lack of consumer awareness.
- *Network effects* refer to the way that demand growth as more people adopt the product; following effect (everyone has it, so do I).
- *Customer innovativeness;* innovations are often targeted at early-adopter groups in order to build the critical mass that will encourage more laggardly groups (poorer and older) to join. Think about fashion.

The S-Curve: Reflects a process of initial slow adoption of innovation, followed by a rapid acceleration in diffusion, leading to a plateau representing the limit to demand. The height shows the extent of diffusion, the shape shows the speed.

The S-curve points to four likely decision points:
- *Timing of the 'tipping' point:* These are extremely explosive when there are network effects: more people want to use them.
  The tipping point: the exact moment were suddenly everyone wants your product.
- *Timing of the plateau:* When there is a slowdown in demand growth.
- *Extent of diffusion:* The curve does not lead to 100% diffusion amongst potential users. Some fail to displace previous-generation products and services altogether.
- *Timing of the 'tripping point':* When demand suddenly collapses or gradually
  The tripping point: the exact moment were nobody wants your product anymore, it's over.

Example: Scooby Doo or Loombands. Someone made it and offered it to the market. Some people did not want it and at a certain time someone liked it, and at once everyone wanted it. Than the question is if you can deliver all these Loombands. At a certain moment it stopped; the tripping point.
Example: IPhone who makes the IPhone 6. This will be the tripping point of IPhone 5 and the tipping point of IPhone 6.

9.4 Innovators and followers

First-mover advantage: Where an organisation is better off than its competitors as a result of being first to market with a new product, process or service.
The first-mover: The first who creates a new product, a trendsetter.

First-mover advantages:
- ***Experience curve benefits:*** They will have greater expertise than late entrants)
- ***Scale benefits:*** They establish earlier than competitors the volumes necessary.
- ***Pre-emption of scarce resources:*** Late movers will not have the same access to raw materials, skilled labour or components (pay dearly for them).
- ***Reputation (M):*** Enhanced by being first, recognising of the customer.
- ***Buyer switching costs (M):*** Locking in their customers with privileged relationships that later can only break with difficulty. Caused by exploiting a technological standard.

Example: you open a bar at the nicest place in town, nobody else cannot be there anymore.

The late-mover advantages:
- ***Free-riding***: Imitating technological and other innovation at less expense.
- ***Learning:*** Observe what worked well and what not, may not make many mistakes.

A fast-second strategy: Involves being one of the first to imitate the original innovator.

There are three factors to consider in choosing between innovating and imitating:
- *Capacity for profit capture:* The profits of their innovations. Is it easy to replicate or if intellectual property rights are weak (patents), it can be easier to imitate.
- *Complementary assets:* Possession of the assets or resources necessary to scale up the production and marketing of the innovation is often critical. Organisations wishing to remain independent and to exploit their innovations themselves, there is little point in investing heavily to be first-mover in the absence of the necessary complementary assets.
- *Fast-moving areas:* Were markets or technologies are moving fast and being highly dynamic, first-movers are unlikely to establish a durable advantage.

The problem for incumbents can be twofold: First, managers can become too attached to existing assets and skills (here careers are built on). Second, relationships between incumbent organisations and their customers can become too close. Existing customers are unable to imagine completely new technologies, but they still want to have.

Sustaining innovation: Improving their existing technology.
→ *Technology 1*: You make a phone and it gets better: more memory, better battery. You keep going and people want it.

Disruptive innovation: Creates substantial growth by offering a new performance trajectory that, even if initially inferior to the performance of existing technologies, has the potential to become markedly superior (improve spectacular growth).
<u>Examples</u>: 'Earthquake, shaking the whole market'. Smart clothes, from phone to smartphone, from bricks to clicks, combining clothes with healthcare.

→ *Technology 2*: Your competitor introduces the smartphone. He comes up with technology too, a complete different one.

Kodak was very good at making cameras. They produced it too long. They started too late with the newest technology and they were just over taken by the competitors.

Incumbents can follow two policies to help keep them responsive to potentially disruptive innovations:
- ***Develop a portfolio of real options***
  This should be done to maintain organisational dynamism. Real options are limited investments that keep opportunities open for the future. There are three different kinds of options:
  - *Positioning options*: To ensure position in an important market.
  - *Scouting options*: To explore which markets are actually best.
  - *Stepping stone options*: Should provide valuable learning opportunities, mostly fails but leading to something more promising in the future. 'Water is fuel or flying cars in 2050'.
- ***Develop new venture unites***
  New ventures need protection from the usual systems and disciplines of a core business. Set up innovative businesses as relatively autonomous 'new venture units', typically with managers hired specially from outside. Dangers are twofold: First, the new units may be denied resources that the core business could easily supply. Second, innovation becomes isolated from the core business.

Technical uncertainty: can we make it.
Market uncertainty: do they want it.
Enhancement launches / platform launches: Google Car. Expected 2025.

9.5 Entrepreneurship and relationships

Entrepreneurial life cycle: Progresses through start-up, growth, maturity and exit (life cycle).

The four stages raises key questions for entrepreneurs:
- ***Start-up:*** The sources of *capital* are important. Loans (which are limited), from banks or family or credit cards can provide funding. Venture capitalists are specialised investors in new ventures, they usually insist on a seat on the venture's board and may install their preferred managers.

- ***Growth:*** Entrepreneurs have to be ready to move from doing to managing (many are poo managers: they are entrepreneur for a reason). The choice is to rely on their own skills or to bring in professional managers.
- ***Maturity:*** The challenge is to maintain enthusiasm and commitment and generating new growth. Entrepreneurships becomes intrapreneurship. Important option is to diversification into new business areas. '*Should we divorce or keep going?'.*
- ***Exit:*** Entrepreneurs and venture capitalists will seek to release capital as a reward for their input and risk-taking. A *trade sale* of the venture to another company is a common route (bought over). Some will sell it in the form of a *management buy-out*. Another will be an *initial public offering*, the sale of shares to the public. Good entrepreneurs plan their exit from start-up.

Serial entrepreneurs: People who set up a succession of enterprises, investing the capital raised on exit from earlier ventures into new growing ventures.

Often entrepreneurs have worked for large companies beforehand, and continue to use relationships afterwards. Thus entrepreneurship often involves managing relationships with other companies. Three concepts are influential here:

- ***Corporate venturing***
  Developing corporate venture units that invest externally in new ventures as safeguards against disruptive innovations and potential drivers of future growth (spreading their risk).
- ***Spin-offs (or spin-outs)***
  Involving the generation of small innovative units from larger organisations (opposite from corporate venturing). This will be the result of internal disagreements over the appropriate direction.
- ***Ecosystems***
  To promote 'ecosystems' of smaller companies. These systems are communicates of connected suppliers, agents, distributors, franchisees, technology entrepreneurs and makers of complementary products. Ecosystem members get the benefit of a large and often lucrative market.

Social entrepreneurs: Individuals and groups who create independent organisations to mobilise ideas and resources to address social problems, typically earning revenues but on a not-for-profit basis. Wants to address a social problem.

The wide ranges of initiatives raises at least three key choices for social entrepreneurs:

- ***Social mission:*** This is primary: end-objectives (reducing rural poverty) and operational processes (empowering poor people's own businesses).
- ***Organisational form:*** Many involve their employees and other stakeholders on a democratic basis while building commitment and channels for ideas.
- ***Business model:*** They have to design an efficient and effective business model. This might involve innovative changes in the value chain (closer to suppliers with farmers).

Involvement in social enterprise can help develop new technologies and services, access new pools of potential employees and create relationships with government and other agencies that can eventually turn into new markets.

10. STRATEGIC PURPOSE

10.1 Introduction

Acquisition by one company of another, complete merger between two companies, and strategic alliance between different companies are all very common methods for carrying out strategies.

There are three strategy methods:
- Organic development
- Mergers and acquisitions
- Strategic alliances

Organic development: Where a strategy is pursued by building on and developing an organisation's own capabilities.
Example: 'They hire new staff or they do it themselves. This is how most organisations grow. You have your idea and you do it yourself.' You do not depend on someone else.

The four principal advantages are that:
- ***Knowledge and learning:*** Using the existing capabilities to pursue a new strategy can enhance organisational knowledge and learning
- ***Spreading investment over time:*** Organic allows the spreading of investment over the whole time span of the strategy's development.
- ***No availability constraints:*** Organic has the advantage of not being dependent on the availability of suitable acquisition targets or potential alliance partners.
- ***Strategic independence:*** It means that the organisation does not need to make the same compromises as might be necessary if it made an alliance with a partner organisation.

Corporate entrepreneurship: Refers to radical change in the organisation's business, driven principally by the organisation's own capabilities (this encourages an entrepreneurial attitude inside the firm).

10.3 Mergers and acquisitions

Acquisitions: Involves one firm taking over the ownership ('equity') of another, hence the alternative term 'takeover'.
Example: Mostly friendly (acquirer and target firm agree the terms), sometimes hostile (offering a price without the agreement of the management but to the firm).

