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Formal strategic planning

The key to effective business process management?

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Keywords *Strategic planning, Business process re-engineering, Implementation*

Abstract *The literature contends that the lack of strategic business planning is a major drawback in the implementation of business process initiatives such as total quality management. In addition, it is evident that strategic planning firms achieve better performance than other firms. However, strategic planning often fails due to problems or barriers encountered at the implementation stage. It is unclear from the limited research carried out to date what actions, if any, firms can take to minimise or eliminate these barriers. This paper examines the concept of strategic planning and identifies the barriers to its implementation. It considers the suitability of formal strategic planning as the key to eliminating or reducing implementation barriers by comparing the extent to which the barriers are experienced in formal and non-formal planning firms. The paper also examines the extent to which the barriers are experienced by high and low performing firms.*

Introduction

Today's business environment is dynamic, complex and continually changing. In order to gain, retain or regain sustainable competitive advantage, many small firms have considered a range of efficiency or improvement related initiatives. While the rationale for these initiatives began with the need for operational efficiency, it has now evolved to include business process management (see Table I).

A clear pattern can be seen: firms began with long range planning techniques which coincided with a period of expansion, and continued with the corporate planning techniques of the 1960s-1970s. The 1980s represent the decade of organisational positioning, which was followed in the early 1990s by a period of concentration on competitive advantage, based on the maximisation of internal strengths. The balance has now moved on from efficiency based measures to a greater emphasis on meeting customer needs and ensuring customer satisfaction. However, the plethora of initiatives presents a confusing picture to small and medium sized organisations. While the majority of firms may have an interest in only one or two initiatives, it is doubtful if greater efficiency is enough in today's business environment. In any event, Jarrer and Aspinwall (1999) suggest that initiatives such as total quality management often fail due to a lack of strategic business planning. This paper suggests that the time is now right to integrate the deployment of business process initiatives with the formal strategic planning processes.

Integrating the chosen process initiative and strategic planning has a number of distinct advantages, such as the effective deployment of the initiative based on continuous and up to date strategic environmental analysis; a recognition of the potential barriers to deployment and a greater understanding of performance management.



			Formal strategic planning
<i>Stage 1: pre-1960s</i>	(Budgetary planning and control)		
Budgetary planning and control	Long range planning		
<i>Stage 2: 1960-1970s</i>	(Corporate planning techniques)		
Decision trees	Theory X and theory Y	Management by objectives	
Scenario planning	Brainstorming	Zero-based budgeting	
Product diversification	Investment planning models	Competitor analysis	
<i>Stage 3: the 1980s</i>	(Organisational positioning)		
Empowerment	Just-in-time	Porter's 5 forces	
Corporate culture	Management by walking around	Decentralisation	
Portfolio planning model	Value chain	Strategic business units	
Quality circles	Experience curves	Diversification	
<i>Stage 4: the early 1990s</i>	(Maximising internal strengths)		
Core competencies	Management of change and innovation	Benchmarking	
Quality management	Value-added partnerships	Value constellations	
Knowledge-based company	Resource allocation		
<i>Stage 5: the late 1990s/2000</i>	(Cost-cutting measures)		
Delaying/downsizing/ rightsizing	Business process re-engineering	Lean production	
Outsourcing	Knowledge and learning		
Notes: Based on Davis and Devinney (1997) and Grant (1997)			

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Table I.
Examples of efficiency
related measures

Aims of the research

The literature indicates that effective implementation is vital for the success of any strategic plan (Beer *et al.*, 1990; Bourgeois *et al.* cited in Dean and Sharfman, 1996). Deloitte and Touche (1992) suggest that as many as eight out of every ten companies fail to implement their strategies effectively. This contention is re-enforced by Noble (1999) who states that "implementation is an enigma and a source of frustration in many companies". Arguably, a similar position applies to the implementation of business processes.

