Chapter

3 Organisational strategy, planning and continuous improvement

Learning outcomes

After studying this chapter, you should be able to:

- **Describe** the essential processes that help a manager begin to think strategically, starting with vision and mission and cycling through to controlling and improving.
- **Understand** the questions that help you think strategically about planning actions, whether for an entire business or an organisational sub-unit.
- **Conduct** a SWOT analysis to evaluate an organisation's limitations and potential when you read a complex case or study the options for responding to environmental conditions.
- **Explain** how organisational capabilities translate into competitive advantage when linked to strategies for where and how to compete.
- **Discuss** why planning is more about organisational learning than about programming actions, and why a manager's ideology may be more useful than managing by information.
- **Describe** how group processes help create a shared vision through the use of planning tools such as an affinity map, a cause and effect diagram, and a radar chart.
- **Explain** how assessment controls can lead to continuous improvement.

The opening vignette demonstrates how a successful business can bring about social change and be profitable.

Anita Roddick: The Body Shop

Anita Roddick opened the first Body Shop in Brighton, England in 1976. This one small shop selling around 25 hand-mixed products developed into a multi-million pound business with a worldwide network of shops. Anita Roddick, a once unemployed mother, went on to become Businesswoman of the Year, Communicator of the Year, Retailer of the Year, and the recipient of the United Nations Environmentalist Award to the Amazon, where she started cottage industries to help save the rain forest.

Anita Roddick's philosophy is that you can run a successful business and make money, but you can also use that money for social change. Anita has become an ambassador for free enterprise, social consciousness and success.

Anita Roddick started her business retailing homemade naturally inspired products with minimal packaging. The franchising of her ideas in the late seventies and early eighties saw new shops opening at the rate of two a month. In 1985 it became a public company. In spite of now being accountable to shareholders, it sponsored Greenpeace and later set up its own in-house environmental department. In 1989 it set up its first franchise in the USA. By 1990 The Body Shop was trading in 39 countries. In 1994 the direct selling arm of Body Shop was launched, by 2001 in the UK alone there were over 3000 consultants selling its products.

The Body Shop has continued its environmental practices, its head office uses renewable sources of energy and its aim is to convert all its shops to green electricity. It campaigns against animal testing and has linked up with Amnesty International to highlight the plight of human rights defenders around the world.

In 1995 The Body Shop put its beliefs to the test when it committed its first social audit. The results of its audits were independently verified and published in The Body Shop's Values Report. These reports were recognised by the United Nations Environment Programme as 'trailblazing', and ranked highest in their reviews of international corporate environmental reports.

In 2001 The Body Shop celebrated 25 years of 'business as unusual'. 'Celebrating 25 years of a great experiment – an experiment which proved it is possible to build a huge global enterprise and still challenge, campaign, trade honourably, give back to the community and have a good time while doing it.'

The Body Shop has a vision, even today it still retains its trademark emphasis on naturally inspired products using traditional recipes. Its community trade programme creates sustainable trading relationships with disadvantaged communities around the world. The goal is to help build livelihoods and to explore trade-based approaches to supporting sustainable development by sourcing ingredients and accessories from socially and economically marginalised producer communities.

The Body Shop is a stakeholder-led company. It believes its success is dependent upon its relationships with all its stakeholders, including its employees, franchisees, customers, communities, suppliers, The Body shop at Home consultants, shareholders and campaigning partners.

The Body Shop has evolved from one small shop to a public company listed on the London Stock Exchange. The Company has 5000 employees worldwide. It trades through over 1900 stores in 50 markets around the world. It has done all this while maintaining its mission statement of 'A Company with a Difference'.

Source: www.bodyshop.co.uk

Discussion questions

1. Do you think The Body Shop would be as successful if it had decided that ethics were not important?
2. Who are the stakeholders of The Body Shop?

Strategic thinking, planning and continuous improvement are fundamental to every organisation, even those that are not as global in perspective as The Body Shop. Whether pulling people together to publish a newspaper, film a movie, fight a war, or manufacture television sets, crafting strategies and planning results-orientated actions are a part of all organised human activity. Having a vision and a mission and bringing people together to plan the actions necessary to carry out strategies are essential to achieving goals and bolstering organisational success. But a vision and plan need careful implementation and evaluation with a focus on adjustments and continuous improvement.

Nadler et al. point out that it is not just the tangible 'plans' that are important. Also important is the process by which plans are developed, for increasingly managers are drawing in people at lower levels in the organisation to participate in the planning process.[1] Everyone expects senior managers to be strategic thinkers. But if first-line managers and technically experienced professionals are to be engaged in business planning, they too need to develop the skills to think strategically.

How a manager begins to think strategically

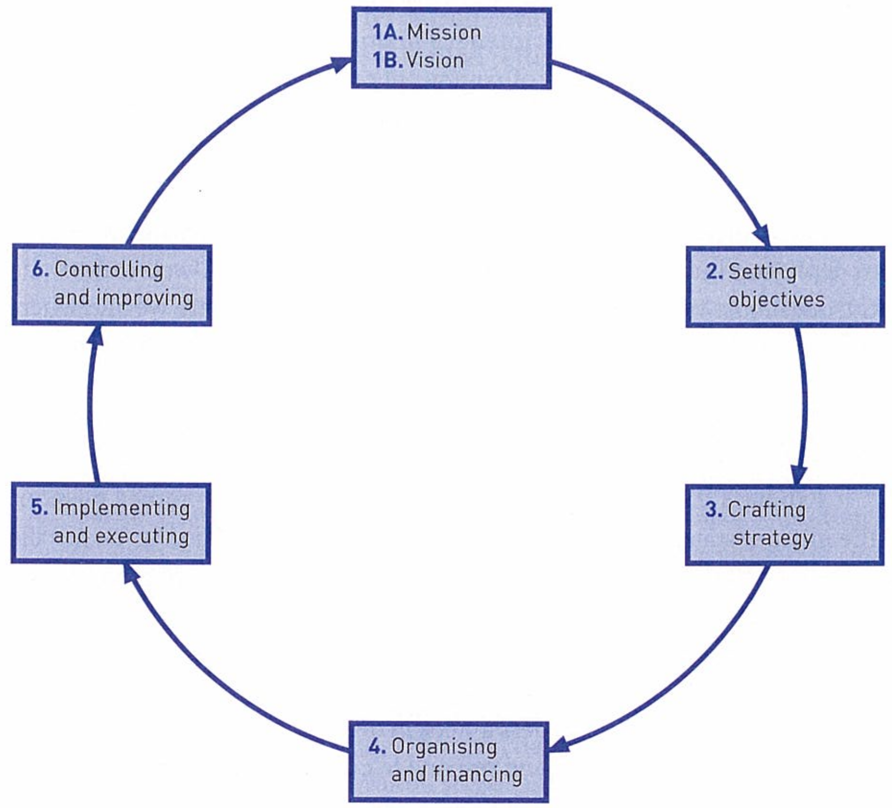
strategic thinking A process of envisioning and planning to create a workable match between organisational competencies (and limitations) and external opportunities (and threats) with the goal of better serving customers.

All organisational professionals improve their skills by learning to think strategically. **Strategic thinking** involves envisioning and planning a workable fit between organisational competencies and limitations on the one hand and external opportunities and threats on the other, with the aim of continuously improving the relationship between the organisation and its environment. Thinking strategically means anticipating what actions and behaviours are most likely to help the organisation prosper in a changing environment. Mintzberg argues that managing strategy involves the craft of balancing stability and consistency over time with changes when needed.[2] For established, mature organisations, much of the time strategic decisions involve refining a basic way of doing business rather than abruptly charting a new course.

Exhibit 3-1 shows the cycle of strategy-related processes common to all types of organisations. It suggests a sequential flow of decisions throughout the organisation, although in practice there may be a dynamic interplay among these activities. The exhibit serves as a reminder of important strategic elements in planning ways to add value to the organisation and keep it viable over time. But Exhibit 3-1 is just one way to model planning, with numerous variations on the theme.[3] Because planning is more art than science, the critical need for any specific organisation is to tailor its planning processes and strategy cycle to its unique strengths and competencies.[4]

As introduced in Chapter 2, the *vision* and *mission* that are articulated by managers and reiterated at every opportunity should serve as guides for organisational behaviour. This is especially true in *setting key objectives*, articulated as mission-consistent measurable results to

EXHIBIT 3-1 The Strategic Cycle



Managing strategically involves striking a balance among environmental forces and the available human, technical, and financial resources. The strategic cycle can be symbolised by a circular flow among these six key processes.

be achieved by specific times in the future. Objectives help frame the choices for *crafting strategy* that charts a course for the future makeup of products and services and targeted customer bases. Any strategy, whether revised or new, requires commitments to *organising* who and which units will carry out the plan as well as budgeting and *financing* the resources to achieve the objectives. The saying 'the devil is in the details' certainly applies to the processes of *implementing the strategy*, for it is here products and systems are changed or created, incentives and rewards established, information networks linked, and leadership provided to mobilise human energy and shape interactions within and across units throughout the organisation. Finally, it is critical to *control and improve* on the intended strategy with the aim of achieving continuous improvement. All these tasks draw on the manager's perception, learning, and problem-solving skills. Goals and objectives are not worthwhile unless they are capable of being measured and achieved. Another way of saying this is that objectives need to be *SMART*.

SMART objectives are:

Specific: they need to be focused and relevant to the vision of the organisation.
Measurable: there must be some quantifiable method to measure the objectives.
Achievable: an objective must be seen as being within reach. No one will make the effort to achieve an unattainable objective.
Realistic: all objectives should deal with a manageable feature of the organisation.
Timebound: there should be a deadline.

1A. Craft a mission to define a common purpose

Whether a business firm, a non-profit organisation, or a government agency, every organisation has a mission, or cause, intended to unite and provide direction to its members. Some organisations are created out of community need. A police force is created to protect people within the community from careless or criminal acts. A hospital cares for the health needs of the community, from health maintenance to active treatment.

Chapter 2 introduced the **mission** of an enterprise as its fundamental purpose, articulated to define the nature of its business and provide a unifying sense of strategic direction in deploying human, technical and financial resources. A well-conceived mission answers the questions: Why do we exist and what do we do? Who are we and where are we headed? A mission should serve as a rallying cry to induce organisational members to take up its cause. This is epitomised by the VSO's mission which wants to attract young people to volunteer during their gap year, or Fairtrade, an organisation that actively supports producers in third world countries to give them a better deal.

mission
The fundamental purpose of an enterprise that defines the nature of its business and provides strategic direction to unify the use of human and other resources.

Exhibit 3-2 lists five essential characteristics of a well-framed mission statement. Once the mission statement is cast, it is expected to provide guidance for specific goals and strategies for years to come. But with the passage of time, mission statements have to be reassessed and even reformulated.

When Marks & Spencer started as a market stall in 1884 it was very different from what it is today as one of the UK's leading retailers of clothing, foods, home-ware and financial services serving 10 million customers a week in over 300 UK stores. Yet its survival has been down to its ability to reinvent itself and respond to changes in the market to keep it competitive.

Missions become complicated when an organisation branches beyond its original line of business. This was highlighted in the example of the Virgin Group in Chapter 2. A company that started out selling records has a very different mission from a company that includes an airline, holidays and financial services.

1B. Use a vision to set direction for a desired future

The concepts of mission and vision are sometimes used interchangeably by managers. The two are interrelated; but to distinguish between the two: a mission is normally expected to provide direction that stretches beyond the foreseeable future; visions change more

EXHIBIT 3-2 Purpose Served by a Well-Articulated Mission

To be useful, a statement of mission should:

1. Articulate the vision that defines the business, what it is, what it is not, and what it should be in the future.
2. Communicate to internal members and external constituencies a clear sense of meaning and direction that is motivating and energising.
3. Convey which customer wants or needs it will seek to satisfy, and the target markets it will serve.
4. Identify the value-adding functions it will perform, realising its specific enabling actions will change over time while the purpose endures.
5. Be of bumper-sticker length—brief enough to be incorporated into corporate communications and easily remembered.

frequently, are often more detailed, and can be specific to a product, programme or project. A **vision** incorporates current realities and expected future conditions to create a desired organisational scenario and outcome within a relevant time frame. 'A vision belongs to what we may term a process of direction setting. Direction setting connotes the identification of something in the future (a vision scenario), often the distant future, and a strategy for getting there.'[5] Three elements are fundamental to a comprehensive, meaningful vision: a purpose, a goal, and an image of results.[6]

vision
A desired future image of the organisation and its processes and products that integrates current realities and expected future conditions within a specific time frame.

A statement of purpose First, ideology and core values are combined in an explicit *statement of purpose*. The purpose need not be meaningful to outsiders but should inspire and motivate insiders. The executives of Kodak Films, realising that in the future digital imaging will experience a more robust market than photos, expanded its purpose with the aim: 'to be the world's best in chemical and electronic imaging'.

A tangible goal The second element of a vision, *creation of a tangible goal*, begins with a vision statement that frames a clear, specific, and compelling goal that focuses people's efforts. A well-framed goal has a target and a time frame for its attainment. To achieve one of Asda supermarket's parent company Wal-Mart's visions of maintaining consistent growth, founder Sam Walton gave employees their goal for the 1990s at the 1990 annual shareholders' meeting. The target was to double the number of stores and increase income volume per square foot 60 per cent, and the time frame was to accomplish this by the year 2000. This was a very tangible and meaningful goal that was attained ahead of schedule before the end of the decade. This goal helped focus effort and signal what was meaningful,[7] furthermore, although Walton's goal focused on the US market, Wal-Mart had already become the largest retailer in Mexico and was well on its way to achieving the same status in Germany and other countries by the end of the decade.[8] However, with limited experience in cross-cultural adaptability, its progress toward achieving growth goals outside the United States was far from smooth, as noted in the World Watch box.

world watch — Wal-Mart takes on the French in Argentina

One of the guiding principles for multinational firms is to 'think globally, act locally'. But for organisations whose success has been proven in one country before extending their reach beyond domestic borders, adapting to foreign local realities is often a lesson learned by trial and error – with a lot of error. Such was the case of Wal-Mart's entry into Argentina during the late 1990s.

Carrefour, the French general merchandise chain (second largest in the world), arrived in Argentina in 1982, and by 2000 was well established as the dominant retailer in that country with 23 big stores. Argentine shoppers have become accustomed to things French, from fashions to late-night dining. Yet with globalisation, a greater acceptance of American influences began to creep into the Argentine culture in the 1990s – more casual dress, consumption of more beer and less wine, and even jazz and the blues. Thus, when Wal-Mart entered the Argentine market, it did so with a team of American managers and store models that worked in big- and small-town America.

Wal-Mart's merchandising and facilities were not an immediate hit with Argentine shoppers: jewellery of emeralds, sapphires, and diamonds were not of great interest to women who prefer the simplicity of gold and silver. Tools and appliances wired for 110-volt electrical power were useless with Argentina's 220-volt standard. Carpeted aisles were too narrow and difficult world watch

to keep clean given the Argentine habit of shopping daily, which meant more traffic and, thus, crowded, dirty aisles.

Given its early difficulty in learning to get it right with the Argentines, Wal-Mart overhauled its top management team four times in four years for its 13-store operation. Concedes Donald C. Bland, president and CEO of Wal-Mart Argentina as they entered the 2000s, 'Following our blueprint too closely wasn't a good idea'.

Argentine economist Martin Redrado observed, 'Carrefour better understood from the beginning the local idiosyncrasies and managed its strategy around local conditions'. And adds retail analyst David Shriver 'They (Wal-Mart) have adapted pretty well, and they have stolen a lot of ideas from Carrefour'.

Source: Adapted from Clifford Krauss, 'French Give Wal-Mart a Sales Lesson,' *New York Times News Service* 16 January 2000.

Discussion questions

1. How important is it to know the culture before expanding into other countries?
2. How did Wal-Mart's lack of flexibility affect the business in Argentina?

An image of results The final element in crafting a vision is creating a *vivid image of the results*. The image should paint a compelling picture using crisp language. Henry Ford projected this in his original vision for Ford: 'I will build a motor car for the great multitude. – it will be so low in price that no man making a good salary will be unable to own one. – when I'm through everybody will be able to afford one, and everyone will have one. The horse will have disappeared from our highways, the automobile will be taken for granted.' Ford's vision conveyed a clear picture of the future, and it was realised within two generations.