Merger: Combination of two previously separate organisations, typically as more or less equal partners (often used better as 'reorganisation').

Strategic motives for M&A:
- *Extension:* Extend the reach of a firm in terms of geography, products or markets.
- *Consolidation:* Bringing to competitors together increases market power, efficiency in capacity or sharing resources and production efficiency.
- *Capabilities:* To increase the company's capabilities.

Financial motives for M&A:
- *Financial efficiency:* Efficient to bring a company with a strong balance sheet and a company that has a weak balance sheet together.
- *Tax efficiency:* There may be tax advantages; one in a high area and one in a low-area: move.
- *Asset stripping or unbundling:* Some are effective at spotting other companies which underlying assets are more worth than the price of the company as a whole (unbundle=different business units selling to others).

Managerial motives for M&A:
- *Personal ambition:* Personal financial incentives may be achieved more easily by large acquisitions. Large acquisitions attract media attention, Acquisitions provide opportunities to be loyalty to your colleagues, helping cement their careers.

- *Bandwagon effects:* There are three kinds of pressures on senior managers to join the acquisition bandwagon; criticism, scared shareholders, employees are worries it will become the target of a hostile bid.

First find an acquisition with the best fit. Second there is the process of negotiating the right price.

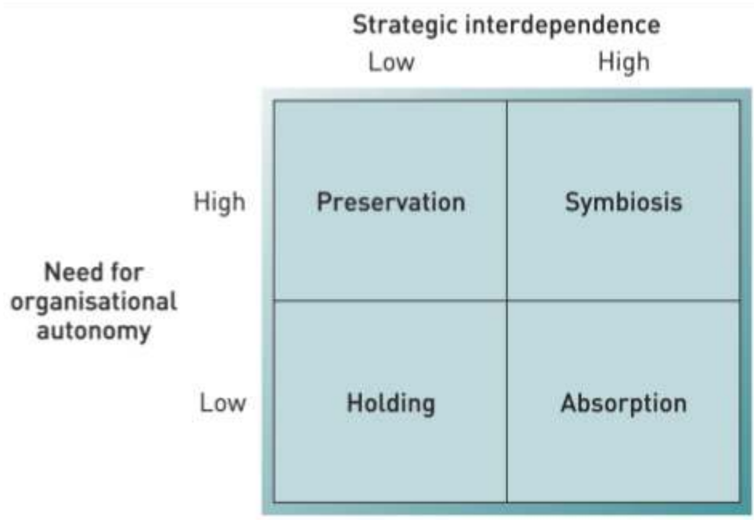
Target choice in M&A:
- *Strategic fit:* Refers to the extent to which the target firm strengthens or complements the acquiring firm's strategy.
- *Organisational fit:* Refers to the match between the management practices, cultural practices and staff characteristics between the target and the acquiring firms.

<u>Valuation methods</u> include financial analysis techniques such as payback period, discounted cash flow and shareholder value analysis. Acquirers typically do not simply pay the current market value of the target, but the so-called; premium for control (additional amount that the acquirer has to pay to win total control). This is at least 30% more for the shares than normal.

Acquisitions are liable to the *winner's curse*, in order to win acceptance of the bid, the acquirer may pay so much that the original cost can never be earned back. When paying too much; *vicious circle of overvaluation*: over-paying firms can easily undermine other cost which made up the strategic value of the company which is dumb.

To get value: integrate the new business with the old. The most suitable approach to integration depends on two key criteria:
- The extent of strategic interdependence: With high interdependence, the presumption is in favour of tight integration.
- The need for organisational autonomy: The nature of the organisations involved might modify the logic of strategic interdependence, when this is not the case and the acquired firm is very distinct, it might be better left loosely or gradually integrated.

Therefore, the acquisition integration matrix was created.



Absorption: Implies rapid adjustment of the axquired company's old strategies to the needs of the new owner.
Preservation: As in a conglomerate.
Symbiosis: Perhaps in professional services dependent on the creativity of its staffs; they learn the best from the other.
Holding: Very little to gain by integration. The acquisition will be 'held' temporarily before being sold to another.
Organisational justice: Refers to the perceived fairness of managerial actions, in terms of distribution, procedure and information.
- *Distributive justice* refers to the distribution of rewards and posts.
- *Procedural justice* refers to the procedures by which decisions are made.
- *Informational justice* is about how information is used and communicated in the integration.

Organisations often make many acquisitions as their strategy develops: in this sense, they become serial acquirers. Second, some acquired unites lose their fit with the organisation and become candidates for divesture.
- ***Serial acquirers:*** Companies that make multiple acquisitions, often in parallel. They often develop specialist teams for managing the acquisition process, from target selection through negotiation of a price and then integration.
- ***Divesture:*** Also divestment, is the process of selling a business that no longer fits the corporate strategy.

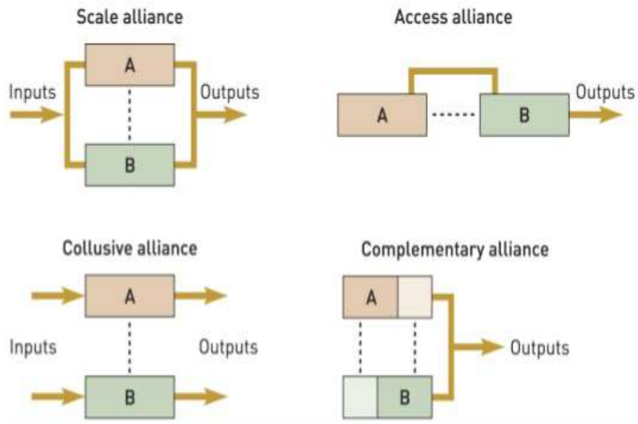
10.4 Strategic alliances

Strategic alliance: Where two or more organisations share resources and activities to pursue a strategy. _Example:_ You decide to work together. It is just like a marriage.

Collective strategy: How the whole network of alliances of which an organisation is a member, competes against rival networks of alliances.
Collaborative advantage: Managing alliances better than competitors.

There are two main kinds of strategic alliance:
- ***Equity alliances***
  New entity that is owned separately by the partners involved. The most common form is the _joint venture_: two organisations remain independent but set up a new organisation jointly owned by the parents. A _consortium alliance_; involves several partners.
- ***Non-equity alliances***
  Looser and often based on contracts. Most common is _franchising_: one organisation (the franchisor) gives another organisation (the franchisee) the right to sell the franchisor's products or services in a particular location in return for a fee or royalty. _Licensing_ is a contractual alliance, allowing partners to use property such as patents or brands in return for a fee. _Long-term subcontracting_, common in automobile supply.

Four reasons for alliances (besides sharing) can be identified:



- **Scale alliance:** Combine in order to achieve necessary scale, together they can achieve advantages that they could not do on their own (in inputs and outputs).
  Example: We buy something together (coffee / paper).
- **Access alliance**: Access the capabilities of another organisation that are required in order to produce or sell its products and services (use each other).
  Example: They might work together. You get access to designing or to make it nicer. Or markets.
- **Complementary alliances:** A form of access alliance, but involve organisations at similar points in the value network combining their resources so they bolster each other.
  Example: One organisation is good in 'this', the other is good at 'that'.
- **Collusive alliance:** Organisations secretly collude together in order to increase their market power. By combining into cartels, they reduce competition in the marketplace, enable to extract higher prices from their customers or lower prices from suppliers.
  Example: It is illegal and handy (you can discuss something with one person). Two companies are selling the cigarettes for the same price.

The fact that neither partner is in control, while alliances must typically be managed over time, highlights the importance of two themes in the various stages of the alliance process:
- ***Co-evolution:*** Underlines the way in which partners, strategies, capabilities and environments are constantly changing. They need realignment so that they can evolve in harmony.
- ***Trust:*** Trust is highly important to the success over tome. There is vulnerability to the selfish behaviour of the other. Trust has to be earned.

The amount of committed resources changes at each stage, but issues of trust and co-evolution recur throughout:
- ***Courtship:*** First each partner has to see the strategic fit. The main resource commitment is managerial time. 'You get in love, do we have the same idea'.
- ***Negotiation:*** They need to negotiate their mutual roles at the outset. Moreover, co-evolution implies the need to anticipate change. 'If you like it you will discuss'.
- ***Start-up:*** With considerable investment of material and human resources normally involved. This early period in an alliance's evolution is the one with the highest rate of failure. 'See if it works'.

- ***Maintenance:*** The ongoing operation of the strategic alliance with increasing resources likely to be committed. They can learn each other's competences; one will learn faster and becoming the more powerful. Trustworthy behaviour that does not threaten the other partner's competence is essential to maintaining the relationship. 'Where you really work together.'
- ***Termination:*** This is a matter of completion rather than failure. You can choose to:
  - *Extent:* Might just go on because everything is fine.
  - *Amicable separation*: Separately from each other.
  - *Sale/Divorce:* You might get a nice (buy-out) or not nice divorce (you might end up in court).