Beer and Eisenstat (2000) contend that implementation can only be effective by being open about any barriers or constraints and their underlying causes. However, they also acknowledge that the limited research in this area has yielded "contradictory results" which largely arise from the failure to examine important variables. Their contention is that a systematic approach is needed to examine the strategic planning processes in different situations. Accordingly, this paper attempts to fill a gap in the literature. The paper:

- (1) examines the concept of strategic planning;
- (2) identifies some of the barriers to its deployment;
- (3) considers the suitability of formal strategic planning as the key to effective implementation by comparing the extent to which the barriers to deployment are experienced in formal and non-formal planning firms; and
- (4) compares the extent to which the barriers are experienced by high success firms and low success firms.

Strategic planning

Strategy is a term that virtually every business person believes they know and understand. Despite numerous studies there is no commonly accepted and universal definition (Quinn, 1980). In fact, the term “strategy” is often used in a contradictory manner (Ghobadian, 1993). To date, the definitions of strategic planning encompass terms such as strategic thrust, corporate focus or strategic intent (Mintzberg, 1993; McDonald, 1996; Chararbaghi and Willis, 1998). Generally, common aspects of most definitions are concerned with the long-term direction of the organisation, defining what business the organisation should engage in, matching the activities of the business to the environment in order to minimise the threats and maximise opportunities, as well as matching the organisation’s activities to the resources available (McDonald, 1996). As the environment is continually changing, it is also necessary for strategic planning to continually change in order to maintain a “balance” or “fit” with the external environment (Wright *et al.*, 1996; Proctor, 1997).

Strategic planning thus implies an attempt to alter a company’s strength relative to that of its competitors, in the most efficient and effective way. Strategic planning focuses on the direction of the organisation and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Hewlett, 1999). Johnson and Scholes (1997) encapsulate the meaning of strategic planning as:

... the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations.

Operationalising strategic planning. Strategic planning can be considered from a content or a process viewpoint. The content relates to the distinct elements of the strategic plan which differ from firm to firm. On the other hand, the process relates to the mechanisms for the development of the strategic plan and its subsequent deployment. Stacey (1993) argues that strategies should emerge from the “self organising activities of loose, informal, destabilising networks”. In a dynamic business environment, the plans of many managing directors are constantly in the course of modification, revision and refinement, often in the minds of the top management (Henderson, 1989). This implies that plans can be modified until they are implemented and often result in changed or unrealised content (Mintzberg, 1987).

While the substance of the strategic plan is unique to a firm, there is “no logical reason why organisations can not deploy a common process in the establishment of “strategic plans” (Ghobadian, 1993). Accordingly, for the purposes of this paper, the strategic planning process is used as a surrogate measure of strategy.

Researchers have adopted a number of independent characteristics to delineate the strategic process (Ramanujam *et al.*, 1986; Ramanujam and Venkatraman, 1987; Veliyath and Shortell, 1993; Kargar and Parnell, 1996). Following those researchers, we adopted the following characteristics to describe

the strategic process: the external environment, internal environment, functional integration, the use of analytical techniques, resources for the strategic planning process, systems capability/creativity and a focus on control.

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Barriers to strategy deployment

Some of the most important factors mentioned in a series of exploratory interviews with the managing directors of small and medium sized firms include the impact of potential external and internal barriers on the deployment of strategic planning. But what is meant by barriers? The literature indicates that there is no accepted definition of a barrier to strategic planning implementation or growth (Barber *et al.*, 1989; Cambridge Small Business Research Centre, 1992). Indeed, Piatier (1984, p. 146) suggests that “no survey can do no more than provide an idea, and possibly an improvised measurement of the perception of the barrier by the person questioned”.

Accordingly, this paper does not seek to establish a comprehensive range of barriers but rather identifies some general barriers derived from the literature, relating to the constraint or hindrance of strategic planning implementation. Exploratory interviews with managing directors of engineering and electronics firms confirm eight main barriers which can be categorised as internal (communication was inadequate, implementation took longer than anticipated, a shortfall in employee capabilities, overall goals of strategy not well enough understood by staff, co-ordination of implementation not effective enough) and external (crises distracted attention from implementation, unanticipated problems arose, and external factors impacted in implementation). Interestingly, Wessel (1993) and Beer and Eisenstat (2000) identify broadly similar barriers to the deployment of strategic planning.