Although ideally a vision should contain these three elements – a statement of purpose, a tangible goal, and an image of results – research suggests one finding can be generalised: the faster an industry changes, the more the articulation of a vision needs to be communicated to insiders.[9] A vision enables the people who design, build, sell, and service products to internalise a greater sense of purpose and meaning in the projects and activities they undertake.[10]

2. Set objectives to define measurable results

objectives
Specific performance targets that can be measured at designated points in time.

benchmarking
Comparing a unit's performance to outcomes achieved in other outstanding organisations.

If visions are to become tangible the broad-based visionary goal of building a better mousetrap needs to be broken apart into operational objectives. **Objectives** convert visionary intentions into specific performance targets that can be measured at designated points in time. A well-framed objective requires effort and teamwork to achieve. It should be bold, aggressive, and exhibit a sense of urgency. By using quantitative measures organisations can also compare their unit's performance over time and to outcomes achieved in other organisations, a process called **benchmarking**. However, an organisation should not end up simply chasing the best practices of others, for to do so runs the risk of moving away from the core competencies that already adds value to the venture.[11]

Management by objectives (MBO) is a widely applied method of managing, but it is not always clear what is meant by MBO. The Research Focus box discusses the work of Peter Drucker, a writer on management and organisations. We will also be meeting MBO again when we discuss methods and applications of employee performance in Chapter 7.

RESEARCH FOCUS **Management by Objectives** PETER DRUCKER

Many organisations have tried to place the emphasis of accountability on the results expected of the employees rather than their activities. This has become known as Management by Objectives.

Drucker[12] noted the advantages of managing managers by 'objectives' rather than 'drives'. Each manager from the highest to the lowest has clear objectives that reflect and support the objectives of the organisation. All managers take part in the goal-setting process and then exercise 'self-control' over their own performance; this means they monitor and evaluate their performance against their objectives and correct it where necessary.

The focus of MBO

MBO is a general management philosophy, applied both to performance and evaluation. There is no one best way to manage by objectives. MBO must be adapted to the needs of the organisation. It reflects the positive and proactive, rather than reactive method of managing.

MBO focuses on:

1. Predicting and shaping the future of the organisation by developing long range organisational objectives and strategic plans.
2. Accomplishing results rather than performing activities.
3. Improving individual competence and organisational effectiveness.
4. Increasing participation and involvement of employees in all aspects of the organisation.

MBO also consists of a series of integrated management functions:

1. The development of clear, precise organisational objectives.
2. The formulation of coordinated individual objectives to help achieve the overall organisational objectives.
3. The systematic measurement and evaluation of performance.
4. The use of corrective actions to achieve the planned objectives.

Phases of MBO

Phase one

Evaluating the performance of managers. The emphasis is on developing measurable objectives for each manager and evaluating them at the end of a set time period.

Phase two

The MBO programmes are integrated into the organisation's planning and control and budgetary processes. Management support is obtained. The emphasis is placed on the training and development of employees.

Phase three

This is the fully implemented MBO system. All the major organisational functions are integrated in a logical manner. These functions include performance evaluations, financial planning, development of strategic plans and goals, employee and management development. The emphasis for integration is on teamwork and flexibility during the goal-setting process and by emphasising individual development and performance.

Benefits of MBO

- Improved management: MBO forces managers to think about planning for results, how the results are to be accomplished and the resources required.
- Clarity of the organisation: It forces managers to clarify organisation roles and structures and makes sure they have the key people where they are needed.
- Personal commitment: It encourages people to commit themselves to goals. Employees have a part in setting their objectives and have support from managers to enable them to achieve their goals. This helps to create commitment.
- Effective Control: MBO involves the measuring of results, evaluating and taking action. A clear set of goals makes measurement and control easier.

Evaluation of MBO

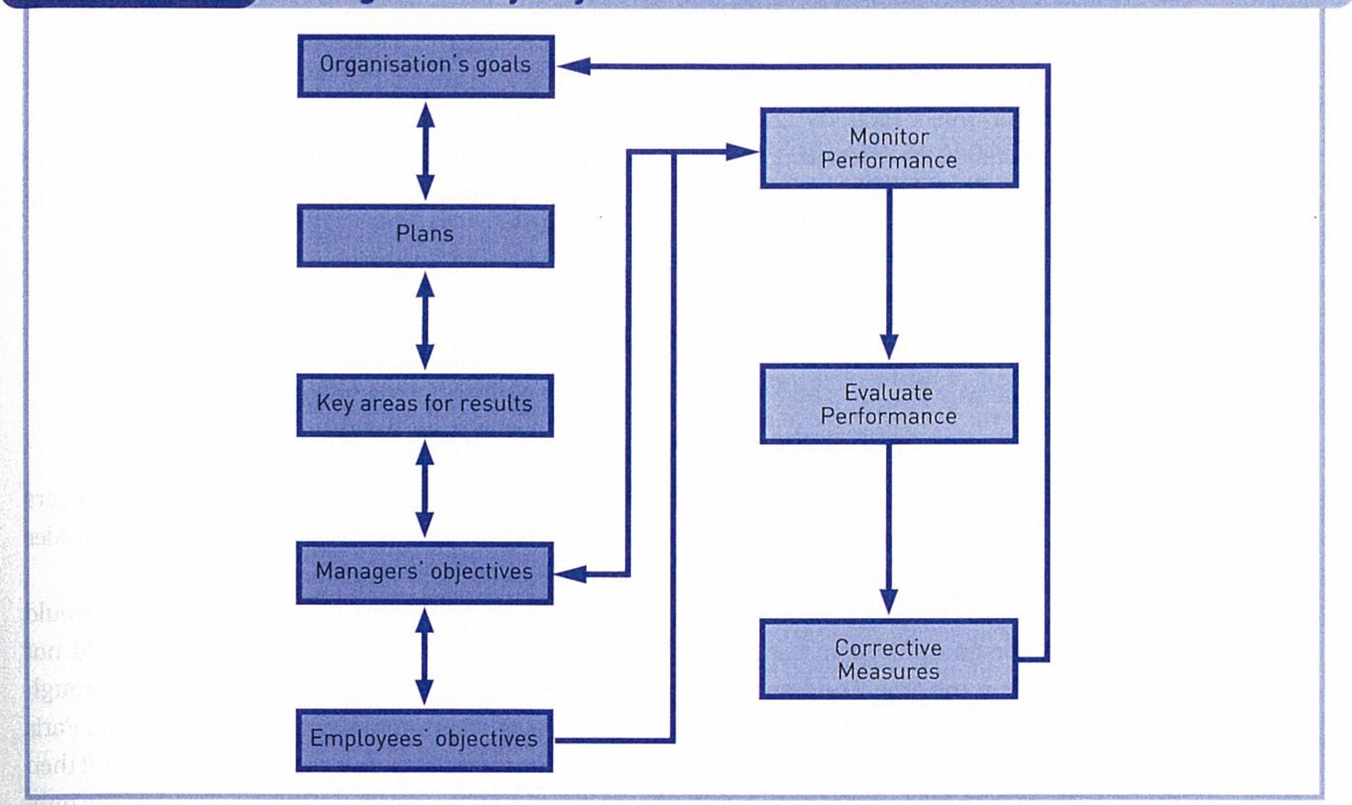
- MBO is widely practised in management, but sometimes it is not as effective as it could be. This is due in part to faulty implementation.
- MBO is often applied as a mechanistic technique that focuses on selected aspects of the management process without integration as a whole.
- MBO has been compared with scientific management, as it concentrates too much on the individual performance and requires vast amounts of data and analysis.[13]
- Excessive concern on economic results can lead to unethical behaviour.
- It is not always easy to set targets for senior management or jobs where a high degree of interpersonal skills are required.
- Many goals are short term. Managers may concentrate on these at the expense of long term goals.
- It can be inflexible. If goals cease to be meaningful managers may not want to change employees' objectives as it may affect the plan.

Any type of organisation needs to specify objectives focusing on two types of performance outcomes: financial and strategic. Even in non-profit or government organisations, *financial objectives* are critical to guiding the long-term viability of the enterprise. A variety of financial measures can be used, including expenditure variances against budget, unit costs per activity, revenue per employee, contribution margins (profits as a per centage of revenues), or earnings per share. Notwithstanding the new economy's willingness to bid up the share price of dot-com firms without a record of profitability, the attainment of financial objectives is a fact of life to business managers regardless of industry.[14]

Strategic objectives are used to assess performance against the specific design of a strategy. Here a variety of measures are used, some more or less common across strategies, others more programme-specific. Common measures are competitive product performance features, time to market (in designing and delivering new products), market share, and customer satisfaction. Strategic objectives in particular need to be time-specific to be able to assess short-term performance against longer-term criteria.

The 3M Company illustrates how objectives can be set in both financial and strategic terms: 'To achieve annual growth in earnings per share of 10 per cent or better, on average; a return on stockholders' equity of 20–25 per cent; a return on capital employed of 27 per cent or better; and have at least 30 per cent of sales come from products introduced in the past four years'. So stated, these objectives are tangible and measurable, and thus effective guides for human behaviour.

EXHIBIT 3-3 Management by Objectives



Source: The San Diego Union Tribune. **Dilbert reprinted by permission of United Feature Syndicate, Inc.**

3. Craft strategy to fulfil the mission and vision

strategy A plan of actions to achieve a favourable position within the competitive marketplace by strengthening the relationship between an organisation's capabilities and its changing environment.

To achieve the objectives that flow from the mission and vision, every organisation – be it governmental, non-profit, or a business – needs to craft multiple strategies. A **strategy** is a plan of major actions crafted to achieve a favourable position within the competitive marketplace by strengthening the relationship between an organisation's capabilities and its changing environment. Strategies pertain to those destiny-shaping decisions concerning:

- The choice of technologies on which products and services are based.
- The development and release of new products and services.
- The processes for producing products and services.
- The way products and services are marketed, distributed and priced.
- The ways in which the organisation responds to rivals.

Businesses as well as non-business entities depend on strategies to help employees or members plan new programmes or revitalise services so that constituencies are better served. Consider the essential decisions Federal Express (FedEx) had to make in crafting its initial strategy.

Federal Express was created by Frederick Smith on the premise that organisations would pay for guaranteed next-day delivery of parcels, something the Postal Service could not deliver at the time. Fundamental to this vision was the strategy of routing all aircraft through a single airport hub in the country of operation. It meant that a package shipped from Paris on Tuesday afternoon destined to Rome would be sorted at Geneva during the night and then shipped aboard another plane to Rome for delivery by Wednesday morning. To make the hub-and-spoke concept work in shipping packages, FedEx had to create an international network of airports, airplanes, trucks and computers. It also had to find financing and organise people into a network structure and create systems to provide consistency and reliability.

4. Organising and financing to support strategy

organising The management function that plans supportive structures and systems which align people to the strategy.

financing The management function involving budget preparation and finding or determining sources of funding to meet requirements for capital investments and operating expenses.

structure Organisational groupings of people and tasks into departments or work units to promote coordination of communication, decisions and action.

systems Guidelines or structured processes for handling recurring transactions and events in a standardised or consistent way.

Two planning processes are close companions to crafting strategy, and they must be resolved before (or at least concurrently with) implementation. The **organising** function plans the supportive structures and systems needed to align people to the strategy. **Financing** requires budget preparation and finding or determining sources of funding to meet both capital requirements (for facilities, equipment and technology) and for operating expenses (such as payroll and purchasing of supplies and materials).

In organising, **structure** provides a way of grouping people and tasks into departments or subunits, and defining the linkages among departments so that work flows and decision authority are coordinated and communicated. At FedEx, a geographical structure had to be organised to connect managers and operations at terminals in each major airport and to grant terminal managers the authority to organise employees into work groups to perform tasks in each location. Structures also had to be created for managing the logistics of scheduling aircraft and pilots, and for purchasing airplanes and trucks.

Systems provide guidelines or processes for handling recurring transactions and events in a standardised or consistent way. FedEx systems had to be developed and maintained, beginning with the computers and information system for routing and tracking parcels, accounts receivable, aircraft and delivery vans. The systems extended from accounting for employee time to purchasing bar code labels and billing corporate accounts. The combination of structures and systems enabled FedEx to organise to carry out the hub-and-spoke strategy.

5. Implementing and executing strategy

The greatest concentration of management and non-management effort occurs with implementation (or execution) of strategy. This is the stage where most managers and certainly most non-managers are involved and where investments are made and costs incurred. Implementation involves everything from acquiring facilities and developing products/services (sometimes by acquisition or merger), to developing channels of distribution, and marketing tactics. It also often involves recruiting new employees or contract personnel (including temporaries) and providing incentives and rewards.

Above all, implementation requires leadership, the formation of teams, and the nurturing of a supportive organisational culture. Implementation is a very action orientated activity that converts all the planning that came before into make-it-happen results. Typically this is where the efforts of several different activity centres are supposed to flow together, where conflicts occur, and where integration and coordination are put to the test. Most of the chapters of this book provide insights and techniques for guiding the implementation process.

6. Controlling results to sustain continuous improvement

If objectives have been clearly established, control of strategy implementation typically requires measurement of results and comparisons with target expectations. Control involves the detailed assessment of performance outcomes and contributors to the outcome – something more than simply achieving a satisfactory 'bottom line'. If you have studied microeconomics or finance, you might have been taught that the unique purpose of business firms is to create profits, or to maximise shareholder wealth. True, the owners and managers of businesses expect that if they are successful, they will be profitable. Bottom-line profits generate resources for reinvestment and affect a firm's attractiveness to capital markets. But profits are the *result*, or the derivative, of doing several things well. While a certain level of profitability may be one objective, other objectives and measures are needed to ensure that people are focusing effort and resources on the things they have to do to bring about favourable results, to create customer satisfaction, and the like.[15]

A manufacturer of tennis rackets aims to create certain performance and design characteristics that appeal to a particular segment of tennis players. A software firm defines objectives and crafts a strategy to get ahead of the competition by introducing an application package that will enable potential users to do certain things more easily, quickly or accurately than they ever imagined. For the tennis player, the newly-designed product may have satisfied a current need. The new software may have brought a latent need to the surface by suggesting that a product that will take the drudgery out of performing certain tasks is finally available. For either organisation evaluation needs to include measures of customer satisfaction with the new product in addition to quality checks on design and performance features of the product itself. Other measures track costs of design and development, as well as production, marketing and distribution costs, inventory levels, and other indicators of the success of the strategy.

continuous improvement Ongoing assessment and problem-solving aimed at improving designs, processes and outcomes.

Periodic reviews are useful if the control system and assessment process are used for defining the causes of problems and initiating corrective action. Successful organisations practise **continuous improvement**, where assessment data feed back to the teams responsible for results for the purpose of finding better ways to design, produce, package, price and deliver the product or service. Improvements may be incremental and uneven, but the processes for bringing them about are systematic rather than haphazard.

Assessment therefore completes the strategic cycle, and in the process generates new visions just as it promotes organisational learning of new skills and knowledge bases. Tools and techniques for improvement practices are explained throughout the book, based on the belief that individuals and organisations want to learn best practices and produce consistently high quality.

eye on ethics

IKEA – trying to assemble a perfect reputation

IKEA's global reach is rivalled only by McDonald's. It employs workers in some of the world's most impoverished countries, and has aggressive expansion plans for its huge retail complexes – the bane of planning authorities and traffic controllers everywhere. So how come its name is not writ large alongside those of Nike, Wal-Mart and McDonald's among the anti-globalisation protesters from Seattle to Doha.

Chief executive Anders Dahlvig is uncomfortable with the question and takes pains to highlight IKEA's past PR disasters – most notably over child labour in Asia. He knows IKEA will doubtless come a cropper again. 'There will be things we don't see. You can't protect yourself from problems altogether' he said.

Since the early nineties when a Swedish documentary showing children chained to weaving looms of a supplier in Pakistan triggered protests, IKEA has made strenuous efforts to protect its 58-year-old brand.

Beyond tightening up its monitoring of suppliers, it has conducted a root and branch examination of its business to see where it can lessen its environmental and social impact – and has disarmed critics by enlisting their support. IKEA has given money to UNICEF to set up schools in Indian villages, and to Greenpeace, which Dahlvig describes as its 'roving conscience'.