10.5 Comparing acquisitions, alliances and organic development

Acquisitions and strategic alliances have high failures. Acquisitions fail about half the tie. Alliances also suffer from miscalculations.

The best approach will differ. The matrix summarises four key factors that can help in choosing:

Urgency: Shor-cut method for pursuing strategy.
Uncertainty: For alliances best.
Type of capabilities: Acquisitions need 'hard' capabilities (easier to put value on the bidding process.
Modularity of capabilities: If they are distributed in clearly distinct sections or divisions of the proposed partners, then an alliance tends to make sense.

	Buy	Ally	DIY
High urgency	Fast	Fast	Slow
High uncertainty	Failures potentially saleable	Share losses and retain buy option	Failures likely unsaleable
Soft capabilities important	Culture and valuation problems	Culture and control problems	Cultural consistency
Highly modular capabilities	Problem of buying whole company	Ally just with relevant partner unit	Develop in new venture unit

11. EVALUATING STRATEGIES

The SAFE criteria: Suitability, Acceptability, Feasibility.

11.2 Suitability

Suitability: Concerned with assessing which proposed strategies address the key opportunities and constraints an organisation faces through an understanding of the strategic position of an organisation.
Example: Is the idea going to work? Is it really going to help?

Suitability is concerned with the rationale of a strategy. When setting up a new strategy, it need to assess:
- The opportunities in the *environment* and avoids the threats;
- The organisation's strength and strategic *capabilities* and avoids/remedies the weaknesses.

A major skill of a strategist is to be able to discern these key strategic issues and be sorted out from the less important issues.

When ***ranking***, possible strategies are assessed against key factors relating to the strategic position of the organisation and a score (or raking) established for each option. An advantage is that it forces a debate about the implications and impacts of specific key factors. A similar approach is the game theory (the response of the competitors).

When ***screening through scenarios***, strategic options are considered against a range of future scenarios. This is useful where a high degree of uncertainty exists. Suitable options are that make sense in terms of the various scenarios (example: suitable in the environment).

When ***screening for bases of competitive advantage***, it seeking for to provide a basis of competitive advantage. This can be done requiring to the following steps:
- Identification of the key strategic capabilities
- Screening of these capabilities in terms of their suitability to deliver (1. cost leadership or 2. differentiation benefits for the customer).

- Screening each of the strategic capabilities according to <u>*VRIN*</u> (value, rarity, inimitability, non-substitutability)

Important is to have linkages between the activities that make up the capability.

When using ***decision trees***, a list of key factors are used. Options are 'eliminated' and preferred options emerge by progressively introducing requirements which must be met (growth: yes/no, investment: high/low, diversification: yes/no). At the end, a number of discrete development opportunities are given.

When using ***life cycle analysis,*** it shows if a strategy is likely to be appropriate given the stage of the industry life cycle. The position in the life cycle can be determined in relation to different factors (growth, breadth of product, competitors). The competitive position:

- *Dominant:* A quasi-monopoly position.
- *Strong:* Where they can follow strategies of their own choice.
- *Favourable:* Where no single competitor stands out.
- *Tenable:* Can be maintained by specialisation or focus
- *Weak:* Too small to survive on the long run alone.

Competitive position	Stages of industry maturity			
	Embryonic/ Developing	Growth	Mature	Ageing/Decline
Dominant	Fast grow Start up	Fast grow Attain cost leadership Renew Defend position	Defend position Attain cost leadership Renew Fast grow	Defend position Focus Renew Grow with industry
Strong	Start up Differentiate Fast grow	Fast grow Catch up Attain cost leadership Differentiate	Attain cost leadership Renew, focus Differentiate Grow with industry	Find niche Hold niche Hang in Grow with industry Harvest
Favourable	Start up Differentiate Focus Fast grow	Differentiate, focus Catch up Grow with industry	Harvest, hang in Find niche, hold niche Renew, turnaround Differentiate, focus Grow with industry	Retrench Turnaround
Tenable	Start up Grow with industry Focus	Harvest, catch up Hold niche, hang in Find niche Turnaround Focus Grow with industry	Harvest Turnaround Find niche Retrench	Divest Retrench
Weak	Find niche Catch up Grow with industry	Turnaround Retrench	Withdraw Divest	Withdraw

11.3 Acceptability

Acceptability: Whether the expected performance outcomes of a proposed strategy meet the expectations of stakeholders. These can be of <u>*three 'R's'*</u>: risk, return and stakeholder reaction.
<u>*Example:*</u> Will my idea be accepted by all the stakeholders?

Risk: Concerns the extent to which the outcomes of a strategy can be predicted.

The following tools can be helpful in a risk assessment:

- ***Sensitivity analysis***
  A 'what-if' analysis. It allows each of the important assumptions underlying a particular strategy to be questioned and challenged: how sensitive the predicted performance or outcome is to each of these assumptions.
- ***Financial ratios***
  How key financial ratios might change if a strategy were adopted. It assesses how the capital structure of the company would change. The liquidity is important in assessing risk.
- ***Break-even analysis***
  Demonstrates at what point in terms of revenue the business will recover its fixed and variable costs.

Return: The financial benefits which stakeholders are expected to receive from a strategy.

1. Financial analysis
There are three considerations when carrying out a financial analysis:

- *The problem of uncertainty:* The thoroughness of the approaches.
- *The problem of specificity:* Focus on direct tangible costs instead of the strategy broadly.
- *Assumptions:* The financial analysis is only as good as the assumptions build into it.

Three commonly used bases of financial analysis are:

- Forecasting *the return on capital employed* (ROCE) for a specific time period after a new strategy is in place. It measures of the earning power of the resources used while implementing. The weakness is that it does not focus on cash flow.
- Estimating the *payback period*, the length of time it takes before the cash flows for a strategic option becomes positive (high risk).
- Calculating *discounted cash flows* (DCF). Using common cash-flow forecasting techniques with the purpose of identifying which proposed projects are likely to achieve the best cumulative cash flow. The resulting measure is the *NPV* (net present value).

2. Shareholder value analysis

This poses the question: which proposed strategies would increase or decrease shareholder value? For the shareholder is the cash-generating capability important, the (a) ability to pay dividends in the short term and (b) for a business to reinvest for the future which should enable a future flow of dividend payments.

There are several measures of shareholder value, the most two common:

- The external measure is the *total shareholder return* (TSR). The price of share + the dividends received per share : the share price at the start of the financial year.
- The internal measure is the *economic profit or economic value added* (EVA). If the operating profit is greater than the costs of the capital required to produce that profit then EVA is positive (in a new venture EVA is negative).

It is important to consider effects of the key value drivers. Obviously; minimising costs and maximising sales growth will improve cash flow. Other are less obvious:

- *Capital expenditure* (How does capital expenditure enhance product features leading to increased sales and/or better prices; or reduce costs or decrease working capital.
- *Costs of capital* (The cash flows should exceed the cost of capital).
- *The management of working capital* (the effect on levels of working capital; stock/debtors).
- *Maintaining and extending competitive advantage over time.*

3. Cost-benefit

Suggest that a money value can be put on all the costs and benefits of a strategy, including tangible and intangible returns to people and organisations other than the 'sponsoring' the project or strategy.

4. Real options

There are situations where precise costs and benefits of strategies only become clear as implementations proceeds. A strategy should be seen as a series of 'real' options; choices of direction at points in time as the strategy takes shape. It increases the expected value of a project because it adds the expected value of possible future options. Four benefits are:

- Bringing strategic and financial evaluation closer together;
- Valuing emerging options;
- Coping with uncertainty;
- Offsetting conservatism (tends to value higher more ambitious strategies).

Reaction of shareholders: The conscious of the impact on the various stakeholders.

There are many situations where stakeholder reactions could be crucial:

- *Owners'* (shareholders, family owners) financial expectations have to be taken into account and the extent these are will influence the acceptability of a strategy.
- *Bankers* and other providers of interest-bearing loans are concerned about the risk attached to their loan and managing of these risks.
- *Regulators* are important stakeholders (in telecommunications, pharmaceuticals) and may have power over aspects of an organisation's strategy such as price.
- *Employees and unions* may resist strategic moves if they see job losses (relocation/divestment).
- The *local community* will be concerned about jobs but also with the social costs.
- *Customers* can perhaps switch to a competitor.

11.4 Feasibility

Feasibility: Concerned with whether a strategy could work in practice.
Example: Do we have the resources and competences at this moment? + If not, can they be obtained?

The focus lies on three areas: finance, people (and skills) and the importance of resource integration.

Financial feasibility is the need to identify the cash required for a strategy, the cash generated by following the strategy and the timing of any new funding requirements. A useful way of considering funding can be done through the different 'phases' of the development and life cycle of a business.