Formality of the strategic planning process

It can be argued that a formal strategic planning process is a deliberate means to include factors and techniques in a systematic way to achieve specified tasks. In essence, it involves the establishment of a clear goal and the necessary processes to achieve it (Armstrong, 1982). It follows that a formalised strategic planning process has the following benefits:

- strategic planning is included on the corporate agenda;
- strategic planning is approached in a systematic manner; and
- the strategic planning process increases staff awareness and enhanced participation in the strategic plan.

Hewlett (1999) suggests that “a strategic plan and the strategic planning process itself offers a competitive edge and enables a company to measure achievements against expectations”. However, empirical studies provide a mixed picture in relation to the value of formal strategic planning. For example, Robinson and Pearce (1983) found that there was no relationship between a formal strategy and

financial performance. The following year, Frederickson and Mitchell (1984) found no relationship between planning comprehensiveness and financial performance. Whilst McKiernan and Morris (1994) state that a formal strategic planning process in small and medium firms often fails to provide a holistic view of the firm, a major study of small firms in the USA indicates that a formalised strategic planning process has some benefits, Lyles *et al.* (1993). As a summary (Lyles *et al.*, 1993, p. 42) state that:

... the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning.

As a detailed consideration of formal and informal strategic planning processes is outside the scope of this paper, a written or unwritten strategic plan is used as a surrogate measure of formality. This approach is appropriate for the consideration of strategic planning in smaller firms and is consistent with the work of Robinson and Pearce (1983) and Bracker *et al.* (1988).

Methodology

The sample consisted of 1,000 small and medium sized manufacturing firms throughout the UK. Small and medium sized firms were defined as having fewer than 250 employees. A random sampling methodology based on a directory available from a reputable commercial firm was used. Data were gathered by means of a survey questionnaire, consisting of questions to ascertain the emphasis on strategic planning attributes, barriers to strategy deployment and the formality of the planning process. All questions used a five-point Likert type scale, with a response of 1 indicating that an item that received “no emphasis” and 5 indicating that an item received “strong emphasis”.

The procedures used to analyse the responses included the determination of the reliability of the instrument. The questionnaire constructs were tested for their ability to yield a significant factor structure. The instrument could be said to have a high degree of reliability when there is a significant association between responses to each of the attributes. In effect, it is “an indicator of how well the different items measure the same issue” (Litwin, 1995, p. 21). Internal consistency was established using Cronbach’s Alpha and factor analysis. The alpha coefficient “represents the most widely used and most general form of internal consistency estimate” (Murphy and Davidshofer, 1994, p. 83).

To ascertain the difference of emphasis on the various selected barriers to strategy deployment, formal and non-formal planning firms, and high and low performing companies are compared. Each set of scores are subjected to the non-parametric Wilcoxon test which uses the information about the size of the differences between two pairs. Blalock (1979 pp. 265-6, cited in Kargar and Blumenthal, 1994) states that “for moderate and large samples. The power efficiency of the Wilcoxon test is approximately 95 percent as compared with the *t*-tests”.

Response

A total of 194 valid responses were received – a response rate of 27 percent. Participants were advised that they could respond on a confidential or anonymous basis. Only 35 firms opted for anonymity. This sample size compares favourably with studies conducted by Robinson and Pearce (1983), which comprises 85 small banks, and by Frederickson and Mitchell (1984), which includes 109 executives in 27 large forest firms. However, the sample examined by McKiernan and Morris (1994) involved 1,380 small firms. The degree of non-response was given detailed consideration in order to eliminate any source of bias within the sample. All firms were contacted by telephone to ascertain the reasons for non-response. The most frequent reasons were:

- lack of time and resources to complete the survey;
- company policy not to participate in surveys;
- a reluctance to divulge information;
- unable to contact the managing director or his/her deputy; and
- a refusal to participate with no particular reason given.

A chi-square test ($\chi^2 = 59.95$, $df = 63$, $p = 0.58501$) indicates that the predominantly male sample (93 percent of respondents) does not differ significantly from the sample of female respondents (7 percent of respondents).

Taken together with the number of valid responses this suggests that response bias is not a serious problem and does not invalidate the results. We also tested for the effects of extraneous variables (i.e. firm size, perception of the operating environment, ownership and perceived market share) and were able to establish that those factors did not influence the strategic planning process.