IKEA has increased its purchasing from developing countries from 23 to 48 per cent over the past five years in its relentless drive to keep prices low. The further it goes into such countries, the more important the issue becomes. Dahlvig, has only been CEO since 1999, but his first big project was to complete a code of conduct for IKEA's suppliers – a three page document called the *IKEA way on the environment*, a tortuous process that took a year to complete.

I-way defines a single set of standards for its 1400 suppliers – the same rules apply in Sweden (still its main source of supply) as in China – and three levels of check include independent auditing. *I-way* sits on the shelf beside IKEA's other bible, *Kamprad's Furniture Dealer's Testament*, which permits only economy class flights and budget hotels, even for himself and Dahlvig.

'We're lucky because our business idea, values and vision all actually help us and point towards taking social and environmental responsibility', Dahlvig says. 'It's in IKEA's DNA, so to speak.'

But this is not altruism. What makes the environment such a critical issue is that there is no room for compromise on the biggest part of IKEA's DNA by far – its massive warehouse retail outlets. The company operates in 22 countries but only has 143 stores, each averaging three football pitches – allowing it to keep its overheads low. It vies with MFI for the top UK furniture retailer spot despite having just 11 stores. And IKEA has ambitious plans for more: it will open another 10 stores worldwide in 2001–2002 and 20 the year after; and in the UK it wants to open another 20 in the next 10 years, tripling its presence.

To maintain its position as a top furniture retailer its helps to be ethical and have a conscience.

Source: Terry Slavin interviews Anders Dahlvig in *The Observer* 25 November 2001.

Discussion questions

1. Is altruism important in business to be successful?
2. What could be the vision statement for IKEA's next 10 years?

Strategic questions every manager should explore

There are no hard-and-fast rules for learning to think and manage strategically. Rather, the process is a way of analysing, planning and thinking that evaluates and anticipates the relationship between the organisation and its environment to add value in ways unique to the unit. Leaders who effectively guide strategy formulation and implementation, whether for a total organisation or a sub-unit, draw others into the process – a form of teaching and learning.

The teachable point of view

Executives have found that people at all levels of the organisation become strategically focused if involved in learning through teaching personal lessons about how to succeed.[16] As researched and described by consultant Noel Tichy, the *teachable point of view* puts the leader in front of his or her people by writing about and interactively teaching his or her personal beliefs, assumptions and models of change.[17] Leaders teach consumer value, how to knock out competition, and how to drive strategic change down to the people who are producing value for customers and capital markets. They do this in part by sharing philosophy, and then asking, debating and finding answers to the questions on which viability of the organisation depends.

Individually and collectively, managers and salaried employees learn to shape and share responses to questions such as the six that follow – to understand what they mean for the organisation.[18] These are the types of questions that a manager ponders in discussions with colleagues in the hallway, over lunch, in conference rooms, and in formal workshops. Often the collective answers emerge over time as individual ideas are shared and actions co-evolve.[19] Other questions may be equally effective in provoking strategic thinking, but these are representative of the reasoning that leads to strategic organisational learning and action.[20]

1. What business are we in?

The most basic question any organisation must answer is: What product or service should we market? A related question is: Who is our customer and how can we provide value to that customer? Experience and research substantiates that organisations do best if they remain focused on a core business that takes advantage of the unique capabilities that give them competitive advantage over rivals.[21] Even a non-profit organisation can excel if focused on a very selective set of services that match its capabilities with its mission.

Sony excels at producing and marketing consumer electronics products, but has not done so well with the acquisition of a movie studio. The difference between being a 'consumer electronics business' and an 'entertainment business' is profound, for the talent needed to make great innovative products (boxes for entertainment) is vastly different than the talent needed to produce entertainment content (movies and TV programmes).

Some businesses have only one or a few customers, such as the local smallholding that supplies the nearby hotel. Others, such as Boeing, sell a limited number of aircraft models (with airline customisation) to a hundred or so customers throughout the world. Still others, such as Procter & Gamble, sell hundreds of consumer products to thousands of retailers, which in turn sell them to millions of individual consumers.

This 'What business are we in?' question should be asked by every manager. *Every unit must serve a customer*, regardless of the department's or unit's level, function or size. For most units, the customer is one or more other departments or divisions within the organisation that receives its output. Even then, however, the same dedication to increasing value for the customer should apply. For example, an information systems manager should work with other departments to find solutions to their information-processing needs. In effect, all managers of work units should think of themselves as entrepreneurs serving customer markets – and if they do not serve them well, other customers (whether external or internal) should be free to buy where they find the best deal. When Alcoa, an aluminum firm, declared that all line and staff units were free to conduct business with outside companies, productivity and sales among line units doubled.[22]

2. What are our internal strengths and weaknesses?

A firm (or a line of business within it) should be aware of its core capabilities and sources of competitive advantage. A sustainable competitive advantage is created if a firm's core capabilities cannot be readily copied by competitors. **Core capabilities** are the critical skills and processes that an organisation executes so well that its reputation builds around them. Core capabilities develop if people consistently carry out the actions necessary to achieve the intended strategy.

core capabilities
The critical skills and processes that an organisation executes so well in carrying out its intended strategy that its reputation builds around them.

For example, there is nothing unique about the strategy of Marriott Corporation: simply attract travellers and diners by providing them with consistently excellent service. Marriott realises it must ignite within each employee a deep commitment to outstanding customer service.[23] Employees are empowered to use their initiative in meeting customers' needs, backed by training and guidelines to make sure details are not overlooked. The housekeeping staff, for example, follows a 66-point guide in making up rooms; nothing is left to chance.

In addition to knowing its strengths, an organisation must recognise its limitations. Whether limited by a poorly equipped production facility or a sales force that merely quotes prices and delivery dates, a business that acknowledges its weaknesses forces managers to assess their processes and systems. Many will conclude that they should concentrate on the functions at which they excel and outsource functions that can best be performed by vendors.

3. What external opportunities and threats do we face?

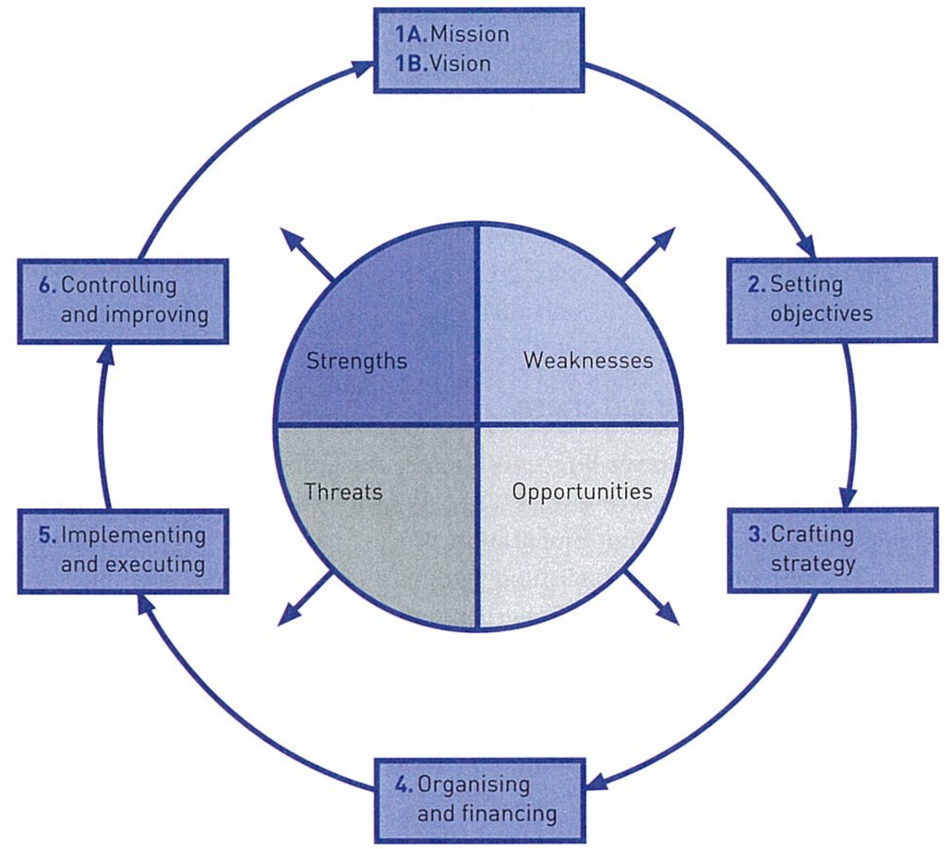
External and internal environments present both driving and restraining forces. Opportunities may occur suddenly: A key supplier agrees to form a joint venture, a regulation is relaxed, or a competitor encounters a major problem (such as a product recall). Conversely, managers need to be aware of looming threats and plan for them. Legal action, competitor product breakthroughs, and even industry-wide price cuts (common at times in the airline industry) all threaten a firm's current strategies. Undoubtedly the announced acquisition by AOL (the Internet service provider) of Time Warner (the diversified media and cable TV company) was seen as threatening to smaller Internet service providers, phone companies and video rental stores. Furthermore, in unstable or hostile environments, managers need to plan for contingencies, adopting a 'what will we do if' preparedness to respond to likely threats.

With the fast pace of globalisation and technology changes, what may initially present itself as an opportunity may become a threat if organisational responsiveness is too slow or not well planned. The rapid rise of the Internet with video streaming capabilities provides universities with the opportunity to creatively use technology to mediate or modify how instruction is delivered to students. Schools either lacking in resources or slow to develop competence in managing the technology-learning interface may find new competitors drawing away their students without regard to geography.[24]

SWOT analysis
An assessment of internal resources and competence (**S**trengths and **W**eaknesses) in relation to conditions in an organisation's external environment (**O**pportunities and **T**hreats).

The combination of questions that assess internal *strengths* and *weaknesses* and external *opportunities* and *threats* are the keys to a process called SWOT analysis. Managers perform a **SWOT analysis** (or *situational audit*) whenever they assess conditions in their relevant environment in relation to internal resources and competence; that is, when they assess the relationships among strengths, weaknesses, opportunities and threats.[25] Few experienced managers would think of planning strategies without making SWOT analysis part of the process. Exhibit 3-4 shows the SWOT elements radiating out to impact on the key strategy processes.

EXHIBIT 3-4 SWOT Analysis is Central to Managing the Strategic Cycle



Few managers will attempt to manage the strategic cycle processes without keeping in mind conclusions drawn from a SWOT analysis. To do so, they synthesise what they know about relevant external and internal forces into the four components of internal strengths and weaknesses, and external opportunities and threats.

4. What business(es) should we be in?

With this question, managers seek to control their organisation's destiny. This critical question encourages managers to infuse their own values, ideology, creativity and desires into the strategic planning process, creating a vision of what the organisation is capable of becoming. Even managers of functional departments (such as marketing or design engineering) are capable of drastically altering the types of services they provide. There are really two ways to respond to this question.

First, the traditional interpretation focuses on lines of business – product and market combinations. In some firms the vision of the future organisational unit may be one of expanding output and sales by finding new markets for a basic product line, such as The Body Shop has done in moving into diverse trade channels and global markets. In other organisations, the vision is one of diversification by branching out, of moving into a broader offering of lines of business involving new combinations of products and markets. Richard Branson of Virgin expanded into other operations when he realised they were being blocked by the large record companies. Virgin's first shop was the result of a postal strike and from there, every time they have found a gap in the market they have diversified into it. In rare cases a firm may abandon its original business and redirect its resources elsewhere. Vauxhall cars, owned by General Motors, has pulled out of car manufacturing at its Luton plant to concentrate on its van business. Its cars are to be built elsewhere in the UK and Europe. Second, management might probe the internal business processes used to bring products and services to the market. Three basic process networks or businesses are found in most organisations: a product innovation business, a customer relationship business, and an infrastructure business that builds and manages facilities for high-volume repetitive tasks.[26] As transactions from any of these business processes move onto electronic networks, managers who question 'What business should we really be in?' will realise that not all of these are best performed inside the organisation. By outsourcing non-core capabilities, the organisation concentrates on what it can do better than others.

5. How do we get there?

Responses to the preceding questions cascade down into planning how to strategically position or reposition resources and actions to achieve the desired business objectives. This strategy design and implementation process involves setting direction for obtaining and allocating resources, establishing systems and policies, and, when necessary, restructuring the organisation (as indicated earlier in the strategy process cycle). Often the key is to recognise emerging possibilities and help them take shape. Professor Mintzberg claims: 'The job of the manager is not just to preconceive specific strategies but also to recognise their emergence elsewhere in the organisation and intervene when appropriate'.[27]

For example, managers might extend a particular product line, drive down costs by simplifying product design (to reduce labour costs and improve quality), streamline production, strengthen customer service, develop new channels of distribution, restructure the pricing policy, and perhaps simplify the organisation. To successfully carry out operational strategies the firm needs a planning process that identifies critical resources, events, and timetables for converting intentions into actions.

Strategies can also be enacted to phase out products that no longer contribute to the core business. Many banks have both cut back on full-service branches and extended access to ATMs and supermarket 'branches', and expanded into new lines of financial services business.

6. How do we know we are still on the right course?

milestones
Future dates by which certain events are planned to occur.

Plans need to have milestones and controls to ensure that actions correspond to plans, or to evaluate whether intended actions and goals are still feasible. **Milestones** are future dates by which certain events are scheduled to occur. Milestones are useful when a plan has several distinct components, each of which must be completed at a specified time for the entire event to occur. Managers also use controls to evaluate efficiency by comparing actual with planned performance. Actual costs can be compared with budgeted costs, or the

number of service calls handled within a targeted response time can be compared with set standards or historical results.

A control system works if it prevents deviations from a well-conceived plan. If a deviation does occur, the control process should trigger actions to bring out-of-control elements back into line with the plan's goals and milestones. For example, A local pizza delivery company guarantees to deliver within the hour or the pizza is free. Managers monitor this to ensure the pizza chefs and delivery drivers keep to target.

technology transformation

Caution pays off when launching speech-operated services

I wanted to go to Tobago but the voice on the other end of the line seemed determined to send me to Tokyo. There was no arguing with her since I was talking to a computer at the new British Airways flight information system.

Such mix-ups have become a fundamental barrier to adoption of voice activated technology – few businesses are willing to trust a computer with their mission critical applications while glitches remain.

However, the BA computer system quickly showed why confidence in the technology is growing. Within seconds of its mistake, the computer redeemed itself by asking whether the details were correct and on being told they were not accepted the right information. I could fly to Tobago – and the entire information had taken a few minutes, against a much longer time I might normally have to wait to talk to a human operator in a call centre.

Furthermore, BA estimates that the cost to the company per call falls from about £2 using a call centre operator to 8p with the computer system. Three months since its launch, with 12 000 calls a day being made to the new service, the company expects to quickly recoup its – undeclared – investment. Cost is essential to wider adoption.

'We are now seeing a wide array of products where economic benefits of speech technology are being validated', says Stuart Patterson, president and CEO of Speechworks, a voice technology group. 'This is helping to drive the market because we are in an environment where companies are looking to cut costs without compromising service.'

The success of high-profile projects such as the BA initiative is crucial says Ron Croen, head of rival company Nuance. 'It spreads confidence that here is a technology that is robust and reliable.' The growing awareness of such cost and service benefits is driving a diverse range of initiatives.

The UK government recently introduced a voice-enabled tagging scheme whereby young offenders under curfew can call a police computer which recognises their voices and verifies the time and location of their calls.

Betting company Ladbrokes introduced its first voice activated computer for the Grand National horse race in April 2002, which proved so popular that it is being extended to other events.

Lastminute.com was more cautious and has introduced voice technology gradually. It uses voice activated systems for only parts of its organisation, although it expects their use to expand as consumer acceptance grows. One area it has targeted is technology to allow its suppliers such as hotels and airlines, to update their inventory lists. Thus, where a hotel would have called or faxed through changes in its room availability, it can now transfer the information more speedily and cheaply with Lastminute.com's voice system.

While caution is the watchword among big corporate users, Serafino Abate, senior technologist at Ovum, the technology research group, sees more rapid growth in voice service provision.

In the same way that Internet service providers currently offer Web hosting services, he says, they may also provide voice activated services.

ISPs are more likely to offer voice portals – computerised voice activated services ranging from calendars to e-mail to entertainment, he says.