Life cycle phase	Funding requirement	Cost of capital	Business risk	Likely funding source(s)	Dividends
Development/ launch	High	High	High	Equity (venture capital)	Zero
Growth	High	Low/medium	High	Debentures and equity (growth investors)	Nominal
Maturity	Low/medium	Medium	Medium	Debt, equity and retained earnings	High
Decline	Low/negative	Medium/high	Low	Debt	High

The success of a strategy will likely depend on how its delivered by ***the people (and skills)*** in that organisation. Do they have the competences? Are the systems to support people fit the strategy? If not, can competences be obtained or developed?

Critical questions that need to be considered are:
- *Work organisation:* Will changes in work content change the orientation of people's job?
- *Rewards:* How will people need to be stimulated?
- *Relationships:* Will interactions between key people need to change?
- *Training and development:* Are the current systems appropriate?
- *People:* Will different people be required than the current ones?

The success of a strategy depends on the management of many resources areas, also physical resources (buildings, information). It can build on existing resources but it is more likely that additional resources will be required. Therefore the feasibility needs to be considered in the ability to obtain and ***integrate such resources.***

12. Strategy development processes

The question is 'How do strategies actually develop itself?'.

12.1 Intended strategy development

Intended strategy: Deliberately formulate or planned by managers (strategic leadership, strategic planning, externally imposed strategies).

Strategic leadership is the role of vision and commend. Strategic leaders are individuals whose personality, position or reputation gives them dominance over the strategy development process. Mostly owner, founder, chief executive.

Strategy may be the de deliberate intention of that leader. This reveals in different ways:
- *Strategic leadership as command*: Dedicated by an individual.

- *Strategic leadership as vision:* Associated with an overall vision, mission or strategic intent that motivates others, helps create the shared beliefs and shapes more detailed strategies developed by others. 'The role of the strategic leader'.
- *Strategic leadership as decision-making*: Ability to weigh such different views, interpret data, have the confidence to take timely decisions and the authority to convince others.
- Strategic leadership as symbolic: Embody the strategy of the organisation (does not have to directly manage the organisation).

Strategic planning: The form of systemised, step-by-step, procedures to develop an organisation's strategy.

The following stages in the cycle for a large corporation can be followed from Rob Grant:
- *Initial guidelines* (start with guidelines about the external environment; price levels).
- *Business-level planning* (business units / divisions draw up strategic plans).
- *Corporate-level planning* (a corporate planning department that has a coordination role).
- *Financial and strategic target*s (provide a basis for performance monitoring and priorities).

A strategic planning system may play several roles within an organisation:
- *Formulating s*trategy by providing means why which managers can understand strategic issues (by establishing objectives).
- *Learning;* the need for questioning and challenging received wisdom.
- *Co-ordinating*
- *Communicating* and providing agreed objectives or strategic milestones.

By involving people in strategy development it can help to crate ownership of the strategy. It can also provide a sense of security and logic.

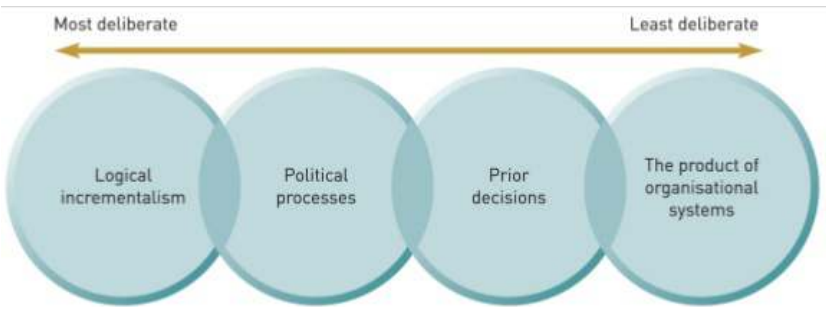
There are, according to Henry Mintzberg, there are five main dangers in the way in which formal systems of strategic planning have been employed:
- *Confusing strategy with the strategic plan* (which is not the same);
- *Detachment from reality* (let specialist do the job, but they rarely have power to change).
- *Paralysis by analysis* (over-detailed in its approach)
- *Lack of ownership* (understand some and not understand the whole).
- *Dampening of innovation* (Contribute to an inflexible, hierarchical organisation).

The third way in which intended strategies manifest themselves is where managers face what they see as the imposition of strategy by powerful external stakeholders. They let themselves **impose an external strategy**.
Example: Venture capitalist may impose strategies on the business they acquire.

12.3 Emergent strategy development

Emergent strategy: Strategies emerge on the basis of a series of decisions, a pattern in which becomes clear over time. Not a 'grand plan', but a developing pattern. It will be the emerging strategy that informed the plan.

There are different explanations of emergent strategy: logical incrementalism, strategy as the outcome of political processes, as adaption from prior decision and finally as the outcome of organisational systems and routines.



Logical incrementalism: The development of strategy by experimentation and learning.
= From partial commitments rather than through formulations of total strategies.

There are four main characteristics of strategy development in this way:
- Environmental uncertainty (be sensitive to environmental signals by encouraging constant environmental scanning.
- General goals (not to specify precise objectives too early but being general).
- Experimentation (building on the experience gained to inform decisions).
- Coordinating emergent strategies (utilise a mix of formal/informal processes to draw together an emerging pattern of strategies).

Subgroups: The groups of people involved in i.e.; product development, positioning etc.

Logical incrementalism can be a conscious, purposeful, proactive, executive practice, to improve information available for decisions. It is based on learning.
Learning organisation: Organisation that is capable of continual regeneration from the variety of knowledge, experience and skills within a culture that encourages questioning and challenge.

Political view of strategy: Strategies develop as the outcome of bargaining and negotiation among powerful interests groups (or stakeholders).

Objectives may reflect the ambitions of powerful people. Powerful people may also strongly influence which issues get prioritised. People are likely to be differently influenced by at least:
- *Personal experience.*
- *Competition for resources and influence* between different subsystems in the organisation.
- *The relative influence of stakeholders* on different parts in the organisation.
- *Different access to information* given their roles.

Organisational politics are often seen as constraining strategy development. The conflict and tensions that manifest themselves in political activity (because of different expectations or interest), can be the source of new ideas or challenges to old ways of doing things.

Strategies may emerge as the **product of prior decisions** which inform or constrain strategy development; develop on the basis of a series of strategic moves which makes sense in terms of previous moves. This can occur because of path dependency or of organisational culture.

Path dependency is where early events and decisions establish 'policy paths' that have lasting effects on subsequent events and decisions.

Organisation culture makes strategy development as the outcome of the taken-for-granted assumptions routines and behaviours in organisations.

Strategy development as the product of structure, systems and routines. Strategy development can be seen as the outcome of managers at much lower levels making sense of and dealing with problems and opportunities by applying established way of doing things. They can be influenced by the systems and routines which they are familiar with.

Two useful explanations have developed as to how this occurs: the resource allocation process (RAP) and the attention-based view (ABV). Both emphasise that established ways of allocating resources in organisations will tend to play a significant part.

There are two main insights that strategy development offers:
- Organisational systems as a basis for making sense of issues
- Organisational systems provide bases of solutions to strategic issues

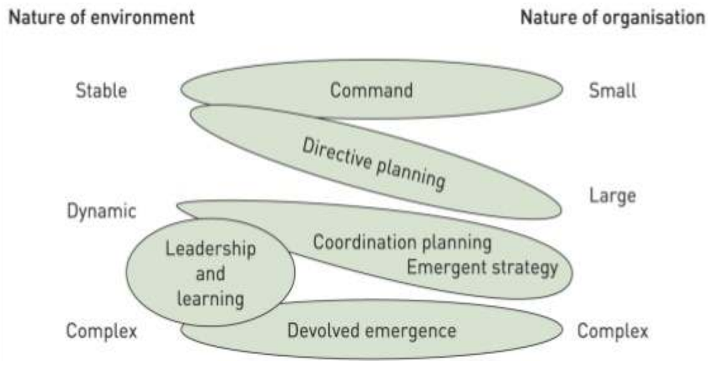
12.4 Implications and challenges for managing strategy development

There is no right way in which strategies are developed. The challenge is to recognise the potential benefits of different processes of strategy development*.* ***Multiple strategy processes*** may need to exist because the strategic needs or organisations require it.

Some organisations need both exploitation and exploration; also known as organisational ambidexterity. How this might be possible is:

- *Structural ambidexterity:* Maintain the core for exploitation but create separate units or temporary teams for exploration.
- *Diversity rather than conformity:* Conflicting behaviours may be beneficial, so there may be benefits from diversity of views, organisational learning, and the consequence of political activity.
- *The role of leadership:* Leaders need to encourage and value different views and potentially contradictory behaviours rather than demanding uniformity (but stop when not worthy).
- *Tight and loose systems:* A balance between systems that can exploit existing capabilities and looser systems that encourage new ideas and experimentation.