Sample demographics

Table II outlines the sample demographics.

Results

The barriers to strategy implementation

Table III outlines the main implementation barriers to the effective deployment of strategic planning.

The analysis of Table III indicates that the perceived key strategic planning process barriers are related to implementation taking longer than anticipated, followed by unanticipated problems and external factors. These findings are consistent with the exploratory interviews, where managing directors stress the impact of unanticipated problems and external factors on the effective deployment of strategic planning. However, the majority of firms ranked inadequate communication and lack of clarity of the strategic goals to be of less importance. This is in contrast to the exploratory interviews where they are perceived to be a major cause for concern.

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Table II.
Sample demographics

Characteristics	%
<i>Age</i>	
39 and under	21.1
40-49	27.3
50-59	38.7
60 and over	12.9
<i>Gender</i>	
Male	92.8
Female	7.2
<i>Annual turnover</i>	
Less than £500,000	9.3
£500,000-£1 million	12.4
£1-2 million	17.0
£2-4 million	22.2
£4-6 million	14.4
Over £6 million	24.7
<i>Employees</i>	
1-9	11.3
10-19	12.4
20-49	28.9
50-99	24.2
100-199	16.0
200-249	7.2
<i>Years in operation</i>	
5-10	20.8
11-20	24.1
21-30	25.3
31-40	5.2
41-50	5.8
51 years and over	18.8

Table III.
Strategy
implementation
barriers

Attribute	Mean	Standard deviation
Communication was inadequate	2.253	0.935
Crises distracted attention from implementation	2.510	1.112
Implementation took longer than anticipated	3.340	1.032
Employees' capabilities were not enough	2.495	1.069
Overall goals of strategy were not well enough understood by staff	2.150	0.918
Coordination of implementation was not effective enough	2.660	0.986
Unanticipated problems arose	2.910	0.917
External factors impacted in implementation	2.871	1.091

Comparing high and low performing firms

High and low performing firms were selected by separating the firms that perceived that their market share was increasing from those that perceived that their market share was decreasing. In addition, the perceptions and opinions of managing directors were used to determine the success of the deployment of strategy (the degree to which the company's initial goals/objectives and financial results expected were achieved). An "opinion research" approach was preferred as it is suitable for large sample surveys thereby enhancing the likelihood of obtaining findings that can be generalised. In addition, the methodology is established for the data administration and analysis. Opinion research is a common approach used in the majority of studies investigating the impact of strategic planning on organisational performance (Luo and Park, 2001; Kargar and Parnell, 1996).

All the firms classified as "high performing" indicated that they achieved a high percentage of their company's initial goals and objectives as well as their financial results. These findings are in direct contrast to the results relating to "low performing" firms. In addition, a chi-square test indicates an association between high performing firms and the propensity to have a written strategy $\chi^2 = 3.93$, $df = 1$, $p < 0.05$). A Wilcoxon test was carried out to ascertain the difference in the extent to which implementation problems were experienced by both types of firms. The analysis is shown in Table IV.

The results indicate that all the implementation barriers were experienced to a greater extent by low performing firms than by high performing firms. However, the differences are statistically insignificant, with the exception of the

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Implementation barriers	Frequency of emphasis (4 = substantial; 5 = major)						Z-statistic
	High performing firms			Low performing firms			
	Mean (<i>n</i> = 108)	Frequency (%)		Mean (<i>n</i> = 35)	Frequency (%)		
Communication was inadequate	2.18	7	(7)	2.34	6	(17)	-1.47
Crises distracted attention from implementation	2.35	18	(17)	2.51	7	(20)	-2.26*
Implementation took longer than anticipated	3.31	45	(42)	3.37	17	(49)	-0.31
Employees' capabilities – not enough	2.40	19	(18)	2.66	9	(26)	-1.12
Overall goals of strategy not well enough understood by staff	2.11	7	(7)	2.26	3	(9)	-1.43
Coordination of implementation not effective enough	2.59	20	(18)	2.69	18	(52)	-1.69
Unanticipated problems arose	2.81	19	(18)	2.86	8	(23)	-0.54
External factors impacted in implementation	2.74	25	(23)	2.94	13	(37)	-0.71

Notes: * $p < 0.05$

Table IV.
Extent to which
strategy implementation
problems were
experienced by high and
low performing firms

barrier “crises distracted attention from implementation” which is statistically significant ($Z = -2.26$ at $p < 0.05$).