'This could be a big opportunity for the ISPs to test new services before the advent of the next generation 3G services.'

Source: Adapted from 'Investment a voice you can trust' by Christopher Price in *The Financial Times* 14 June 2002 p. 13.

Discussion questions

1. What are the problems of new technology in business?
2. How could poor implementation of new technology affect business?

Results are the payoff

All the plans, actions, milestones, goals and controls managers use to shape business strategy culminate in performance results. Management philosopher Peter Drucker emphasises that **results** are an external acceptance or rejection of what the enterprise does:

results
An external acceptance or rejection of what an organisation does – satisfied customers are the hallmark of positive results.

> The single most important thing to remember about any enterprise is that results exist only on the outside. The result of a business is a satisfied customer. The result of a hospital is a healed patient. The result of a school is a student who has learned something and puts it to work ten years later. Inside an enterprise, there are only costs.[28]

The previous six questions, or variations of them, should not be asked only when an organisation is in trouble. Rather, they should be asked periodically to help managers look ahead to opportunities as well as threats. Such questions serve as the focus for management retreats, meetings and conversations with peers. Together, they create an integrated way of thinking and acting strategically within an organisation. You can practise thinking strategically by asking yourself similar questions about your 'business' and where you are going. Take a moment now to complete the Your Turn exercise.

Your turn Strategically planning your career

To give you insights into strategically focusing your career, write answers to the following questions. Periodically thinking through such questions can keep your career from drifting.

1. What business are you in? What is your product (the service or value you create for others)? Who is your market (what type of employer or client is willing to buy your service)?
2. What are your strengths and weaknesses as an employee or self-employed provider of services? What are your core skills and competencies?
3. What external opportunities and threats do you anticipate? Where could you best use your competencies following graduation? What can go wrong in controlling your career?
4. What business should you be in? Where would you like your career to be, say, 3, 5 or 10 years from now? What vision do you value?
5. How do you get there? What actions do you need to undertake now to reach your career vision?
   a. What added education/training do you need?
   b. What organisational experience do you need?

6. How do you know you are still on the right course? What milestones do you have for periodically checking up on your career progress?

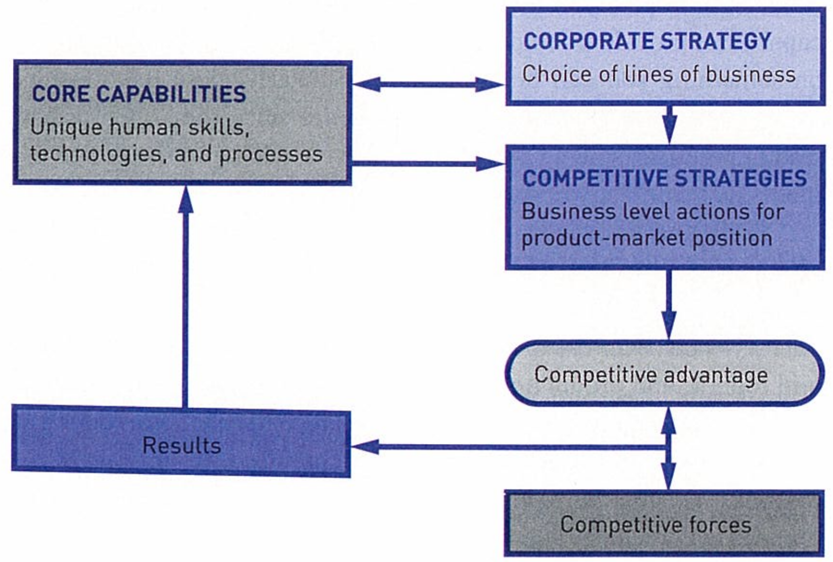
Note: For additional help in planning your career, see Chapter 16.

Developing competitive advantage

In a practical sense, strategy begins by making decisions about which markets to compete in and what products and services to provide so that customers' needs are met and expectations are exceeded. Strategy then includes decisions about:

- How much of the product the firm should make, and how much it should buy from other firms.[29]
- Whether to be technology or labour intensive.
- Whether to distribute through independent dealers, wholesale trade channels, a business-owned dealer network, or the Internet.
- Whether to aim for high-volume economies of scale, or flexibility with short product life cycles and greater customised production.
- Whether to price products to gain market share or to improve gross margins.[29]
- Exhibit 3-5 summarises the key concepts that come into play when an enterprise seeks to sustain a competitive advantage.

EXHIBIT 3-5 Key Concepts That Shape Competitive Advantage



Competitive advantage occurs whenever an organisation is able to sustain an edge over its rivals in attracting customers and defending itself against competitive forces. Behind every organisation that enjoys a superior competitive advantage are a unique set of core capabilities that develop with experience and focused use of resources. For diversified firms, these capabilities should limit the lines of business that make up the portfolio of corporate strategy. Within each business unit, managers craft competitive strategies that affect actions involving technology, production, product development, marketing, pricing and other means of building a favourable position within the marketplace.

Craft strategic actions to win competitive advantage

competitive advantage Occurs whenever a business is able to sustain an edge over its rivals by attracting customers and defending itself against competitive forces.

A business enjoys a **competitive advantage** whenever it is able to sustain an edge over its rivals by attracting customers and defending itself against competitive forces.[30] For decades the Kodak Company was the undisputed market leader in chemical-based photography film. But externally, the combination of world competition in film (especially by Fuji) and the emergence of digital imaging stalled Kodak's growth and profitability. Internally, a dysfunctional organisational culture and a dispirited workforce hindered Kodak. Kodak was losing its competitive advantage.

George Fisher gave up his post as CEO of Motorola Inc., to take the helm of Kodak. He reorganised and changed strategy to reposition the rapidly fading Kodak. Fisher sold off its unrelated Sterling Drug division so that management could refocus on imaging. He also slashed debt by £8 billion to save on interest costs, re-ignited photography growth in global markets (especially Asia), invested heavily in digital technology, and began shaking up the sluggish management system by stressing accountability, quality and cycle time.[31] In short, he worked to restore and sustain Kodak's competitive advantage based in part on building capabilities in new digital technologies.

Assets and skills build organisational capabilities

To achieve a strategic competitive advantage all enterprises build their strategies around a core of physical assets, business processes, and the skills and talents of its people. The critical question is how well assets and skills combine to endow the organisation with unique capabilities. Hayes and Pisano argue that core capabilities provide the keys to long-term success by enabling the firm to combine assets and skills to do certain things better than competitors.[32] Firms need to be cautious, however, that extreme success in combining technology with other capabilities may be viewed as restraint of trade with monopoly power – an issue that continues to confront Microsoft.[33]

Some researchers conclude that the key to competitive success within manufacturing organisations is not in having equipment resources, but in 'the ability to produce it [a product] efficiently, sell it efficiently, or advance it over time. Such superior organisational capabilities provide a competitive advantage that is much more sustainable than one based on something you can build or buy.'[34] Similarly, close relationships with customers are being recognised as a source of competence since they often provide the laboratories for testing products, solving problems, and even helping in the design of new product requirements for technology firms such as Cisco Systems.[35]

Skills and knowledge are also critical: 'A company's capabilities are more than its physical assets. In fact, they are largely embodied in the collective skills and knowledge of its people and the organisational procedures that shape the way employees interact.'[36] For Sun Microsystems, skill-based capabilities include rapid high-technology product development and rollout, and production flexibility. Tesco has shown the capability to consistently spot market trends, it introduced loyalty cards, recognised the need for a value range at one end of the market and a gourmet range at the other, it constantly changes its products in response to market demands.[37] Both companies pursued their unique strategy for managing knowledge as a critical resource – a core capability.[38]

corporate strategy For multibusiness firms, the highest-level decisions and actions about what lines of business to be in and how to manage them.

diversification In complex organisations, a corporate strategy of branching out beyond the core business by offering different combinations of products and markets that establish new lines of business.

Corporate strategy for managing a diversified enterprise

For the firm as a whole, **corporate strategy** involves senior executive decisions about what lines of business to be in and how to manage them. **Diversification** is the corporate strategy of branching beyond the core capabilities that define the product technologies and markets of the current core businesses. The enterprise George Fisher took over at Kodak had been diversified into several business lines, from film, photographic paper, and chemicals to cameras, digital imaging, and pharmaceuticals. Michael Porter's research on diversified firms found that competition occurs only at the business-unit level, which in a diversified firm involves a plant or division targeting a focused product line at a specific market.[39] Consistent with this finding, one of Fisher's early corporate strategies was to refocus on photography and imaging, and to get out of the pharmaceuticals business where Kodak had no distinctive capabilities and thus no strong basis for competitive advantage.

Today many diversified (multibusiness) firms are using a couple of basic strategies to plan robust futures. One is to narrow their focus by downsizing and exercising control over fewer industries but over ones they know well – their core businesses.[40] Firms are unloading support services and activities that are not critical to core businesses; they are even outsourcing information technology services, facilities management and human resources.[41] **Outsourcing** is the strategy of purchasing services or components from suppliers to prevent overextending the firm beyond its core capabilities.

outsourcing The strategy of purchasing services or components from suppliers to prevent overextending the firm beyond its core capabilities.

relative quality degradation Occurs when the rate of improvement of an enterprise falls behind that of competitors and relegates it to second-class performance.

Managers realise that they must not lose strength in their core businesses; otherwise, their relative quality will be degraded. **Relative quality degradation** occurs when an enterprise's rate of continuous improvement falls behind that of competitors. Even if product quality improves in an absolute sense, the rate of improvement relative to competitors determines growth or decline. It is better for an enterprise to be a world-class competitor in a few select lines of business than a second-class one in many.

A second basic strategy is to transform a hierarchical, bureaucratic organisation into a series of flexible internal enterprise units. The objective is to create internal markets and businesses among relatively small, semiautonomous enterprise units. Hewlett-Packard is an example of how internal enterprise units balance freedom with control:

> Units are converted into enterprises by accepting controls on performance in return for freedom of operations. Hewlett-Packard (H-P) is famous for its entrepreneurial system that holds units accountable for results but gives them wide operating latitude. As one H-P executive described it, 'The financial controls are very tight, what is loose is how [people] meet those goals'.[42]

The Swedish-Swiss firm ABB has excelled at stimulating innovation by granting local autonomy among its 4500 semiautonomous profit centres, each a separate legal entity with its own financial statements. Especially for global enterprises like ABB, competitive advantage is created more by setting up businesses in locations that offer unique capabilities than by shifting production facilities globally in pursuit of low-cost labour.[43]

Competitive strategies at the business-unit level

competitive strategy Actions at the level of a specific line of business intended to create a competitive advantage by planned actions about where to compete and how to compete.

Many firms compete across multiple lines of business – they have pursued diversification. **Competitive strategy** is possible only within specific lines of business, where competitive advantage can be created through making choices about *where to compete* (the markets and segments, the type of rivals one goes up against) and *how to compete* (on the basis of product features, manufacturing, pricing, distribution, and so on).[44] Designing an integrated set of competitive strategies requires creativity and innovation in one or more spheres of business activity. In researching how companies succeed in international markets, Michael Porter states:

> Companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things. They perceive a new basis for competing or find better means for competing in old ways.[45]

National competitiveness through innovation

On a global level, if one nation's firms in a once-dominant industry begin to lag behind competitors in another region of the world, that nation loses global market share. Once the decline begins, it often accelerates, as has occurred in the UK clothes manufacturing industry. When Asian countries were able to produce goods of equal quality but at a lower cost, UK manufacturers lost out. After completing a four-year study in 10 countries, Porter concluded, 'A nation's competitiveness depends on the capacity of its industry to innovate and upgrade'. Furthermore, 'Once a country achieves competitive advantage through an innovation, it can sustain it only through relentless improvement.'[46] Porter also found that a primary driver of such innovation is the dominance of regional industry clusters. '**Clusters** are geographic concentrations of interconnected companies and institutions in a particular field [that] encompass an array of linked industries and other entities important to competition.' Clusters provide local knowledge, relationships, motivation, sources of capital, and infrastructure that stimulates dynamic cooperation as well as competition. Well-known examples are Hollywood for movies, Daggenham, Essex for Ford cars.

clusters Geographic concentrations of interconnected organisations in a particular field.

Craft strategy before action

Strategy is the glue that holds the organisation together by unifying plans throughout. Competitive strategy is the pattern of actions that focus an organisation's resources and core competencies on achieving a sustained competitive advantage in chosen environments. Managing strategically is a process of 'making choices that best align the organisation with environmental demands'.[47] Every manager, regardless of position within the organisation, needs to think strategically before initiating major actions, for every organisational unit is responsible for strategy. Exhibit 3-6 provides an example of how a successful entrepreneur develops strategy before starting new ventures.

Why planning is an exercise in organisational learning?

The preceding discussion suggests that planning should be a rational, analytical process based on the facts of a situation. In reality, planning is more about organisational learning than about programming a series of activities to attain an objective.[48] As the former head of planning at Shell noted, 'The real purpose of effective planning is not to make plans but to change the ... mental models that ... decision-makers carry in their heads'. A generation ago, senior executives got caught up in strategic planning as 'the thing to do' but in this earlier approach to planning, planning was divorced from doing; it was something to assign to staff analysts. Thus, strategic planning became detailed analyses to support strategies managers had already envisioned.

Today planning is the responsibility of all managers and typically of work teams, and it involves participation, empowerment and commitment, more than it does making calculations. When managers plan the emphasis is on strategic thinking, not on strategic planning. As Mintzberg emphasised:

> Strategic planning is not strategic thinking. Indeed, strategic planning often spoils strategic thinking, causing managers to confuse real vision with the manipulation of numbers ... Strategic thinking ... is about *synthesis*. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too-precisely-articulated vision of direction.[49]

EXHIBIT 3-6 Four Steps for Success in Business Start-Up Planning

Norm Brodsky has started six new businesses, three of which have been included in the *Inc. 500*. After observing the business of entrepreneurs and checking out their performance numbers, he offers the following advice (applicable primarily to non-dot-com businesses). Although your text focuses on understanding human behaviour, numbers remain important and cannot be ignored. For entrepreneur Brodsky, the numbers are fundamental to disciplining the mind of the manager. He recommends:

1. 'Get a grip on your emotions and decide on your goals.' He emphasises goals that centre on preserving capital and maintaining gross profit margins in early years.
2. 'Make sure you understand what cash flow is and where it's going to come from.' The centrepiece of a business plan is cash flow, and cash flow is about making the right kind of sales. Realise that capital is limited and make sure it lasts long enough to make the business viable with sufficient cash to cover expenses.
3. 'Recognise the sales mentality before it's too late.' Successful entrepreneurs fixate on making sales go up every day, every week, every month. Sales, rather than earnings, should be the early goal. But entrepreneurs should also protect capital, and go after the highest gross margin the business can sustain while keeping sales increasing.
4. 'Learn to anticipate and recognise the changes in your business.' The biggest change occurs once critical mass is attained. Critical mass is a threshold necessary for the business to take off, such as the size of the customer base. Critical mass is the point at which internally generated cash flow allows the business to grow without needing outside investment.

Source: Bo Burlingham, 'How to Succeed in Business in 4 Easy Steps', *Inc.* 17 (July 1995), pp. 30–42. Reprinted by permission of *Inc*.

Mintzberg's words are not an indictment of planning, but an encouragement not to treat it as a mechanistic, highly analytical, and formalised process to be delegated to staff. Organisations do need to plan, but planning begins when managers lead, rather than delegate, the process.

Planning helps reorient vision and direction

All firms that expect to grow or reposition themselves need to plan their strategic moves. After a few years of successful growth, most leaders latch onto a formula that seems to work; they develop core capabilities and learn how to be competitive. But most organisations encounter periods of crisis in which the winning formula that created success under one set of conditions no longer propels growth. Drucker refers to this as the need to 'slough off yesterday' and reposition for the future.[50]

In part because of their size and past success, industry giants encounter difficulty when yesterday's collective decisions no longer fit new realities. Tom Peters declares bluntly, 'Success breeds failure. The challenge of reinvention is absolutely required.'[51] Nevertheless, the need to reinvent the future and slough off yesterday applies even to the smallest organisational unit. Any department or sub-unit needs to plan how it will continually revitalise its contribution. Otherwise, it may be absorbed into another unit or axed altogether.