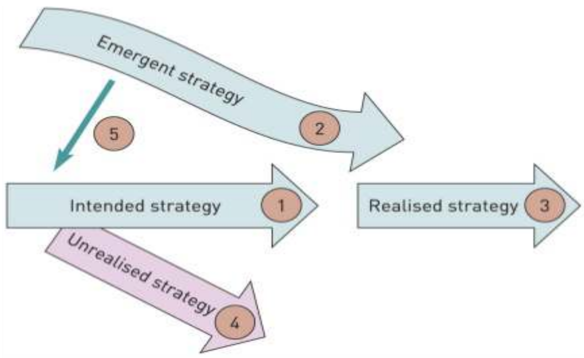
It is also likely that processes of strategy development will be seen differently by different people. Processes of strategy development are likely to differ according to context.



Organisations differ in ***their characteristics*** (small, large, complex) and exist in ***different environments*** (stable environments, dynamic and uncertain environments, complex environments). These two are likely to affect the strategy development processes. For example:

- *The command mode*: A strategic leader draws up its strategy and manages the implementation of that strategy.
- *Directive planning:* Top management determines and drives strategy.
- *Co-ordination planning*: Planning is important because of the complex organisation.
- *Emergent strategy*: In complex organisations where the environment is also complex.
- *Leadership and learning*: Stimulus from the top will be needed to galvanise change or to empower and legitimise new ideas from the bottom. Leadership may be important.

The third contextual influence on strategy development processes is ***how organisations develop over time*** (*life cycle stages* includes their own strategy development) (*strategic inflection points* are shifts in fundamental industry dynamics which management needs to recognise and act upon).



Intended strategy are deliberately formulated or planned by senior executives.
Emergent strategy is that which emerges on the basis of a series of decisions, a pattern which becomes clear over time.
Realised strategy is what the organisation is actually doing in practice.
Unrealised strategy is the aspects of the intended strategy that do not come about in practice.

There are at least four important implications here for strategists:

- *Awareness**:*** Is it actually realised?
- *The role of strategic planning*: This is not a substitute for other processes of strategy development (others have to be managed too). There needs to be realistic expectations of the role of strategic planning.
- *Managing emergent strategy:* The processes may be rooted in organisational routines and culture, but are not unmanageable.
- *The challenge of strategic drift:* The tendency for strategies to develop incrementally on the basis of historical and cultural influences, but fail to keep pace with the changing environment.

13. ORGANISING FOR SUCCESS

13.1 Introduction

Strategies require organisation and this involves both structures and systems. Structure and systems not only *flow* from strategy but also feed *into* it.

Structure: Give people formally defined roles, responsibilities and lines of reporting with regard to strategy.

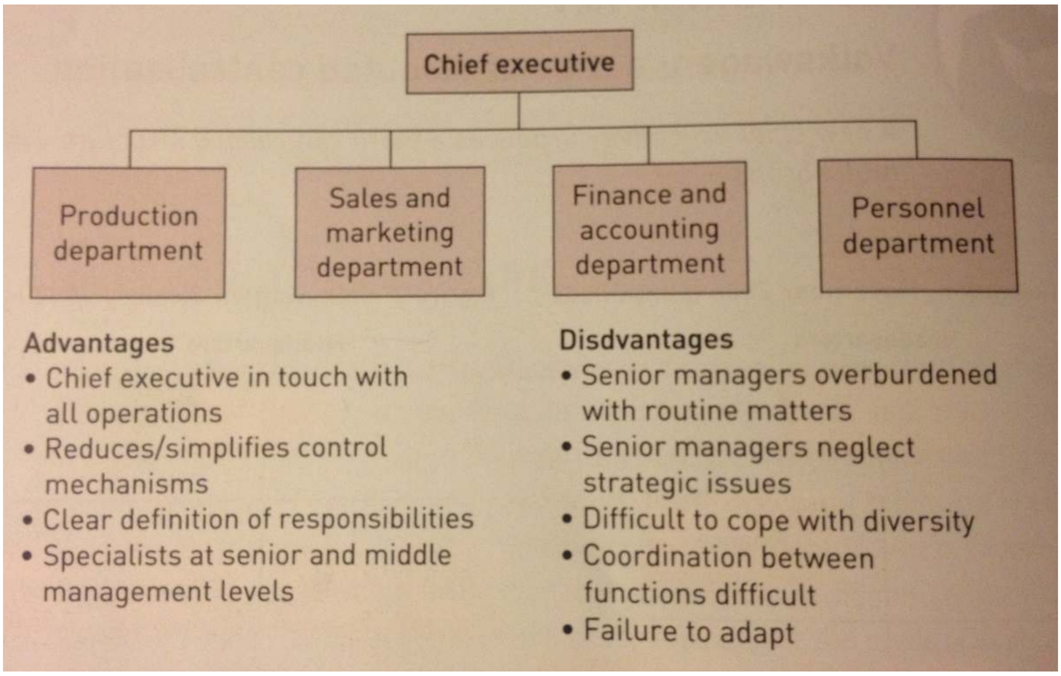
Systems: Support and control people as they carry out structurally defined roles and responsibilities.

13.2 Structural types

Formal structures explain who is responsible for what. They matter because structural reporting lines shape patterns of communication and knowledge exchange (so that they will talk to higher or lower people). Second, the kinds of structural positions at the top suggest the kinds of skills required to move up the organisation.

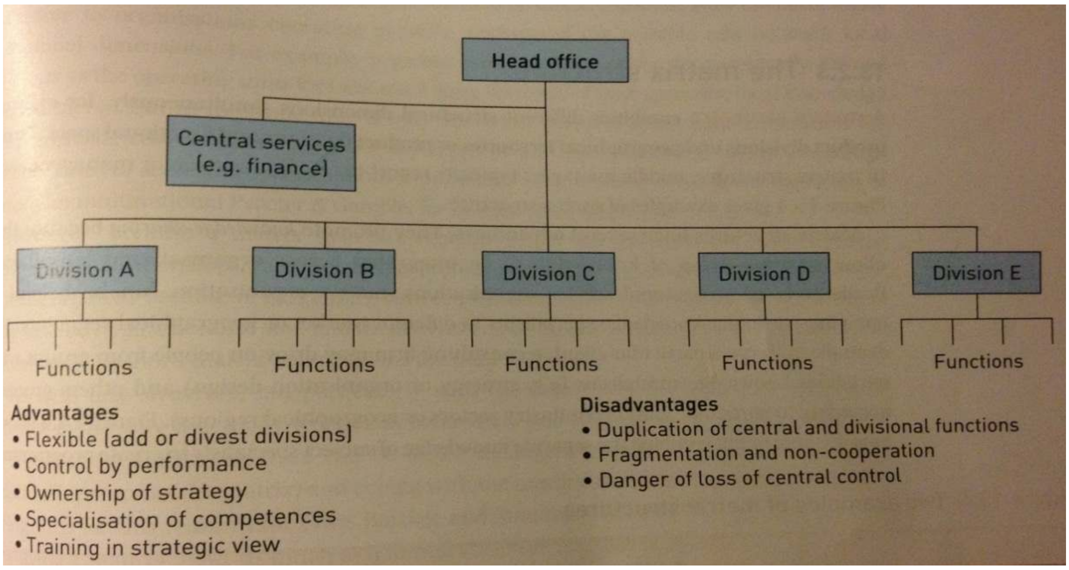
Structures can reveal a great deal about the role of knowledge and skills in an organisation.

The functional structure: Divides responsibilities according to the organisation's primary specialist roles such as production, research and sales.



This is mostly relevant to small or start-up organisations, or larger organisations that have retained narrow, rather than diverse, product ranges. The functional structure provides a clear definition of roles and tasks, increasing accountability.

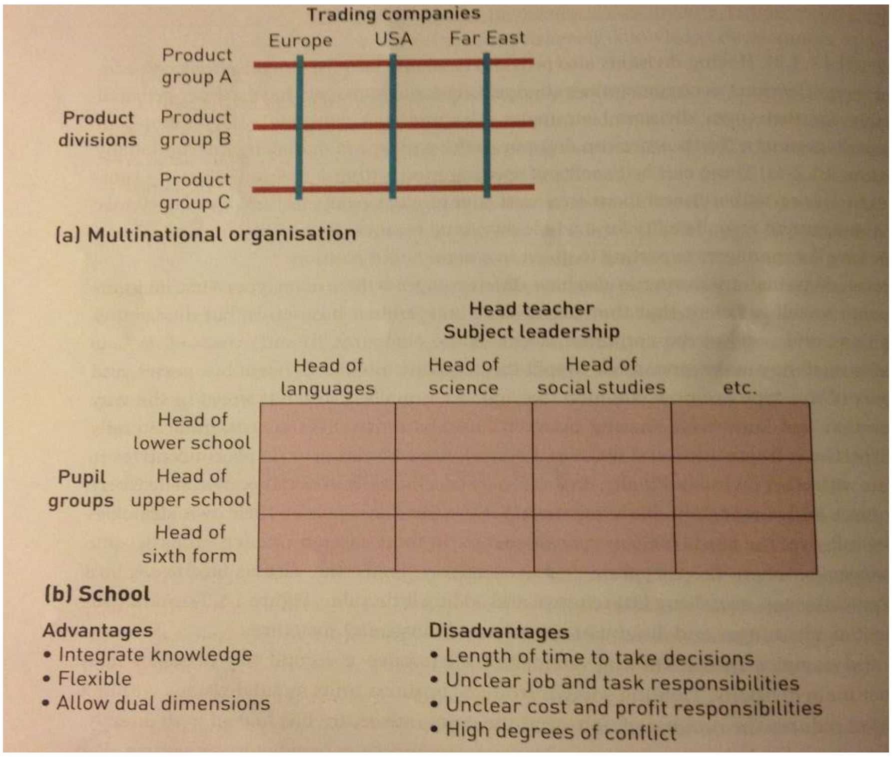
Multidivisional structure: Built up of separate divisions on the basis of products, services or geographical areas.