These findings can be interpreted as indicating that “high performing” firms tend to focus on the implementation of the strategy planning process, whereas in “low performing” firms there is a greater degree of uncertainty and a lower degree of confidence. This is confirmed by the significance of the barrier “crises distracted attention from implementation”, which implies that the operations of low performing firms were disrupted to a far greater extent than those of high performing firms. On the other hand, it could be argued that some firms rationalise their actions or use crises as a scapegoat. Overall, the analysis indicates that similar barriers to strategy implementation exist in high and low performing firms.

These findings are consistent with the work of Kargar and Blumenthal (1994). This finding is not surprising, as both categories operate, either directly or indirectly, in the same market environment. However, it indicates that the barriers to implementation are not as significant as perceived by the exploratory group discussions. One explanation may be that the barriers or their core elements may be perceived to be included as individual parts of the various characteristics of strategic planning and preparations are already underway to reflect their potential impact. It could be argued that the concerns relating to many barriers to implementation may, in effect, be more properly assigned to the strategic planning process itself, or be assigned to contingency factors such as a lack of resources or expertise.

The impact of formal planning on the elimination of potential barriers

The previous section has outlined that implementation barriers, with the exception of “crises distracted attention from implementation”, do not differ significantly between high performing firms and low performing firms and that this may have resulted from the preparation for such barriers in the strategic planning process. It is, therefore, necessary to ascertain if “formal planning” firms experience the same barriers to the same extent as “non-formal planning” firms.

Responses were divided into two categories: firms indicating that they have a written strategic plan and those that did not have a written strategic plan. A Wilcoxon test was carried out to ascertain the difference in the extent to which implementation problems were experienced by both categories of firms. The results of the analysis are outlined in Table V.

The results indicate that all eight barriers/problems to the implementation of strategic planning were experienced by both firm types. However, non-formal strategic planning firms indicated a greater emphasis on each barrier than formal strategic planning firms, which implies that formal planning helps in meeting the problems to a limited extent. Only one barrier/problem was statistically significant – external factors impacted on implementation ($Z = -2.95$ at $p < 0.005$).

Implementation barriers	Formal strategic planning		
	Formal strategy Mean (<i>n</i> = 113)	Non-formal strategy Mean (<i>n</i> = 81)	Z-statistic
Crises distracted attention from implementation	2.44	2.61	-1.39
Implementation took longer than anticipated	3.22	3.43	-0.74
Employees' capabilities were not enough	2.43	2.54	-0.09
Communication was inadequate	2.25	2.26	-0.26
Overall goals of strategy were not well enough understood by staff	2.10	2.19	-0.88
External factors impacted on implementation	2.61	3.06	-2.95*
Coordination of implementation not effective enough	2.64	2.69	-0.69
Unanticipated problems arose	2.89	2.93	-0.68

Note: $p < 0.01$

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Table V.

The extent to which strategy implementation problems were experienced by firms with formal and non-formal strategic plans

Overall, it can be concluded that formal and non-formal planning firms experience similar implementation problems. An analysis of the findings indicates that the problem of implementation taking longer than expected had the highest emphasis in both formal and non-formal planning firms. However, it must be noted that a higher significance rating was given to the implementation problems by non-formal strategic planning firms implies that all the barriers/problems were better prepared for in formal planning firms than in non-formal planning firms. This suggests that formal planning is likely to enable firms to meet any potential barriers and problems with greater confidence. This finding can be argued to result from the tendency by formal strategic planning firms to be more outward looking or external environment orientated. It could also be explained by the greater emphasis and need by formal planning firms to have a formal written strategic plan.

While it is contended that many of the implementation barriers are already prepared for, as part of the strategic planning process, the results do not provide any information on the degree of emphasis on the strategic planning characteristics by formal or non-formal planning firms. The next section examines this aspect.