British Airways, Marks & Spencer, General Motors, IBM and Kodak have all experienced struggles to reorientate their organisations to futures that differ from success factors of an earlier era. In some firms management beliefs are too anchored to the past and the senior executive too entrenched. In others, management is blind to internal weaknesses (such as too many layers of managers) or key environmental changes (such as shifting customer demands or rapid advancements in technology). In still others, plans are poorly conceived and executed, whether they focus on product development, acquisition, or defences against antitrust litigation. Competent managers typically think of planning and implementation as a continuous process, a responsive flow of values, information, goals, decisions and resources throughout the organisation. General Electric has made significant progress in repositioning its 20 lines of businesses through such processes.[52] Exhibit 3-7 identifies the key issues GE managers work through in their planning process.

EXHIBIT 3-7 GE's Simple Formula for Global Competitiveness

To reduce the bureaucratic hierarchy and speed up the flow of strategic decisions at General Electric, the top 100 or so managers meet together as the corporate executive council (CEC) for two days every quarter. CEO Jack Welch at times asks leaders of GE's business units to reduce their analyses to one-page answers to each of five questions:

- What are your global market dynamics today; where are they going over the next few years?
- What actions have competitors taken in the last three years to upset those global dynamics?
- What have you done in the last three years to upset those global dynamics?
- What are the most dangerous things your competitor could do in the next three years to upset those dynamics?
- What are the most effective things you could do to bring your desired impact on those global dynamics?

Sharing responses to these questions allows everyone to know the basic game plan and plays across the 14 or so major lines of business.

Sources: Adapted from Noel Tichy and Ram Charan, 'Speed, Simplicity, Self-Confidence: An Interview with Jack Welch', *Harvard Business Review* 67 (September–October 1989), p. 115; and Terence P. Paré, 'Jack Welch's Nightmare on Wall Street', *Fortune* 130 (September 5, 1994), pp. 40–48.

planning
The process of establishing objectives and specifying how they are to be accomplished in a future that is uncertain.

controlling
The process of evaluating the degree to which outcomes match objectives; and when they do not, analysing why and taking corrective action.

ideology
Beliefs and values held by a manager about how to succeed in business; encompasses economic assumptions and ethical ideals.

Planning and controlling events, behaviours and resources are critical parts of every manager's job. **Planning** is the process of establishing objectives and specifying how and when they are to be accomplished in an uncertain future. When it works well, planning helps individuals and groups visualise desired outcomes and anticipate the behaviours and resources necessary to make them a reality. **Controlling** is the process of evaluating whether outcomes match objectives and, if not, analysing why and taking corrective action. Control involves measuring and assessing performance to increase the probability that behaviours and resources support plans or that plans are reevaluated as circumstances change.

The dynamics of planning and managing strategically cannot be distilled into a predetermined set of steps. Nevertheless, managers draw on common elements to give direction and meaning to their plans. Effective managers combine ideology with environmental scanning perceptions to articulate a strategic vision. A manager's **ideology** is his or her values and beliefs about how to succeed in business, which runs the gamut from economic assumptions to ethical ideals. Although these factors vary among firms and managers, a manager's ideology weaves its way into his or her approach toward planning as well as into the outcomes of planning.

The paradox of managing by ideology in the information age

management by information
A structured system of information management based on developing clear, specific goals and plans for all managers to use in analysing problems by studying cause–effect relationships.

Two systems of management have been identified by Cummings, one based on information and the other on ideology.[53] Organisations that encourage **management by information** believe in developing clear, specific goals and plans, where managers analyse problems by studying cause and effect relationships. Thought processes are expected to be logical and directed toward well-defined systems and structures. Upper managers manipulate the symbols of success: promotions and bonuses, larger offices on higher floors, prestigious job titles, and so on. Lower managers are rewarded for passing relevant information upward and carrying out operational plans that emanate from higher up. Information is believed to be truth.

Does this sound like your ideal approach to management? If so, take comfort in the fact that for generations it was *the* way to get things done in organisations. But its emphasis on predictability makes information-driven planning limited in effectiveness. It is most applicable when environmental conditions are reasonably stable, which is increasingly atypical for any type of organisation.

management by ideology
A system of information management based on trust in individual managers to be sensitive to the attitudes and perceptions of all participants in a decision situation and to do what is best for all by applying appropriate values and beliefs.

An alternative approach encourages self-expression and individuality among managers and professionals. **Management by ideology** means being sensitive to the attitudes and perceptions of participants; managers are expected to 'do what is right' in a situation rather than base decisions on information that may be inadequate, distorted or outdated. Cummings sees value in basing plans on ideology: 'Trust and credibility begin to centre more on ideology, values, and basic beliefs, as opposed to . . . the accuracy and completeness of information. If one cannot trust others' information because of environmental change and turbulence, then one must trust others' values.'[54]

The recent rush to create Internet companies that emphasise digital distribution – the so-called dot-com firms – dramatises this reality. Even though the business model relies on instant information, the entrepreneurial decisions that bring the firm into being are based largely on innovative ideas, assumptions and beliefs about what might succeed in the marketplace. These are commitments made with a high degree of risk, driven by ideology. 'Dozens of Microsoft's best and brightest have traded in their cushy corporate perches for the folding-chair atmosphere of Web startups.'[55]

Ideology guides environmental scanning

The combination of increased environmental turbulence and better-educated managers has made management by ideology more common. If ideology is the driver, information can be used creatively to reinvent the future. In part, this shift has occurred to help organisations respond to faster, more complex external changes:

> In management by ideology, innovation is sought and positions are advocated that, in fact, reward innovative policies and structures. Contrary to the usual assumption, on the other hand, in management by information real innovation is to be avoided . . . Technological and information systems are designed to ensure the status quo or, at most, the gradual and incremental modification of organisational policies and designs.[56]

environmental scanning
The monitoring of current and anticipated trends and events in the external environment through quantitative data and qualitative perceptions.

Organisations led by people with a coherent ideology are able to use what they have learned in the past to make sense of all the conflicting information that surrounds them. Managers engage in **environmental scanning** to monitor current events in the business environment and forecast future trends, a process that combines quantitative data with qualitative perceptions.[57] Ideology filters the manager's environmental scanning perceptions of everything from external forces (especially opportunities) to internal dynamics.

Active environmental scanning opens managers to a broader array of possibilities, especially if they evaluate data guided by ideology. Research found that hospital administrators who paid attention to environmental cues had a more reliable frame of reference for making decisions.[58] Therefore, they initiated more product and service improvements and performed better than those who paid less attention to their environments. Even large organisations such as Shell, Procter & Gamble and DaimlerChrysler are using cyberspace teams to round up ideas from employees and outsiders to innovate new products without the usual constraint of big bureaucracies.[59] A quick environmental scan subjects information to the judgement of team members, who act on the most promising possibilities. At times, quasi-structured group processes are used to speed up the pooling of individual perceptions and ideological evaluation of data leading to new visions and plans.

How group techniques promote innovative visions

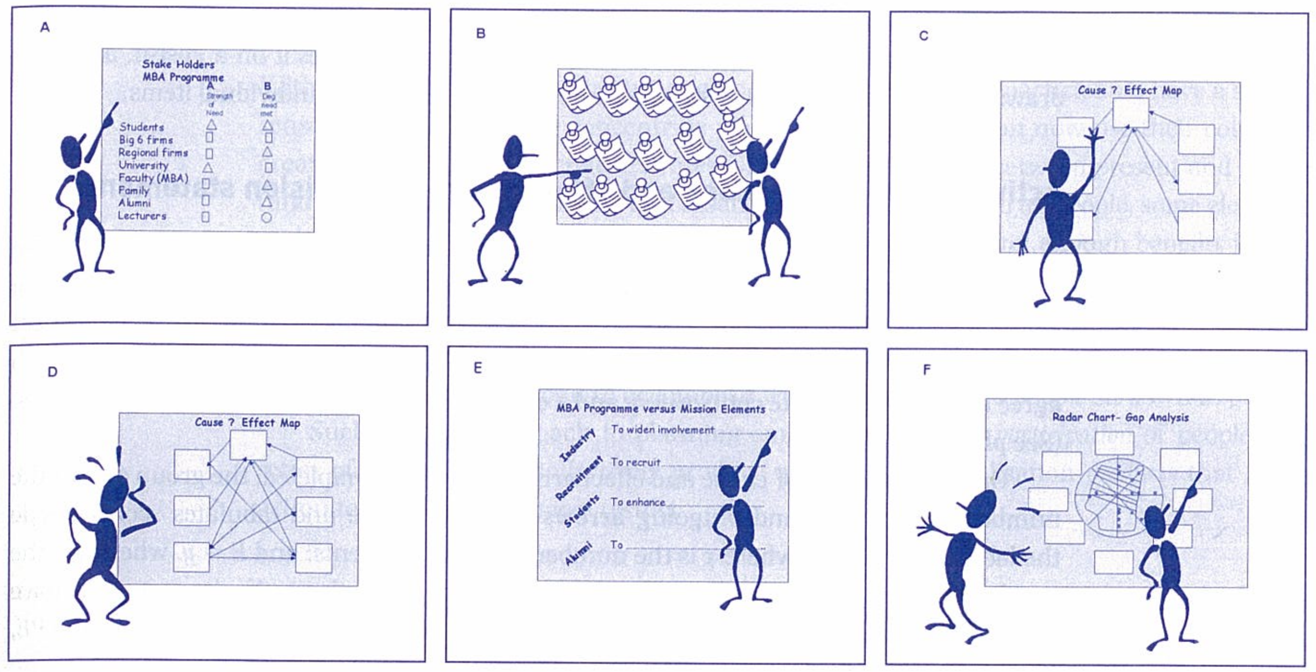
Regardless of the size or age of an enterprise, managers have at times to take innovative actions to promote the organisation's prosperity. Such actions require periodically examining the organisation from different perspectives to help it to better adapt to turbulent environments. To do so, managers can draw upon quasi-structured group techniques to share perceptions, promote innovative visions, and stimulate organisational learning. In this section we walk through the details of a sample of techniques to illustrate how they are administered for creative planning.[60]

Each of these four activities can be completed within an hour or two; or when combined, they provide a comprehensive workshop for the better part of a day (as they are illustrated here). Since innovation planning usually links organisational activities to outside stakeholders, stakeholder representation should be included in the process. To make the process manageable, these techniques are well suited for groups of 10 to 12 people. If larger numbers of people are to be invited, subgroups of 8 to 10 people each can be formed with each group either tackling a slightly different assignment, or using the same agenda to compare results. It helps if the facilitator is an outsider – someone not ultimately responsible for carrying out the plan. (Supplies needed for carrying out these four techniques include: a flip chart on an easel and coloured felt-tip markers, several pads of 3 and 5-inch Post-it notes, and for each participant a felt-tip pen and a dozen or more half-inch-diameter adhesive dots.)

Activity 1. Identify stakeholder needs and requirements

By way of welcome and introduction, the lead manager informs participants about the general purpose of the session, usually to create innovative visions for strengthening a programme or developing a new product and/or market. For small organisations, the purpose might be to reinvent the entire enterprise if its future appears threatened, off course, or on the threshold of a new opportunity that would radically alter its mission.

As a warm-up activity the group brainstorms a list of possible stakeholders affected by the project, with responses recorded on a flip chart. Next, participants brainstorm lists of the specific needs or requirements of any stakeholders with whom they have experience. From these overall impressions participants are collectively asked to categorise (a) the strength of these needs and (b) the degree to which they are satisfied by the organisation's current offerings (or in the case of potential new products, the extent to which they are satisfied by whatever is currently available). Two columns (representing a and b) are marked off on the



flip chart. Each stakeholder is evaluated using the two criteria, with the group's consensus represented by symbols such as □ (strong), △ (medium), and ○ (weak). A comparison of needs and their fulfilment usually reveals unfilled needs. (See photo A in the six-picture photo essay.) Strong needs that are weakly satisfied at present are candidates for visioning new offerings or initiating corrective actions.

Activity 2. Initiate visioning through an affinity diagram

As defined earlier a vision is a statement of elements that captures what planners want a business or programme to look like in the future. The first step in crafting a vision via a group process is to identify the elements essential to make it happen. The second step is to define what the group wants the business or product/service offering to look like at some time in the future, say, three years. In effect, a plan becomes a bridge between the present state and the desired future state. Participants then proceed by (1) viewing the stakeholder analysis as a picture of the present state, (2) creating a vision of the future, and (3) working out details of the plan as the bridge between the present and future.

Participants are asked individually to write a series of statements, one item per Post-it, in response to the second task, creating a vision of the future. For example, participants planning a business school curriculum intended to emphasise electronic commerce might be guided by the question, 'What will be the characteristics of a successful business school programme with a strong electronic commerce emphasis three years from today?' As a prompt, the facilitator suggests that participants think about internal capabilities, customer needs, competition, the economic environment, obstacles to overcome, technology trends and opportunities to exploit.

affinity diagram
An output from a quasi-structured group process created by arranging individual responses to a focusing question into groupings in which individual statements appear to have an affinity relationship to each other.

Participants individually write their responses, and then post their statements randomly on a wall until everyone has exhausted his or her possibilities. Next comes the creative part. The group is asked to silently create an **affinity diagram** by individually and collectively arranging groupings in which individual statements appear to have a relationship to each other. They do this by moving all statements around on the wall to create thematic clusters. (See photo B.)

This affinity mapping often results in 6 to 10 clusters for most visioning tasks. The group then decides on a thematic title for each affinity set, writes it on a Post-it, and then draws a border around it to distinguish integrating themes from individual items.

Activity 3. Convert cause and effect diagram to a vision statement

A duplicate set of thematic labels is written and posted in a circle on a flip-chart sheet. The next group task is to evaluate the relationships (if any) between items in the circle, looking for cause and effect linkages. Connecting arrows are drawn to show cause and effect relationships. The group discusses each possible pairing: some relationships are easy to agree on, others generate controversy and a deeper probing of the interplay between forces. (See photo C.)

Once the network of cause and effect arrows has been completed, the group counts the number of incoming and outgoing arrows for each theme and tabulates scores beside the label (using $C = x$, where x is the number of causal elements; and $E = y$, where y is the number of effects). The group then labels the two or three thematic elements that have the largest number of outgoing arrows as PC for *primary cause*. The same is done for the PE, or *primary effect*, themes. (See photo D.)

For planning purposes the PC elements are the ones that focus attention. If primary cause elements are acted on and strengthened, the primary effects will likely occur. From this cause and effect diagram, the group then collectively articulates a written *vision statement* of what the future should look like. Each stakeholder should be able to see their role in this vision. (See photo E.)

Activity 4. Use a radar chart to show vision-reality gaps

One further refinement allows individual participants to evaluate each thematic element in a creative, graphic way. The facilitator draws a large circle on a blank flip-chart page, and then places a 'hub' dot in the centre. Thematic labels are then placed around the outer circumference of the circle and a series of 'spokes' are drawn, one for each theme.

Participants are told to let the hub represent a score of zero (0) on a theme – the complete absence of performance or lack of any value added. The point at which the spoke connects the outer circumference of the wheel represents a perfect score of ten (10) – the future state desired three years from now (or whatever the time horizon is). Each person then pastes an adhesive-backed dot on each spoke at the point where he or she judges the organisation to be currently performing on that thematic element. Participants may differ in their evaluations so a spoke may have dots pasted at several points along it, although typically a few spokes will have a tight clustering.

To tie results together the facilitator asks the group to visually estimate the central tendency of dots on each thematic spoke. A hash mark is drawn to represent the estimated midpoint, or average score, and a number approximating its value (ranging from 0 to 10) is written beside the mark. Once midpoints are determined connecting lines are drawn between midpoints of pairs of spokes. The results look like a web or radar display within the circle. The facilitator then shades in the inner portion of the web to represent distance already travelled in crossing the bridge to the future. This completes the 'radar chart'. (See photo F.)

The non-shaded area represents the *gap*, where future progress must be accomplished. Radar charts can also be constructed for principal competitors as a way to compare or benchmark performance.