The divisionalisation comes to overcome the problems that the functional structure have troubles with. Each division can respond to the specific requirements of its product/market strategy. You can also think about service departments (social service / education).

Large and complex multidivisional companies often have a second tier of subdivisions within their main divisions. Subdivisions can help complex organisations respond to contradictory pressures or reduces the number of units that the corporate centre has to deal with directly.

Matrix structure: Combines different structural dimensions simultaneously, for example product divisions and geographical territories or product divisions and functional specialisms.

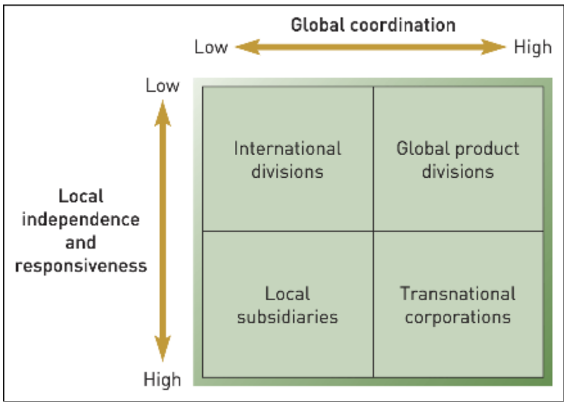


Particularly in professional service organisations, matrix organisation can be helpful in applying particular knowledge specialisms to different market or geographical segments; promote *knowledge-sharing.*

Matrix organisations are *flexible*, because they allow different dimensions of the organisation to be mixed together. However it will *take longer* because of bargaining between the managers of different dimensions. There can also be *conflicts* because staff finds itself responsible to managers from two structural dimensions.

Operating internationally can add an extra dimension to the structural challenge;
Multinational/transnational structures.

Three are simple extensions, the fourth, the transnational structure, is more complex. The first three:



- ***International divisions:*** A stand-alone division added alongside the structure of the main home-based business; adopted by corporations with large domestic markets. 'Managing relative size'.
- ***Local subsidiaries:*** Where most of the functions required to operate on their own in their particular local market (example: design, production). A form of geographic divisional structure. 'Maximising local responsiveness'.
- ***Global product divisions:*** Where economies of scale are very important. Organisint the design, production and marketing on the basis of global divisions rather than local subsidiaries; cost efficiency. 'Achieving economies of scale'.

The fourth, tries to integrates the advantages of the local with those of the global.
Transnational structure: Combines local responsiveness with high global coordination. They distinguish themselves by their focus on knowledge-sharing, specialisation and network management.

It requires different roles that the various managers need to perform:
- *Global business managers*: Have to further the company's global competitiveness.
- *Country or area managers:* Have responsibility to other parts of the transnational.
- *Functional managers*: Setting standards and ensuring worldwide innovation and learning.
- *Corporate (head office) managers*: Integrate these other roles and responsibilities.

Project-based structures: Where teams are created, undertake the work (e.g. internal or external contracts) and are then dissolved.
<u>*Example:*</u> Task forces to make progress on new elements of strategy or to provide momentum where the regular structure of the organisation is not effective.

This is very flexible, with projects being set up and dissolved as required.

There are four general challenges that have become particularly important for many contemporary organisations in recent years:
- The need for *control* in a world where organisations are increasingly large, complex and under scrutiny.
- The *speed of change* and the increased levels of uncertainty in the business environment.
- The growing importance of *knowledge creation and knowledge-sharing* as a fundamental ingredient of strategic success.
- The rise of *internationalisation*.

Summarised the five basic structures:

Challenge	Functional	Multidivisional	Matrix	Transnational	Project
Control	***	**	*	**	**
Change	*	**	***	***	***
Knowledge	**	*	***	***	**
Internationalisation	*	**	***	***	**

* Stars indicate typical capacities to cope with each challenge, with three stars indicating high, two indicating medium and one indicating poor.

In reality, few organisations adopt a structure that is just like one of the pure structural types. Mostly they bled into hybrid structures. Gold and Campbell provide <u>*nine design tests*</u> against which to check specific tailor-made structural solutions. The first fit with the key objectives and constraints of the organisation:

- *The Market-Advantage test (*fit with the market strategy).
- *The Parenting Advantage test* (should fit the parenting role of the corporate centre).
- *The People Test* (should fit the people available).
- *The Feasibility Test* (should fit legal, stakeholder, trade union or similar constraints).

The other five are based on good general organisational design principles:

- *The Specialised Cultures Test* (bringing together specialists for developing)
- *The Difficult Links Test* (structure will set up links between parts of the organisation).
- *The Redundant Hierarchy Test* (to not have to many layers causing blockages).
- *The Accountability Test* (importance of clear lines of accountability).
- *The Flexibility Test* (if the design is sufficiently flexible to possible changes in future).

This nine tests provide a rigorous screen for effective structures.

13.3 Systems

Systems give control over the organisation. Structures are the bones, systems are the muscles.

Systems as mean of control can be subdivided in two ways. First, they tend to emphasise either control over inputs (*resources*; financial resources and human commitment) or control over outputs (results; targets or competitiveness). Second, is between direct controls (*close supervision or monitoring*) and indirect controls (hands-off; conditions).

Direct supervision: The direct control of strategic decisions by one or a few individuals, typically focused on the effort put into the business by employees.

Direct supervision requires that the controllers thoroughly understand what is entailed by the jobs they supervise. It can be effective during a crisis; when autocratic control through direct supervision may be necessary to achieve quick results.

Cultural systems: Aim to standardise norms of behaviour within an organisation in line with particular objectives.

This exercises an indirect form of control, not requiring direct supervision; it is a matter of willingness or self-control by employees. Three key culture systems are:

- *Recruitment*: Find people who fit.
- *Socialisation*: Behaviour shaped by social processes at work; training, induction, mentoring.
- *Reward:* Encourage through pay, promotion or symbolic processes.

Sometimes the culture may even drive its strategy.

Performance targets: Focus on the outputs of an organisation (or part of an organisation) such as product quality, revenues or profits (*KPI's* = Key Performance Indicators).

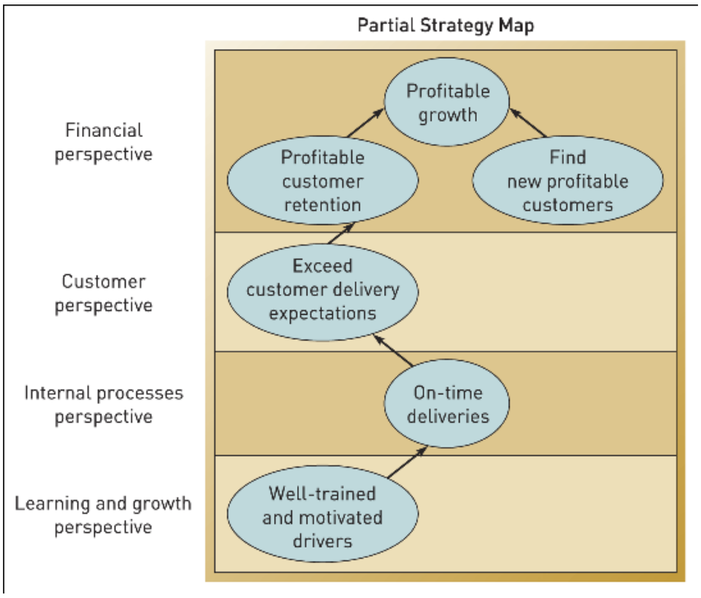
Sometimes, the organisation remains free on how targets should be achieved, in situations:

- Within *large businesses* (where corporate centres choose performance targets to control BU's but do not get into details.
- In *regulated markets* (where government appointed regulators exercise control thorugh agreed performance indicators; quality levels).
- In *public services* (where control processes towards outputs and towards outcomes are important).

There are at least three potential problems with targets:

- Inappropriate measures of performance;
- Inappropriate target levels;
- Excessive internal competition.

Balance scorecards: Set performance targets according to a range of perspectives, not only financial. It combines; financial perspective, customer perspective, internal perspective, innovation and learning perspective.



Strategy maps: Link different performance targets into a mutually supportive causal chain supporting strategic objectives.