The emphasis on strategic planning process characteristics by formal and non-formal strategy type firms

A further analysis was carried out to ascertain if a similar perceived emphasis on the characteristics of strategic planning exists in firms with formal and non-formal strategic planning processes. A Wilcoxon test was used to ascertain the difference in emphasis by both types of firms. The analysis indicated that the emphasis on the characteristics of strategic planning by formal planning firms is higher in all the characteristics and their attributes than by non-formal

planning firms. However, the differences in emphasis are statistically significant in respect of the following characteristics only:

- *External orientation* – one attribute, competitive position and trends, is statistically significant ($Z = -2.43, p < 0.005$). It could be argued that formal strategic planning ensures that the competitive position is stressed.
- *Resources for strategy* – one attribute, availability of relevant and adequate information ($Z = -2.53, p < 0.005$), is statistically significant. The availability of relevant information is central to the strategic planning process, and its added emphasis by formal planning firms is to be expected.
- *The use of analytical techniques* – all attributes are emphasised to a higher degree by formal planning firms, and the difference of emphases compared with non-formal planning firms is statistically significant. The emphasis by formal planning firms on the use of analytical techniques, the ability to use analytical techniques and the willingness to seek outside assistance is much greater than in non-formal planning firms. This finding can be explained by the tendency by firms with a written strategic plan to depend more on analytical assessment than on “instinct” or “gut feeling”.
- *Staff creativity* – one attribute generating new ideas is statistically significant ($Z = -2.04, p < 0.05$). This indicates the increased emphasis by formal planning firms on the quest for continuous competitive advantage. It could be argued that a formalised strategic planning process facilitates this attribute.
- *Strategy as a control mechanism* – two attributes, strategy as a monitoring mechanism ($Z = 2.74, p < 0.05$) and as a mechanism for revising strategy ($Z = -2.9, p < 0.005$), are statistically significant, and indicate the emphasis by formal planning firms in reviewing the actions to date and monitoring the actions taken.

Implications

The literature presents a mixed picture and a lack of consensus as regards the impact of formal planning on the minimisation or elimination of the barriers to the deployment of strategic planning. It is contended that this lack of clarity is a vital factor in the less than satisfactory effectiveness of strategy deployment. This paper confirms that high performing firms perceive the barriers to implementation to have a lower rate of importance compared with low performing firms. While all the results are not statistically significant, it is nevertheless contended that high performing firms have a more effective approach to strategy deployment.

Finally, the analysis indicates that formal planning firms emphasise the characteristics of strategic planning to a higher degree than non-formal

planning firms. It is reasonable to suggest that this emphasis is one of the key factors in the lower incidence of the barriers indicated in formal planning firms. That does not necessarily mean, however, that adopting a formal strategy approach will bring about higher performance. Having said that, and while emphasising that one must be cautious in implying causality, it is suggested that firms adopt and emphasise a formal and written strategy.

These findings can be used as a basic tool to identify and overcome the barriers to effective strategy deployment. The findings provide an ideal foundation for the review of the critical aspects of their operations and to identify the actions necessary for the effective deployment of strategic planning and ultimately achieving greater competitive advantage. Accordingly, it is the authors' opinion that the findings have some important implications for small and medium firms.

However, it must be stated that the sample was restricted to two different sector types: mature products and stable technology, products with short life cycles and changing technology respectively. Clearly the analysis applies primarily to these sectors. In addition, the paper does not attempt to examine the differences at the more detailed sub-sectoral level. In other words, it assumes that the engineering and electronics sectors are internally homogeneous. This assumption should be tested in future studies. In addition, any future research should consider a more in-depth approach. It would have been beneficial to augment the quantitative data with qualitative, in-depth case studies or an ethnographic approach. Further testing should be carried out to confirm the finding's relevance to practice and in particular its effective operationalisation. This might entail the development of a diagnostic framework to assist firms to identify the aspects necessary for the effective deployment of strategic planning using a checklist principle. Such a checklist would be of immense value to managers as a self-monitoring instrument.

Beer and Eisenstat (2000) suggest that the barriers represent "critical organisational stress points where new capabilities are required". They suggest that the barriers need to be "tackled head on and transformed to core capabilities". Perhaps such a checklist can be a useful first step in achieving this radical transformation.

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