Map alternative paths to bridge the future

With this visual, graphic, intuitive-analytic work accomplished, participants have a shared sense of where they must concentrate planning efforts. They can now use their collective creativity to map out alternative routes for crossing the bridge between present and future (and closing the gap). Since few organisations can be all things to all people, some elements with an overall low impact are usually discarded as not providing enough benefits for the resources expended. Subgroups can be formed to use the original affinity statements and other visualisation outputs as a way to consider planning options. Most important, this interactive process usually energises participants and gives them a broader shared vision of the project, which is difficult to accomplish when just one or two people sit down to plan.

Such a group approach to planning emphasises four *Ps: participation* of people in a series of *processes* that collectively produce a variety of visualisation *products* that guide action to achieve *performance* results.

Vision planning works best under fast-changing conditions

Visual planning approaches (rather than the more traditional linear and quantitative forecasting methods of planning) are preferred by managers whose industries require fast, imaginative outlooks and decisions. Statistical interpretations (using factor analysis) of a survey of top executives confirms that the rate of industry change affects corporate visioning.[61] Twenty-two executives in one cluster who saw their industries as being slow to change also saw their visions as involving far-reaching but conservative strategic planning. These executives expressed little need for acceptance of their vision by others. In contrast, 97 executives in a second cluster characterised their firms as involved in rapid change. These executives embraced the belief that visions, in addition to providing strategic direction should empower others and to be widely accepted throughout the organisation.

An executive who believes in vision planning to stimulate innovation is Ed McCracken, CEO of Silicon Graphics, the computer company which pioneered three-dimensional visual computing and simulation. McCracken anticipates a thousandfold improvement in information technology per decade, which transforms industries that enable people to learn, to be entertained, to improve productivity and to communicate.

Accordingly, firms participating in the transformation of technology require long-term visioning but cannot tolerate long-range planning. He says, 'If a product takes one year to design, the operational planning can be for no more than one year out.' Silicon Graphics relies more on 'dynamic step-wise planning in which we do it [plan] at the last minute'. Ed McCracken's ideology has no illusion about 'controlling' talented employees. He prefers to 'trust intuitive wisdom' in people throughout the organisation. When technology changes so rapidly, people have 'to make decisions quick, at the right level, and without concern over making mistakes'.[62] In making such statements, McCracken personifies the leader who uses controls to help bring about continuous improvement, the concept that concludes this chapter.

How control systems impact continuous improvement

Control is one of the most widely misunderstood organisational concepts because many people think of it in narrow terms, as management through coercion and punishment.[63] Although negative connotations persist, evaluation and control systems are a must in

control
Any process to help align actions of people and systems with the goals and interests of the organisation.

control system
Evaluative and feedback processes to let people know their managers are paying attention to what they do and can tell when undesired deviations occur.

organisations. A **control** is 'any process that helps align the actions of individuals with the interests of their employing firm'.[64] As dynamic, open social systems, established organisations are efficient and effective when control systems are in place and working.[65] A **control system** is 'the knowledge that someone who knows and cares is paying close attention to what we do and can tell us when deviations are occurring'.[66]

Control systems help narrow the gap

Control systems can be formalised and structured, such as those based on assembly-line fault tolerances, accounting comparisons of expenses with budgets, or performance appraisals. However, as defined above control systems also include behavioural sources of control, such as organisational culture and leadership. Whether structured or social, control systems are used to narrow the gap between objectives or expectations and actual outcomes.

For social system controls to work people need to know that someone in authority knows what they are doing and is willing to call attention to gaps between performance and objectives. When Jan Carlzon took over as CEO of the airline SAS, one of his main concerns was the decline in on-time departures. To give ground and flight crews the message that on-time departures were important and had to increase, Carlzon made it known that he was personally monitoring the departure times of all flights. Within two years the record had improved from 83 to 97 per cent on-time departures.[67] Crews knew that Carlzon knew which flights were late, and they did not want to be on his list.

Behaviours and outcomes are assessed/measured

Control systems evaluate and, wherever possible, measure outcomes and/or behaviours. Measurement is preferred when outcomes can be quantified, which is the purpose of formalised control systems such as accounting or six sigma. In sales, for example, outcomes are compared with each person's quota or target and to productivity measures such as sales per week, sales per customer, or orders per 10 calls. In manufacturing, controls may measure defects per million, output per shift, or on-time shipments.

To be effective any evaluation or measurement needs to assess outcomes or behaviours that are affected by actions of the unit or individual. Charles O'Reilly observes that it makes little sense to evaluate a nursing staff based on, for example, whether patients get well. Restoring health to wellness is really the responsibility of a physician.[68] Assessment of nurses' behaviours makes more sense – determining whether medical procedures are followed and whether medications are given or patient monitoring is made at appropriate times. In other environments, evaluation focuses on both behaviours and outcomes. In some retail establishments, behaviours such as courteous treatment of customers and promptness of completion of sales transactions are as important as sales volume per employee or gross margins.

Social expectations can control behaviour

One paradox of management is that social expectations conveyed within an organisation's culture provide better controls over people than do formal measurement systems. O'Reilly states, 'With formal systems people often have a sense of external constraint which is binding and unsatisfying. With social controls, we often feel as though we have great autonomy, even though paradoxically we are conforming much more.'[69]

The purpose of social controls is to get people to commit themselves to the organisation. Commitments require actions, not just attitudes, even though the more a person likes a job the more willing he or she is to stay with the organisation. Maguire and Ouchi found that supervisors who focus on output increase employee satisfaction, but those who focus on close behaviour monitoring do not.[70] The research by Maguire and Ouchi on retail department stores, focused on the control of organisations and included the selection, training, socialisation process, formalisation and measure of outputs. They found two independent forms of control serving different functions: **behavioural control** which refers to supervision and is responsive to the needs of the task and the ability of the manager and **output control** which is based on the measurements of outputs and results and serves the needs of the organisation.

behavioural control
Refers to supervision and is responsive to the needs of the task and ability of the manager.

output control
Based on measurements of output and results. It serves organisational needs.

A summary of the effects of supervisory controls on employee commitment is captured in the statement, 'We would expect that high output monitoring coupled with low behavioural control would lead to the greatest felt responsibility on the part of the worker'.[71] Whether this condition leads to greater satisfaction depends on the extent to which the employee can handle the task. Overall, an important positive contribution of controls is that at least people know what is expected of them. If no one is willing to tell an employee what is expected, that employee is likely to receive little or no performance feedback and will not be particularly attentive to performance.

Two methods for achieving quality through continuous improvement

Baldrige
The Malcolm Baldrige National Quality Award framework for evaluating the qualities and processes of organisations dedicated to quality performance as measured by seven dimensions of organisational life ranging from leadership practices to performance results.

To undertake systematic evaluation for the purpose of continuous improvement, leaders can draw upon some rather well known quality enhancement methods such as the framework for the Malcolm Baldrige National Quality Award, six sigma, or total quality management (TQM). Let us take a look at the Baldrige framework, a very process driven model, and then take a brief excursion into six sigma, a measurement technique.

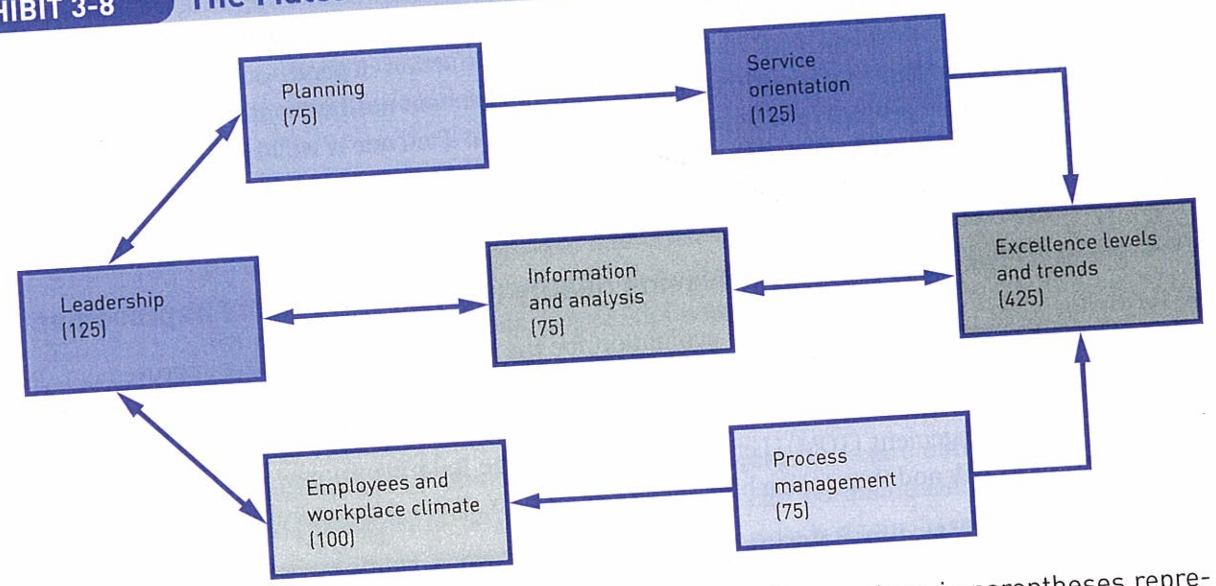
The Malcolm Baldrige National Quality Award framework The Baldrige has widespread appeal because it has become the recognised standard for evaluating the qualities and processes of organisations dedicated to quality performance. Winning the Baldrige award is a coveted achievement since only a handful of organisations are so recognised each year. Nevertheless, many leaders engage their people in a Baldrige-type evaluation process because it is broad-based and provides an eye-opening experience for participants that typically dramatises the gaps between current performance and desired results.

The Baldrige framework probes into seven dimensions of organisational life ranging from leadership practices to data that measure performance results. It is not a mechanistic formula-driven model. Rather, it is a flexible process for identifying factors critical to performance, coupled with a problem-identification and problem-solving process focused on bringing about improvement. Exhibit 3-8 identifies the seven basic elements in the Baldrige framework and how they flow together. Explanations of these seven key elements are given below:[72]

1. **Leadership.** Senior leaders are involved in creating and sustaining consensus regarding the organisation's mission, values, plans and goals; and focus on the stakeholder groups being served.
2. **Planning.** The process for short-, intermediate-, and long-range plans are communicated and aligned throughout the organisation.
3. **Service orientation.** Processes are provided for learning about the needs and expectations of the groups for which services are provided, and satisfaction for these groups is monitored and improved (especially relative to peer and benchmark institutions).

4. **Information and analysis.** Information is assessed and managed to track and improve overall organisational effectiveness and service excellence.
5. **Employees and workplace climate.** Employees at all levels are encouraged to develop their full potential relative to the organisational mission and goals, supported by an environment conducive to excellence, participation, appreciation of diversity, and personal/organisational growth.
6. **Process management.** Key processes are developed, managed and improved to achieve superior organisational performance and a service orientation.
7. **Excellence levels and trends.** Achievements and improvements are documented in key excellence areas, relative to past performance and to peer and benchmark organisations.

EXHIBIT 3-8 The Malcolm Baldrige Assessment Framework



The Baldrige assessment model focuses on seven areas. The numbers in parentheses represent the maximum point values for Baldrige Award scoring (total = 1000 maximum).

Short skirts and daggers at work

dynamics of diversity

Employee's dress codes have long troubled Britain's tribunals and courts. Until the recent arrival of the Human Rights Act, disgruntled workers seeking to change the law had to rely on sex or race discrimination laws.

It has not been easy to reconcile the tension between the rights of men and women to be treated equally and the different dress conventions for the sexes. The courts have generally adopted a pragmatic approach. In a celebrated 1996 case, the Court of Appeal upheld Safeway's ban on long hair for male delicatessen staff even though it was allowed for women. The court said that employers could lay down different rules for male and female staff as long as similar standards were imposed overall.

Unsurprisingly the courts have been less sympathetic to bans on women wearing trousers. In January 2000 Judy Owen, a training manager, won a sexual discrimination case against the Professional Golfers' Association, which would not let her wear a smart trouser suit to work.

dynamics of diversity

Less enlightened was the approach of a Spanish Supreme Court in a case in 2001. Renfe the national train company, required hostesses on high speed trains to wear skirts 'at least' 2 cm above the knee. The court said the rule was neither sexist nor discriminatory but appropriate for a company seeking to project a 'high quality brand'.

Race discrimination claims have often been made against employers that have objected to Rastafarian hair styles or to the beards, bracelets, daggers or turbans of Sikhs. Such cases do not have predictable outcomes. In one case Rowntree Mackintosh, the confectionery group, successfully argued that it was justified in rejecting a Sikh man for a post in its factory on the basis that his beard could jeopardise food hygiene. In another, a tribunal rejected attempts to justify forbidding a Sikh to wear a hidden dagger.

Two big legal developments may increase the scope for employees to challenge dress restrictions. One is the 2000 Human Rights Act which provides for freedom of expression. While employees cannot bring claims in an unemployment tribunal for breach of the Act, its provisions are relevant to many employment tribunal claims, such as a complaint of unfair dismissal. Even then the right to freedom of expression has its limits. Paul Kara, a training administrator, received short shrift from the European Commission on Human Rights in 1999 when he argued that Hackney Council's refusal to allow him to wear women's clothes to work breached his human rights.

The second important legal development will be the outlawing of religious discrimination in the work place by the end of 2003. In a recent case in France Habiba Charni, a Muslim, worked as a sales assistant in a food store. For seven years she had worn her head scarf tied away from her face. However, on a return from a pilgrimage to Mecca, she insisted on wearing a veil. Last year the French Court of Appeal upheld the consequent dismissal, having taken account of Mrs Charni's client contact, the employer's attitude in allowing her to wear a head-scarf tied up and to having taken additional leave to make her pilgrimage, and the employer's additional argument that some customers would be uncomfortable with the veil across her face.

It will be interesting to see the approach UK employment tribunals take to similar cases. Perceived client preferences or prejudices will not generally justify sex, race or disability discrimination in the UK, so it may be difficult for employers to use client contact to justify dress codes that restrict religious expression.

Employers are increasingly prepared to adopt a relaxed attitude to dress and appearance at work and, where appropriate, to allow their staff more scope for self-expression. The key is to establish clear policies so staff know where they stand. Such policies should not differentiate between the sexes unnecessarily and should accommodate ethnic differences or religious beliefs wherever possible. Above all, employers need to approach the issue objectively and avoid restrictive rules unless there is a sound business justification for them.

Source: Adapted from James Davies writing in *The Financial Times* 29 April 2002.

Discussion questions

1. Do you think employers should be able to dictate their employees' dress?
2. How could the above be reflected in the mission statement?

Six sigma statistical method Imagine customers doing business with an airline that always had a customer service representative to answer telephone calls within five seconds, always billed the correct lowest fare, produced on-time arrivals, and never lost or misrouted a checked bag. Organisations that employ the six sigma methodology strive through vigorous use of performance data and statistical interpretations to achieve such error-free results.[73] As a statistic, six sigma represents the value of six standard deviations from the arithmetic mean. When applied to quality measures it represents the probability that a defect or unwanted variance from the standard will occur no more than 3.4 times out of one million transactions – perfection or at least coming within a whisker of it.

Motorola popularised six sigma as a 'do it right' philosophy and technique to promote continuous improvement of essential operational processes. **Six sigma** is 'a high-performance, data-driven approach to analysing the root causes of business problems and solving them' after first linking 'the outputs of a business directly to marketplace requirements'.[74] Organisations that embrace six sigma analyse their customers' requirements, and then build their internal processes in a highly disciplined manner to fulfil those requirements by driving out variances from the standard. They do this by measuring and tracking performance, sharing data with those involved in the process, analysing why deviations occur, and then working to eliminate causes of unacceptable performance. Critical to all this working is close attention to employee training in statistical methods and the techniques for process improvements. In this regard it is more an intervention to affect organisational behaviour than it is a statistical tool.

six sigma A high-performance, data-driven approach to analysing the root causes of business problems and solving them after first aligning the outputs of a business directly with marketplace requirements.

When work teams in organisations begin to measure their performance outputs, they often find they are in the two to four sigma range (three sigma performance means roughly 67 000 defects per million operations). Mechanised manufacturing operations tend to be on the higher side; service operations dependent on human judgement usually are lower or more variable in results. As a control system, organisations committed to six sigma results create a climate of alignment that is guided by top management to provide the resources and create a culture supportive of measurement and change. Employees have access to timely data, are trained to understand statistics and use problem-solving techniques, and provided with incentives to work toward error-free results.