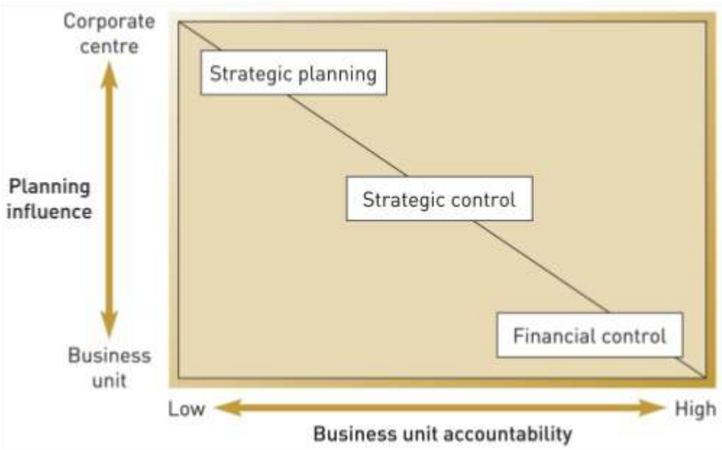
Market systems: Involve some formalised system of 'contracting' for resources or inputs from other parts of an organisation and for supplying outputs to other parts of an organisation.

Internal markets can be used in variety of ways. There might be competitive bidding by an internal investment bank to support new initiatives, Or, a customer-supplier relationship may be established. They can create problems too: they can increase bargaining between units or may create a new bureaucracy monitoring all the internal transfers between units. It can also lead to dysfunctional competition and legalistic contracting.

Planning systems: Plan and control the allocation of resources and monitor their utilization.

The focus is on the direct control of inputs. Goold and Campbell's typology of three strategy styles helps to determine the advantages and disadvantages of planning systems.

- *The strategic planning style*: If the centre sets the strategic direction, business unit managers should not be held strictly accountable .
- *The financial control*: Business units each set their own strategic plans and are strictly accountable for the results (suitable where investments are small, relatively frequent and well understood).
- *The strategic control*: More consensual development of the strategic plan between the two parties (suitable where there are opportunities for collaborating across businesses and no need to nurture new ones).



13.4 Configurations

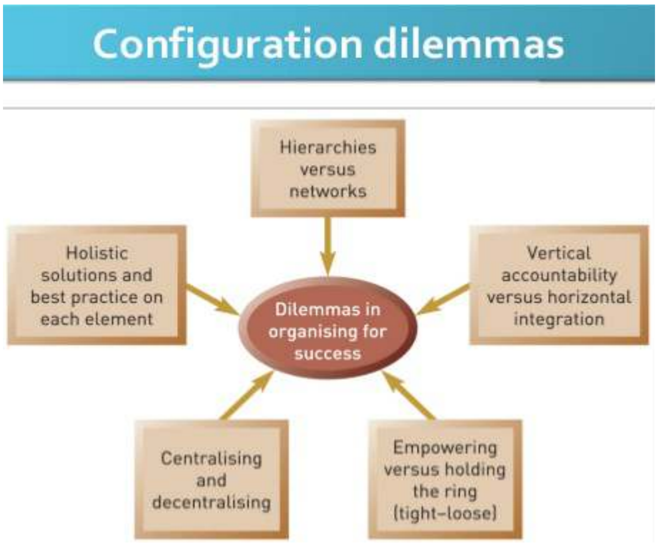
Configurations: The set of organisational design elements that interlink together in order to support the intended strategy.

McKinsey 7-S framework: Highlights the importance of fit between strategy, structure, systems, staff, style, skills and superordinate goals.

1. ***Style:*** The leadership style of top managers in an organisation (collaborative, directive, participative, coercive).
2. ***Staff:*** About the kinds of people in the organisation and how they are developed (systems of recruitment, socialisation and reward).
3. ***Skills:*** The capabilities in general (staff skills and skills captured by the organisation as a whole).
4. ***Superordinate goals***: The overarching goals or purpose of the organisation as a whole (mission, vision and objectives).

It is often hard to achieve mutual fit between elements. Therefore there are five dilemmas in organising.

There are five key dilemmas in organising:
- *Subdividing* the organisation (one part to according one side, other part to the other side).
- *Combining* different organising principles at the same time.
- By *reorganising* frequently so that no one side can become too entrenched.



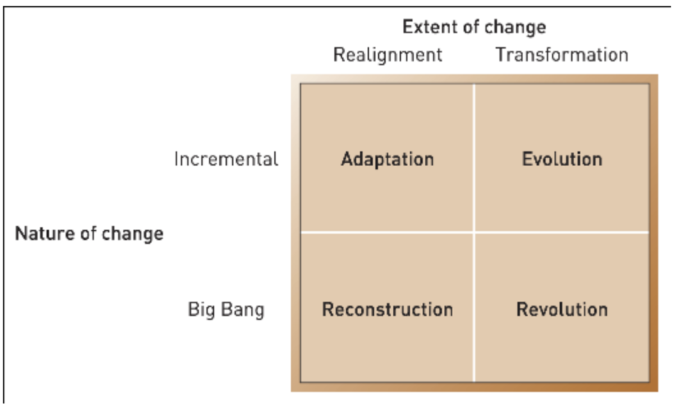
14. Leadership and strategic change

The key elements in managing strategic change are: diagnosis, levers for change, managing change programmes and leading and managing change.

14.2 Diagnosing the change context

It is useful to consider the type of change required. The wider context in which change is to occur, the specific blockages to change that exist and forces that exist to facilitate the change process.

There are four types of change:
- **Adaption:** Occurs incrementally and is the common form of change in organisations.
- **Reconstruction:** Rapid change but not fundamentally change the culture. A turnaround.
- **Revolution:** Rapid and major strategic needed as well as culture change. In strategy and culture.
- **Evolution:** Culture change over time; most challenging type of change since.



It is dangerous to assume that leading change effectively in one context is the same as in another. They need to be different according to their context. The Change Kaleidoscope builds on this point to identify contextual features to take into account in designing 'strategic' change programmes.

- ***Time:*** How quickly change is needed?
- ***Scope:*** How much change (breadth/depth) is required?
- ***Preservation:*** What organisational resources and characteristics need to be maintained?
- ***Diversity:*** How homogeneous are the staff groups and divisions within the organisation?
- ***Capability:*** What is the managerial and personal capability to implement change?
- ***Capacity:*** What is the degree of change resource available?
- ***Readiness:*** How ready for change is the workforce?
- ***Power:*** What power does the change leader have to impose change?

Forcefield analysis: Provides an initial view of change problems that need to be tackled by identifying forces for and against change (what blocks change, what needs to be done to aid change).
Example: You just summarize what the pushing forces are and what the resisting forces are.

Various analysis can be used for doing a force field analysis:
- The Change Kaleidoscope;
- Mapping activity systems;
- Stakeholder mapping;
- The culture web;
- The 7-S framework.

You just summarize what the pushing forces are and what the resisting forces are.

14.3 Leading strategic change

Leadership: The process of influencing an organisation (or group within an organisation) in its efforts towards achieving an aim or goal.

There are three key roles that are especially significant in leading change:
- *Envisioning future strategy*: The leader needs to ensure there exist a clear and compelling vision of the future and communicate a clear strategy, internally and externally.
- *Aligning the organisation* to deliver that strategy: Ensuring people are committed to the strategy, motivate and empower to deliver changes. Leaders need to build and foster relationships
- *Embodying change:* The leader needs to be a role model for future strategy.

Middle managers and senior managers have a key role in leading change.

Middle managers are implementers of top-management strategic plans. Their role is to ensure resources are allocated and controlled appropriately. First they have to let the strategy make sense for others and play a local leadership role. Second, reinterpretation and adjustment of strategic responses as events unfold are important. Last, they should be advisers to senior management.

Newcomers and outsiders can give a fresh perspective (a new chief executive), increase the diversity of ideas or break down barriers (new management), help to formulate strategy or plan the process (consultants) and can be influencers of change (other stakeholders).

Situational leadership: Successful strategic leaders are able to adjust their style of leadership to the context they face.

There are two approaches to managing change which they describe as:
- ***Theory E:*** Change based on the pursuit of economic value. Top-down, programmatic use of the 'hard' levers of change. Emphasis is on changes of structures and systems, financial incentives, portfolio changes, downsizing.
- ***Theory O***: Change based on the development or organisational capability. The emphasis is on culture change, learning and participation in change programmes and experimentation.

A combination of the two approaches may be required and can be beneficial.

There are several styles of managing change:
1. Education: Involves persuading others of the need for and means of strategic change (convince, framing the change, ensure communication, reinforce behavioural guidelines).
2. Collaboration: The change process is the involvement of those affected by strategic change in setting the change agenda.
3. Participation: Retains the coordination of and authority over processes of change by a strategic leader who delegates elements of the change process.
4. Direction: Involves the use of personal managerial authority to establish a clear strategy and how change will occur.
5. Coercion: Most extreme form. The imposition of change or the issuing of edicts (warrant) about change.

You should think about the time and scope, capability and readiness for change, the power and the styles of managing change are not mutually exclusive.

14.4 Levers for managing strategic change

A major challenge in achieving strategic change can be the need to change often longstanding mind-sets or taken-for-granted assumptions (the paradigm).

The relationship between strategic change and day-to-day processes and routines is therefore important to consider in at least four respects:

- *Planning operational change:* This planning requires the identification of the key changes in the routines required to deliver that strategy.
- *Challenging operational assumptions:* Changing the processes and routines may also have the effect of challenging the routines.
- *Operation-led change:* Operational change can also stimulate innovation and new strategic thinking.
- Bottom-up changes to routines: Sometimes changes are not planned from the top but people do change them from the bottom.

Symbols: Objects, events, acts or people which express more than their intrinsic content.
Example: Décor, the language, organisational rituals.

Changing symbols can help reshape beliefs and expectations because meaning becomes apparent in the day-to-day experiences people have. Symbols can be rituals, physical aspects, behaviour of managers, of the language used.

When to implement change. Some of the mechanisms associated with managing change from a political perspective are needed:

- *Acquiring resources* or being identified with important resource areas or areas of expertise.
- *Association with powerful stakeholder groups* (elites), or their supporters, can help build a power base or help to overcome resistance to change.
- *Building alliances and networks* of contacts and sympathisers may be important in overcoming the resistance of more powerful groups.

By choosing the right time tactically to promote change is vital (think about how the crisis is, if there are windows of opportunity or the symbolic signalling of time frames).

Low-hanging fruit changes can be small but still made easily and yield a quick payoff and be useful. Choose the 'hot spots'.

14.5 Managing strategic change programmes

Turnaround strategy: Where the emphasis is on speed of change and rapid cost reduction and/or revenue generation and managers need to prioritise the things that give quick and significant improvements. *'A directive approach to change.'*

Some elements of turnaround strategies are as follows:

- *Crisis stabilisation:* To regain control over the deteriorating position (short-term focus).
- *Management changes:* Usually introduction of a new chairman or executive as well in the board.
- *Gaining stakeholder support*: Vital that key stakeholders are kept clearly informed of the situation.
- *Clarifying the target market(s) and core products*: Ensure clarity on the target to generate cash.
- *Financial restructuring*: Changing the existing capital structure.

Revolutionary change is different from the turnaround strategy because it also for cultural change and it may be that the need for change is not as evident to people in the organisation as in a turnaround.

Managing in revolutionary change is likely to involve:

- *Clear strategic direction*
- *Combining rational and symbolic levers*
- *Multiple styles of change management* (to educate, being directive and participate)
- *Working with the existing culture*
- *Monitoring change*

Evolutionary change can be managed by:
- *Empowering the organisation* (need for people throughout the organisation to accept responsibility).
- *A clear strategic vision*
- *Continual change and a commitment to experimentation*
- *Stages of transition* (stages in change process)
- *Irreversible changes* (changes that not directly have impact but on the long-term)
- *Sustained top management commitment*
- *Winning hearts and minds*

The **seven main failings** of programmes are:
1. *Death by planning* (more focused on planning rather than delivering it)
2. *Loss of focus*
3. *Reinterpretation*
4. *Disconnectedness*
5. *Behavioural compliance* (people appear to comply but without actually 'buying into' them)
6. *Misreading scrutiny and resistance* (see scrutiny and resistance as a basis for engaging others).
7. *Broken agreements and violation of trusts* (when it doesn't work out)

15. THE PRACTICE OF STRATEGY

Different roles are played by different members.
1. Chief executive officer: Responsible for all strategic decisions. It owns the strategy and is accountable for its success or failure.
2. Top management team: An organisation's executive directors, sharing responsibility for strategy. They should be able to challenge the chief executive officer and increase strategic debate.
3. Non-executive directors: No executive management responsibility within the organisation and should be able to offer an external and objective view on strategy.

There are at least three important qualities senior managers need if they are to contribute effectively to high-level strategy-making:
- *Mastery of analytical concepts and techniques;*
- *Social and influencing skills;*
- *Group acceptance as a player.*

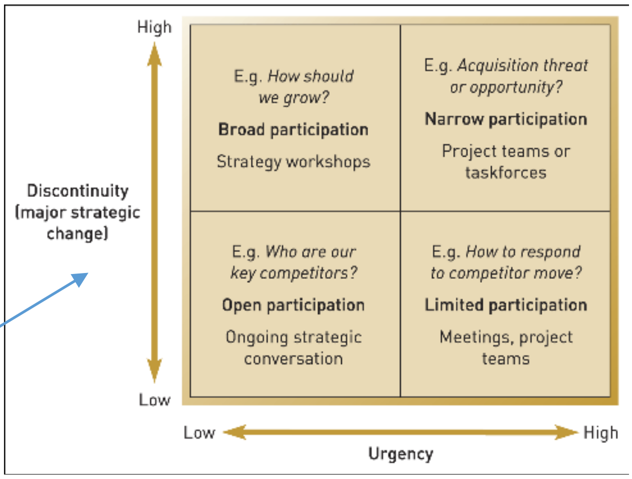
Strategic planners: Managers with a formal responsibility for coordinating the strategy process.
→ They need to search for information and doing analysis. Are managers of the strategy process and do special projects.

Strategy consultants are often used in the development of strategy. They:
- Analysing, prioritising and generating options;
- Transferring knowledge;
- Promoting strategic decisions;
- Implementing strategic change.

The value of strategy consultants is often controversial. The UK government have increasingly been criticised for spending too much on consultants.

It raises questions about who should be included in addressing particular strategic issues, because there are a lot of people (executives, planners etc.). The paradox of strategy inclusion is that those with the most access to the CEO on strategy are often strategic planners and strategy consultant (execution: low, CEO access: high). The middle managers have knowledge and the implementation responsibility (execution: high, CEO access: low).

People involved should vary according to the nature of the issue.



15.3 Strategising

The different purposes of strategy analysis have two key implications for managers:

- *Design the analysis according to the real purpose*
- *Invest appropriately in technical quality*

Strategic issue-selling: The process of gaining the attention and support of top management and other important stakeholders for strategic issues.

Managers need to consider at least four aspects in seeking attention and support for their issues:

- *Issue packaging:* How issues are packaged or framed Clarity and succinctness win over complexity and length.
- *Formal and informal channels*: Balance between two channels of influence.
- *Sell alone or in coalitions:* On their own or a coalition of supporters, preferably influential ones.
- *Timing:* Time the issue-selling carefully.

Sunflower syndrome: The tendency to follow the lead of the most senior person in the decision-making process (like sunflowers follow the sun).

Champion's bias: Likelihood that people will exaggerate their case in favour of their particular proposal.

Intuition is not always a bad thing and constructive conflict in decision-making teams can be positively useful.

15.4 Strategy methodologies

Strategy workshops: Involve groups of executives working intensively for one or two days, often away from the office, on organisational strategy.

Are often used to formulate or reconsider strategy, but also to review the progress of current strategy, address strategy implementation issues and to communicate strategic decisions to a larger audience.

Successful workshops are likely to involve:

- *Strategy concepts and tools to promote questioning of the current strategy*
- *A specialist facilitator to guide participants;*
- *The visible support of the workshop sponsor (*perhaps the CEO)
- *The diminishing of everyday functional and hierarchical roles* (ice-breaking).

Strategy projects: Involve teams of people assigned to work on particular strategic issues over a defined period of time.

These can be used to explore problems or opportunities as part of the strategy development process. Or to implement agreed elements of a strategy. Strategy projects need:

- *A clear brief or mandate* (objectives should be agreed and managed);
- *Top management commitment;*
- *Milestones and reviews;*
- *Appropriate resources* (the key resource is usually people).

Hypothesis testing: Methodology used particularly in strategy projects for setting priorities in investigating issues and options.

This starts with a proposition about how things are and then seeks to test it with real-world data. This would lead to several prescriptive hypotheses about what a particular organisation should do.

Business case: Provides the data and argument in support of a particular strategy proposal, e.g. investment in new equipment.

A project team intending to make a business case should aim to meet the following criteria:

- *Focus on strategic needs* (identify the overall strategy);

- *Supported by key data;*
- *Provide a clear rationale* (why are the proposals made);
- *Demonstrate solutions and actions;*
- *Provide clear progress measures*.

Strategic plan: Provides the data and argument in support of a strategy for the whole organisation.

Strategic plans have similar characteristics in terms of focus, data, actions and progress measures. However they are more comprehensive and may be used within BU or start-ups. They need the following elements:

- *Mission, goals and objective statements;*
- *Environmental analysis* (key issues of the whole environment);
- *Capability analysis* (strengths and weaknesses);
- *Proposed strategy* (which supports the mission, goals and objectives);
- *Resources required*;
- *Key changes* (in structures, systems and culture).