Managerial values influence patterns of control systems

Control systems differ across organisations depending on managerial values and commitments. One study of financial executives identified three different types of managerial control orientations: competitive team, command and control, and conformance.[75]

- A *competitive team orientation* focuses on adding value to the market, with controls used to enhance the organisation's core competence and strategic competitiveness. Information flows laterally and informally throughout the organisation to help people make timely decisions.
- The classic *command and control orientation* is used most often in firms that rely on a chain-of-command structure to emphasise operating efficiency and conservation of corporate resources. Controls focus on internal events, with vertical flows of information up the hierarchy for top management review and oversight.
- The *conformance orientation* of control is found most often in organisations doing business with the government. Work is organised around a bureaucracy, with fixed control routines for processing information and externally reporting it in compliance with government regulations. The Inland Revenue Service is the archetype of an organisation focused on conformance control.

Such variations in control orientations underscore the reality that organisations differ significantly in how managers seek to bring about satisfactory performance. As elaborated throughout this text, some managers learn to emphasise team performance by building on the core values of service and involvement, knowledge of the business and customer service. Team-orientated leadership is typical of organisations operating in dynamic, fast-changing, high-tech environments.[76] In contrast, the more stereotypical view of control is seen in the core values of managers who view their roles more to police activities and people. They emphasise oversight and surveillance and administration of rules and procedures.

While managers voice an intent to shift toward advocating customer service and building competitive teams, being consistent with these values is not easy since it requires risk-taking and innovation.[77] The team-centred manager is more likely to use social expectations combined with quality-orientated methods to foster commitment and self-accepted responsibility than the manager who polices the behaviour of others.

The Body Shop: A second look

The Body Shop International PLC is a values-driven, high quality skin and body care retailer operating in 50 countries with over 1900 outlets spanning 25 languages and 12 time zones.

It is estimated that the Body Shop sells a product every 0.4 second with over 77 million customer transactions through stores worldwide, with customers sampling its current range of over 600 products and more than 400 accessories.

The Body Shop has always believed that business is primarily about human relationships. 'We believe that the more we listen to our stakeholders and involve them in decision-making, the better our business will be run.'

In 1999 The Body Shop was voted the second most trusted brand in the UK by the Consumers Association. According to the 1997 Interbrand survey criteria, the company was named 28th top brand in the world, second in the retail sector. In a 1998 report, a survey of international chief executives in the *Financial Times* ranked The Body Shop the 27th most respected company in the world.

The Body Shop mission statement gives the following statements as to its reason for being:

- To dedicate our business to the pursuit of social and environmental change.
- To creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders.
- To courageously ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.
- To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.
- To passionately campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industry.
- To tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.

These goals are very idealistic and in some respects are in opposition to the commonly held belief that to be in business is to make a 'fast buck' regardless of the cost to others. Anita Roddick and The Body Shop have shown that this need not be the case, and a company can gain more respect by giving as well as taking.

Source: www.bodyshop.co.uk

Summary

You do not have to be an executive to benefit from learning to think like a strategist. Strategic thinking involves having a vision of a desired future that leads to a workable fit between the organisation and its environment. Visions are crafted to be consistent with the organisation's mission, a crisp statement of fundamental purpose that focuses on adding value to customers. From mission and vision, leaders craft a circular flow encompassing objectives, strategies, financing, organising, implementing and controlling.

No matter what your position in the organisation, you can use a series of all-encompassing questions to investigate, evaluate and plan strategic actions. Two of these questions enable managers to develop a SWOT analysis of internal strengths and weaknesses and external opportunities and threats. Because every work unit can be thought of as a business that creates value for others, thinking through these questions strategically can help any performance-minded person think and plan more effectively.

One purpose of strategy is to provide products and services that give the organisation a competitive advantage. Doing so builds on organisational capabilities, the combination of assets and skills that enable one firm to do certain things better than competitors, usually by combining unique resources and employee talents into programmes and services which rivals cannot duplicate. Competitive strategies are possible only within lines of business where specific products jockey for position within a competitive market. For diversified businesses in multiple lines of business, corporate strategies are the choices senior executives make about what businesses to be in and how to compete.

Planning is not a mechanistic exercise of programming actions to attain objectives; rather it is a process for organisational learning. Guiding the process is the manager's ideology, which shapes his or her environmental scanning perceptions as well as mission and goals. In fast-changing environments, representative stakeholders using group techniques to move from defining a vision to detailing specific actions can quickly craft planning. Affinity diagrams are one planning tool to help pull ideas into clusters of related elements that frame a desired future state. These key themes can then be evaluated using the tools of a cause and effect diagram and a radar chart to identify gaps between current performance and future expectations.

Control systems help narrow the gap between current performance and forward-looking goals. To help guide and develop an emphasis on quality and continuous improvement, leaders of organisations can turn to using the Baldrige Quality Award framework and/or six sigma method. Managers committed to continuous improvement realise that success combines controlling social expectations and measuring process outputs.

Areas for Personal Development

Learning to think strategically requires practice. To begin the process of developing strategic thinking skills, apply these practices at every opportunity. They are part of learning to 'manage oneself'.[78]

1. **Craft a personal mission to define your purpose.** Every organisation and professional needs a mission statement. Write out a personal mission statement that summarises what you are committed to achieve and who you plan to serve – in effect answering the question: What is my purpose? (See Exhibit 3-2 for guidelines.) Then, at least weekly, recite your mission from memory and ask, 'How am I focusing my decisions and actions so that I'm fulfilling my mission?'

2. **Emphasise adding value to customers.** When crafting a mission, do not focus on your personal gratification, but on how your actions help others (whether people or organisations). Ask, 'What have I done to benefit or add value to my 'customers' this week?'
3. **Know your business and what it should become.** Every person is a strategist and every person can think of himself or herself as a business. Think, 'Who are my customers and what do they value?' Then, what will it take to have a stronger, more robust business two to five years from now?
4. **Visualise goals as scenarios come true.** While a mission is a global guide to choice of actions, visions are more focused and specific. Visions are best framed as graphic or descriptive scenarios of what success would look like at some specific time in the future. Practice developing visions as written scenarios that describe some future outcome. Your vision may be stated as what you have learned by the time of graduation, what you will be doing at work two years after graduation, or what your personal relationships will look and feel like five years out.
5. **Focus on your sources of competitive advantage.** People are not created equal (although they should have equal opportunity). Appraise your true sources of competitive advantage over others and how you best learn. It is easier to build on known strengths than it is to try to shore up weaknesses. Strengthen your sources of competitive advantage through practicing introspection and self-appraisal.
6. **Scan your environment.** Neither individuals nor organisations function as islands. Scan your environment by looking for clues as to how well you are performing (do not rely on a boss for feedback) and for signs of significant changes in the world external to you that will impact you.
7. **Practise gap analysis between present and future states.** After visualising a scenario (outcome) you desire at a specific time in the future develop an inventory of the contributing factors that will cause it to happen. Periodically assess 'Where am I now on each causal factor relative to the goal?' Use a radar chart to picture the distance yet to be travelled – the gap – to dramatise where emphasis should be placed. (See photo F in the photo essay.)
8. **Evaluate behaviours and outcomes for self-control.** Self-control in work tasks means aligning your actions with the interests of the task group or organisation. Focus on targeted results or outcomes and evaluate, 'How are my behaviours (and the behaviours of others) affecting results?' A retired navy captain states: it most simply by asking, 'What is victory? How do we achieve victory?' Personal plans and controls improve the likelihood of victory being achieved.

Questions for study and discussion

1. Why does an organisation need to develop strategy, and what are some of the elements or processes involved in planning strategy as a circular flow of decisions and actions?
2. Apply the six questions that form a basis for strategic thinking to the organisation with which you are most experienced. What new insights into the organisation do you gain by this process?
3. What is a SWOT analysis? How can a SWOT analysis be used to plan within one department of a larger organisation? Give an example.
4. In what ways does management ideology influence the planning process? Why is managing by ideology more useful than managing by information within many organisations?

5. Describe the group processes managers and stakeholders would use to create an affinity map, a cause and effect diagram, and a radar chart. Explain how each device contributes to planning.
6. How do quality methods such as the Baldrige framework and six sigma exemplify control systems used to promote continuous improvement?

Key Concepts

Personal skills exercise

What's your SWOT analysis?

Purpose This is a quickly administered combination individual and group exercise that gives students an opportunity to apply the essentials of SWOT analysis. It provides a lively, practical application of one of the most widely used tools for strategic thinking. (Time required: 15 to 20 minutes.)

Materials Several blank flip-chart sheets (or transparencies) and markers. Masking tape if flip-chart sheets are used.

Procedure The instructor lists on the board or screen several organisations that are likely to be familiar to students (such as McDonald's, Littlewoods, Pizza Hut, Homebase, AOL, Microsoft). We suggest listing one organisation for every 6 to 7 students. Prominent local firms can be included.

Step 1 **Individual SWOT** *Each* student selects one organisation from the list. Working individually, on a sheet of paper the student identifies the firm at the top and then draws a 2.2 matrix and writes in the labels 'strengths, weaknesses, opportunities, threats' as shown in Exhibit 3-9. Now, the student fills in each cell by writing short phrases that assess the firm as he or she perceives it on each of the four SWOT analysis criteria. (Time required: 4 to 5 minutes.)

Step 2 **Pooled SWOT profiles** Divide into groups, one for each organisation. Students join the group representing the firm they individually analysed. Group size will naturally vary, so if any one firm was chosen by, say, about half the class, split it into two or three groups for greater efficiency. Now, on the flip chart record a pooling of the individual SWOT analysis themes. Do this in a round-robin fashion where each student in turn offers one analytical thought (rather than one person giving his or her entire list). Start with 'strengths'; then when everyone has exhausted their 'strength' offerings, move on to 'weaknesses, opportunities, and threats' in rotation. (Time required: about 10 minutes.)

Step 3 **Class sharing** Each group shares its results with the class. Tape the flip-chart sheets to a wall and have one member briefly summarise the completed SWOT as represented by pooling the individual assessments for that organisation. (Time required: about 5 minutes.)

Step 4 **Debriefing** Discuss issues such as:

1. What did you learn about the thoroughness of analysis comparing personal SWOTs with pooled group SWOTs? What does this suggest about whether strategic planning should be performed by one person (the most senior leader) or by a team?
2. In what ways did the four-factor SWOT analysis cause you to see critical elements about the organisation that you probably would have overlooked if you were not using a structured framework?
3. To what extent does the profile of elements suggest any strategies that ought to be changed or initiated? To what extent does it reinforce the efficacy of current strategies?
4. What did you observe about the group process during the pooling stage that made this a productive (or unproductive) exercise? What behaviours facilitated task accomplishment; what behaviours got in the way? Did the same behaviours that promoted efficiency also promote effectiveness? Why?

EXHIBIT 3-9 **Example of SWOT Analysis Applied to Philip Morris Companies**

Strengths	Weaknesses
• High profits from tobacco • World's largest advertiser • Operational efficiencies • Etc....	• Dependence on tobacco • Some acquisition mismatch • Management blunders • Etc....
Opportunities	**Threats**
• Global tobacco markets • Many food companies for sale • Price power over ad media • Etc....	• Tobacco regulation as a drug • Customer product boycotts • Competitor retaliation • Etc....

SWOT analysis provides a structured framework for assessing relevant internal and external factors affecting an organisation's strategies. This PM example is highly abbreviated—your group may want to provide greater detail for each key element.

1. Brainstorming a list of stakeholders and evaluating how well their needs and requirements are being met.
2. Creating an affinity map to cluster planning elements into key affinity themes.
3. Starting to identify cause → effect relationships among key planning themes.
4. One group's completed cause → effect diagram shows a network of arrows used to identify primary causes and effects.
5. Results of the previous planning output are articulated into a comprehensive written vision statement.
6. Construction of a radar chart dramatises gaps in planning elements between the present and desired future.

Team exercise[79]

Group techniques for planning a vision

Purpose This exercise enables in-class teams to develop skills for group-based vision planning by focusing on an organisation that everyone knows. Specifically, the team task is to plan actions that would strengthen the academic programme in which you are enrolled. The process engages teams in the hands-on experience of creating affinity maps, cause and effect diagrams, and radar charts. (Time required: about 60 minutes if students have read the chapter section on group processes for visioning.)

Materials needed

- One or two pads of Post-it notes per team (minimum size 3 × 3 inch, preferably larger).
- Two or three sheets of blank newsprint per team.
- A roll of masking tape (for taping newsprint to wall).
- About a dozen adhesive-backed dots for each person.

Procedures Form teams of 7 to 10 persons each and hand out materials. Then work through tasks 1 to 4.

Task 1 **Individual visioning** Once teams have been assembled, each person should write brief responses to the question below. Write each response on a single Post-it, boldly enough to be read from a distance of 6 to 8 feet. Write as many statements as you believe are relevant, but use only one theme or idea per Post-it. For planning purposes, focus on a time horizon of three years in the future. The following question is suggested as a way of focusing on a tangible task, although your instructor may present a different question:

As a student, you are concerned about the quality of the academic programme in which you are enrolled. What practices or qualities should be part of this educational programme three years from now to help students receive the greatest benefit from the experience? In effect, what features would enable this programme to be truly excellent?

Task 2 **Creation of a team affinity diagram**

a. After three or four minutes of writing, members randomly post their responses on a wall, with each team's responses in one area.

b. Members arrange responses into clusters. This is a silent activity, with everyone working individually. Simply link themes based on any kind of affinity relationship that comes to mind. Feel free to break up groupings others have made.

c. As a group, decide on a brief title for each affinity cluster. Then write that title on a separate Post-it, draw a border or box around it, and post it at the top of the cluster.

Task 3 **Creation of a cause and effect diagram** Tape a sheet of newsprint to the wall near your affinity map (one for each team). Make a duplicate set of title labels and stick them to the newsprint in a large circle (similar to an analogue clock face). Now draw arrows to show cause and effect relationships between each pair of themes. That is, the arrow pointing away from the cause towards the effect. Refer back to the photo essay and text for guidance if needed.

Task 4 **Creation of a radar chart for gap analysis** On another flip-chart sheet, draw a large circle and post another set of labels around the outer circumference. Place a hub and

spokes using the text and photo essay as guides. With the circumference (outer rim) representing an ideal score of 10 and the hub 0, each person places an adhesive-backed dot on each spoke to spatially represent your institution's current performance. When completed, collectively determine the midpoint for each line of dots, draw a connecting line between the midpoints of each adjacent pair of spokes, and shade in the inner area. The white space represents the gap between performance now and the ideal future for the themes.

Debriefing Reflect on the process and learning implications of this exercise by discussing the following questions:

1. What obstacles did you encounter, if any? What behaviours or processes seemed to help get the task done in both an efficient and an effective manner?
2. In what ways are your affinity diagrams, cause and effect diagrams, and radar charts more complex because they were developed by a group rather than by you alone? Does the collective effort more accurately represent reality? What do your answers say about whether planning should be done by individuals or teams?
3. If your university was to use this process for actual programme planning, what other stakeholders or constituents would you want to include?
4. Now that you have identified cause and effect relationships and performed a gap analysis, what specific actions would you plan to bring about the vision created by your group?

CASE STUDY Marconi – A big name on the brink

Marconi, one of the big names in British industry, is on the brink of financial collapse as the banks tighten the screws on companies that borrowed millions of pounds to gamble on expansion during the economic boom.

Marconi was once a company with a name synonymous with technological know-how and financial prudence. Now the company is fighting for its survival after lenders have refused to grant fresh funds. With its share price falling the city consensus is that it will be wound up soon.

Boom has not yet turned to bust for the UK economy as a whole, but many telecommunications and media businesses are staring at the abyss after going on an unprecedented spending spree in the late nineties. Marconi is not the only company in trouble. ITV Digital is having problems as are cable TV companies Telewest and NTL.

The common thread running through these companies is that they overextended in the heady days of 1999–2000, but did not have the critical mass or profitability to withstand a sudden lessening of economic pace. Internet and telecommunications related companies have become commodity businesses, selling services and products in a market that is heaving with over capacity.

The Marconi story illustrates most clearly how management can get things wrong. The company was built up by Lord Weinstock in the seventies and eighties, and was renowned for its conservative approach to expansion and risk-taking.

When a new team arrived in the mid-nineties under Lord Simpson, the former Rover boss, and John Mayo, a City banker with experience in the pharmaceuticals industry, investors looked forward to a lucrative unwinding of the Weinstock empire.

At first all went well as Simpson and Mayo negotiated the £6 billion sale of Marconi's defence systems division to BAE, the former British Aerospace. Afterwards they calculated that a rapid expansion into telecommunications and the Internet would be the best way to invest the proceeds.

In fairness, many City brokers and bankers egged them on as these sectors were seen as offering the most attractive growth prospects.

Shares in technology firms were reaching new heights, although many of them did not expect to be profitable for several years. Investors were blinded by market hype and backed the strategy of the new Marconi management. Simpson acquired several large American competitors with cash, rather than by issuing new equity.

This was to prove a fatal mistake when the economy turned down. Interest payments and start-up costs running into billions wiped out money generated from relatively new businesses. Marconi had gambled and lost.

Marconi has realised that its financial structure is no longer appropriate for its trading position. This became clear when its trading figures had deteriorated to such an extent that recovery had been pushed even further into the future.

An executive at one of the lending banks said, 'You could say that this could have been sorted out four to six months ago if the company had been willing to listen and less eager to pursue its own agenda. . . It is not that we are getting tougher, it is that the company's circumstances have changed. It does not have much of a balance sheet now.'

Marconi thought it could trade its way out of its position, but it is having to use its money to pay interest to bondholders so as to prevent then from demanding instant repayment. Marconi is now embracing the idea of a debt for equity swop, but will its lenders agree? If they do it could end up with the banks and bondholders owning 75 per cent and equity investors taking the remaining 25 per cent. The question is, will this give them a better return than pulling the plug now.?

Source: *The Observer* 24 March 2002.

Questions for managerial action

1. What are the strengths and weaknesses of Marconi at present? You may have to search their website for more information about the company.
2. What is currently going on in the competitive market place of telecommunications? What external opportunities and threats are there?
3. From your SWOT analysis (responses to questions 1 and 2), what would you recommend if Marconi were to be kept afloat?
4. What has happened to the concept of managing by strategic vision?
5. If Marconi were restructured what type of controls could be put in place to ensure it never end up in this position again?

WWW exercise

Manager's Internet tools

Web tips: Communicating company missions on the World Wide Web

In the last chapter we discussed the Virgin company. When people mention the name Virgin what image comes to you mind? Is it that of a record company, an airline or is it Richard Branson the entrepreneur and action man?

World Wide Web – Virgin

Go to *http://www.virgin.com*
What is your first impression of the website? Was it what you expected? What do the first couple of sentences imply about the company's mission?

Look through the various pages on the website and note all the different products. Examine Virgin Trains, Virgin Wines, Virgin Atlantic and Virgin Music.

Discussion questions

1. Why do you think Virgin has developed such a diverse set of companies? Why has it given them all the Virgin name?
2. How do you think that the company's mission and strategies have changed since the 1970s? What are the primary variables that influenced these changes?

Learning checklist

Before moving on to the next chapter can you:

- Describe the essential processes that help a manager begin to think strategically, starting with vision and mission and cycling through to controlling and improving.
- Understand the questions that help you think strategically about planning actions, whether for an entire business or an organisational sub-unit.
- Understand the concept of Management by Objectives (MBO).
- Conduct a SWOT analysis to evaluate an organisation's limitations and potential when you read a complex case or study the options for responding to environmental conditions.
- Explain how organisational capabilities translate into competitive advantage when linked to strategies for where and how to compete.
- Discuss why planning is more about organisational learning than about programming actions, and why a manager's ideology may be more useful than managing by information.
- Describe how group processes help create a shared vision through the use of planning tools such as an affinity map, a cause and effect diagram, and a radar chart.
- Explain how assessment controls can lead to continuous improvement.
- Explain the Malcolm Baldridge Assessment framework.
- Explain the six sigma statistical method.

Notes

1. David A. Nadler, Robert B. Shaw, A. Wlise Walton, and Associates, *Discontinuous Change: Leading Organisational Transformation*, San Francisco, Jossey-Bass, 1995.
2. Henry Mintzberg (1987) 'Crafting Strategy', *Harvard Business Review* 65, July–August, pp. 66–75.
3. Other common models are found in Arthur A. Thompson, Jr. and A. J. Strickland III, *Strategic Management Concepts and Cases*, Boston, Irwin McGraw-Hill, 1999, chapter 1; or Thomas L. Wheelen and J. David Hunger, *Strategic Management and Business Policy*, Upper Saddle River NJ, Prentice Hall, 2000, chapter 1.
4. Andrew Campbell (1999) 'Tailored, Not Benchmarked: A Fresh Look at Corporate Planning', *Harvard Business Review*, March–April, pp. 41–50.
5. M. S. S. El-Namaki (1992) 'Creating a Corporate Vision', *Long Range Planning* 25, no. 6, p. 25.
6. James C. Collins and Jerry I. Porras (1991) 'Organisational Vision and Visionary Organisations', *California Management Review* 34, Fall, pp. 30–52; and James C. Collins and Jerry I. Porras (1995) 'Building a Visionary Company', *California Management Review* 37, Winter, pp. 80–100.
7. Wal-Mart *1995 and 1999 Annual Reports.*
8. Amy Feldman (1999) 'How Big Can It Get?' *Money*, December, pp. 158–164.
9. M. P. Kriger (1990) 'Towards a Theory of Organisational Vision: The Shaping of Organisational Futures', paper presented at the Academy of Management annual meeting San Francisco; James G. Hunt, *Leadership: A New Synthesis*, Newbury Park CA, Sage, 1991; Royston Greenwood and C. R. Hinings (1993) 'Understanding Strategic Change: The Contribution of Archetypes', *Academy of Management Journal* 36, October, pp. 1052–1081; and Burt Nanus, *Visionary Leadership: Creating a Compelling Sense of Direction for Your Organisation*, San Francisco, Jossey-Bass, 1992.
10. James M. Kouzes and Barry Z. Posner, *The Leadership Challenge*, San Francisco, Jossey-Bass, 1995; and Laurie Larwood, Cecilia M. Falbe, Mark P. Kriger and Paul Miesing (1995) 'Structure and Meaning of Organisational Vision', *Academy of Management Journal* 38, June, pp. 740–769.

11. Andrew Campbell (1999) 'Tailored, Not Benchmarked: A Fresh Look at Corporate Planning', *Harvard Business Review*, March–April, pp. 41–50.
12. Peter Drucker, *The Practice of Management*, Heinemann, 1989, p. 59
13. S. Crainer, *Key Management Ideas: Thinkers that changed the Management World*, 3rd edn. Financial Times, Prentice Hall, 1998, p. 75.
14. Marcia Vickers and Peter Coy (2000) 'A New Net Equation', *Business Week*, 31 January, pp. 38–40.
15. Peter F. Drucker, *Management: Tasks Responsibilities, Practices*, New York, Harper & Row, p. 61.
16. Suzy Wetlaufer (1999) 'Driving Change: An Interview with Ford Motor Company's Jacques Nasser', *Harvard Business Review*, March–April, pp. 77–88.
17. Noel Tichy (1999) 'The Teachable Point of View: A Primer', *Harvard Business Review*, March–April, pp. 82–83.
18. For a similar question-based concept for the individual strategist, see Hans H. Hinterhuber and Wolfgang Popp (1992) 'Are You a Strategist or Just a Manager?' *Harvard Business Review* 70, January–February, pp. 105–113.
19. Kathleen M. Eisenhardt and D. Charles Galunic (2000) 'Coevolving: At Last, a Way to Make Synergies Work', *Harvard Business Review*, January–February, pp. 91–101.
20. Sumantra Ghoshal, Breck Arnzen and Sharon Brownfield (1992) 'A Learning Alliance between Business and Business Schools: Executive Education as a Platform for Partnership', *California Management Review* 35, Fall, pp. 50–67.
21. Michael E. Porter (1998) 'Clusters and the New Economics of Competition', *Harvard Business Review*, November–December, pp. 77–90.
22. www.alcoa.com
23. www.marriott.com
24. 'Brand-Name B-Schools Partnering with Start-ups for Revenue and Reach', *AACSB Newsline*, Fall, pp. 1–9.
25. Ibid.
26. John Hagel III and Marc Singer (1999) 'Unbundling the Corporation', *Harvard Business Review*, March–April, pp. 133–141.
27. Mintzberg, *Crafting Strategy*, pp. 74–75.
28. Peter F. Drucker, *The New Realities*, New York, Harper & Row, 1989, p. 230.
29. James A. Welch and P. Ranganath Nayak (1992) 'Strategic Sourcing: A Progressive Approach to the Make-or-Buy Decision', *Academy of Management Executive* 6, February, pp. 23–31.
30. Michael E. Porter (1995) 'The Competitive Advantage of the Inner City', *Harvard Business Review* 73, May–June, pp. 55–71; and Michael E. Porter, *Competitive Advantage*, New York, Free Press, 1985.
31. Mark Maremont (1995) 'Kodak's New Focus', *Business Week*, January, pp. 62–68.
32. Robert H. Hayes and Gary P. Pisano (1994) 'Beyond World-Class: The New Manufacturing Strategy', *Harvard Business Review* 72, January–February, pp. 77–86.
33. Ralf Boscheck (1994) 'Competitive Advantage: Superior Offer or Unfair Dominance?' *California Management Review* 37, Fall, pp. 132–151; and Adam Cohen (1999) 'Microsoft Enjoys Monopoly Power', *Time*, 15 November, pp. 60–69.
34. Hayes and Pisano (1994), ibid., p. 78.
35. C. K. Prahalad and Venkatram Ramaswamy (2000) 'Co-opting Customer Competence', *Harvard Business Review*, January–February, pp. 79–87.
36. Hayes and Pisano (1994), ibid., p. 79.
37. Andrew Saunders (2002) 'Double First', *Management Today*, December, pp. 45–53.
38. Morten T. Hansen, Nitin Nohria and Thomas Tierney (1999) 'What's Your Strategy for Managing Knowledge?' *Harvard Business Review*, March–April, pp. 106–116.
39. Michael E. Porter (1982) 'From Competitive Advantage to Corporate Strategy', *Harvard Business Review* 64, May–June, pp. 43–59.
40. John Pound (1992) 'Beyond Takeovers: Politics Comes to Corporate Control', *Harvard Business Review* 70, March–April, pp. 83–93.
41. Don Kenny (2002) 'Its time to test the true value of Facilities Management Outsourcing', Institute of Business Ideas and Solutions, December, pp. 2–3.
42. William E. Halal (1994) 'From Hierarchy to Enterprise: Internal Markets Are the New Foundation of Management', *Academy of Management Executive* 8, November, p. 72.
43. Andrew Bartmess and Keith Cerny (1993) 'Building Competitive Advantage Through a Global Network of Capabilities', *California Management Review* 35, Winter, pp. 78–103.
44. David A. Aaker (1989) 'Managing Assets and Skills: The Key to a Sustainable Competitive Advantage', *California Management Review* 31, Winter, pp. 91–106.

45. Michael E. Porter (1990) 'The Competitive Advantage of Nations', *Harvard Business Review* 68, March–April, p. 74.
46. Ibid., pp. 73, 75, 84.
47. Manab Thakur and Luis Ma R. Calingo (1992) 'Strategic Thinking Is Hip, But Does It Make a Difference', *Business Horizons* 35, September–October, p. 48.
48. Arie de Geus (1988) 'Planning as Learning', *Harvard Business Review* 66, March–April.
49. Henry Mintzberg (1994) 'The Fall and Rise of Strategic Planning', *Harvard Business Review* 72, January–February, pp. 107–114.
50. Peter F. Drucker, *Managing in Turbulent Times*, New York, Harper & Row, 1980, pp. 43–45.
51. Tom Peter's remarks were directed toward Silicon Valley leaders at the 'High Tech Summit Visioning Conference', sponsored by Joint Venture: Silicon Valley, presented at Santa Clara, CA, 14 October 1992.
52. Geoffrey Colvin (2000) 'America's Most Admired Companies', *Fortune*, February, pp. 108–111. GE ranked number one for three consecutive years.
53. L. L. Cummings (1983) 'The Logics of Management', *Academy of Management Review* 8, October, pp. 532–538.
54. Cummings, 'The Logics of Management', p. 533.
55. Michael Moeller (1999) 'Outta Here at Microsoft', *Business Week*, November, pp. 156–160.
56. Cummings, pp. 533–534.
57. Ian H. Wilson (1980) 'Environmental Scanning and Strategic Planning', Business Environment/Public Policy Conference Papers, St. Louis, American Assembly of Collegiate Schools of Business, pp. 159–163.
58. James B. Thomas, Shawn M. Clark and Dennis A. Gioia (1993) 'Strategic Sensemaking and Organisational Performance: Linkages among Scanning, Interpretation, Action, and Outcomes', *Academy of Management Journal* 36, April, pp. 239–270.
59. Marcia Stepanek (1999) 'Using the Net for Brainstorming', *Business Week*, December, pp. EB55–EB57.
60. An excellent source for such techniques is Michael Cowley and Ellen Domb, *Beyond Strategic Vision: Effective Corporate Action with Hoshin Planning*, Boston, Butterworth-Heinemann, 1997, especially Chapter 13.
61. Laurie Larwood, Cecilia M. Falbe, Mark P. Kriger and Paul Miesing (1995) 'Structure and Meaning of Organisational Vision', *Academy of Management Journal* 38, June, pp. 740–769.
62. Ed McCracken (1995) 'The Information Super Highway: How Entertainment Will Drive Its Technological Development Into the 21st Century', Business Alumni Association Executive Breakfast Briefings, San Jose State University, 22 June 1995.
63. James M. Kouzes and Barry Z. Posner, *The Leadership Challenge*, San Francisco, Jossey-Bass, 1995.
64. Scott A. Snell (1992) 'Control Theory in Strategic Human Resource Management: The Mediating Effect of Administrative Information', *Academy of Management Journal* 35, June, p. 293.
65. Alan L. Wilkins and William G. Ouchi (1983) 'Efficient Cultures: Exploring the Relationship between Culture and Organisational Performance', *Administrative Science Quarterly* 28, September, pp. 468–481.
66. Charles O'Reilly (1989) 'Corporations, Culture, and Commitment: Motivation and Social Control in Organisations', *California Management Review* 31, Summer, p. 11.
67. Jan Carlzon, *Moments of Truth*, Cambridge MA, Ballinger, 1987.
68. O'Reilly 'Corporations, Culture, and Commitment', pp. 9–25.
69. Ibid., p. 12.
70. M. A. Maguire and William G. Ouchi (1975) 'Organisational Control and Work Satisfaction', research paper no. 278, Graduate School of Business, Stanford University.
71. Gerald R. Salancik (1991) 'Commitment and the Control of Organisational Behaviour and Belief', in Barry M. Staw (Ed.), *Psychological Dimensions of Organisational Behaviour*, New York, Macmillan, p. 310.
72. Brent D. Ruben and Jennifer K. Lehr, *Excellence in Higher Education: A Guide to Organisational Self-Assessment, Strategic Planning and Improvement*, Dubuque IA, Kendall/Hunt, 1997.
73. Mikel J. Harry, *The Vision of Six Sigma: A Roadmap for Breakthrough*, Phoenix AZ, Sigma Publishing, 1994.
74. Jerome A. Blakeslee Jr. (1999) 'Implementing the Six Sigma Solution', *Quality Progress*, July, p. 78.
75. Stephen F. Jablonsky, Patrick J. Keating and James B. Heian, *The Management Communication and Control Systems Diagnostic Questionnaire: Core Values and Organisational Learning*, New York, Financial Executives Research Foundation, 1992.
76. Patrick J. Keating and Stephen F. Jablonsky, *Changing Roles of Financial Management: Getting Close to the Business*, New York, Financial Executives Research Foundation, 1990.
77. Jablonsky, Keating and Heian, *The Management Communication and Control Systems Diagnostic Questionnaire*, 1992.
78. Forum of the Americas, *Conference de Monaco*, 29–30 September 1997.
79. Peter F. Drucker (1999) 'Managing Oneself', *Harvard Business Review*, March–April, pp. 64–74.