MASTER OF BUSINESS ADMINISTRATION

STRATEGIC AND CHANGE MANAGEMENT

STUDY GUIDE

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1. MODULE OVERVIEW

1.1 How to use this Module

This module should be studied using this unit together with the prescribed textbook. You should read about the topic that you intend to study in the appropriate chapter before you start reading the prescribed or recommended textbooks in detail. Ensure that you make your own notes/summaries as you work through both the textbooks and this module.

At the commencement of each chapter, you will find a list of objectives. These objectives outline the main points that you should understand when you have completed the chapter with its accompanying sections. Avoid reading all the material at once. Each study session should be no longer than two hours without a break.

In the course module chapter, you will find the following symbols and instructions. These are designed to help your study.

- **ACTIVITY**

You may come across activities that ask you to carry out specific tasks. In most cases there is no right or wrong answers to these activities. The aim of these activities is to give you an opportunity to apply what you have learnt.

- **READING**

At this point you should read the suggested reference.

? THINK POINT

A think point asks you to stop and think about an issue. Sometimes you are asked to apply a concept to your own experience or to think of an example.

1.2 Learning Outcomes of this Module

NQF Level	**NQF 9**	**Credits**	**15**

At the conclusion of this module students should be able to:

- Furnish an inclusive, integrated and critical overview of the fields of strategy and Change management
- Describe the practice and purpose of strategy and change management
- Outline the importance of strategy and change management in effective organisations
- Differentiate between various organisation development (OD) interventions
- Develop an appropriate approach to changing organisational culture and climate, highlighting the roles that leaders and managers play in bringing about change
- Determine why strategy and change efforts often fail
- Explain what resistance to change is and how it can be addressed
- Apply models of change to solve organisational challenges
- Practically implement change in an organisation
- Diagnose change management problems and develop specific organisation development programmes applying specific OD approaches, techniques and interventions
- Evaluate OD proposals and programmes and describe the future challenges that are likely to be faced by the change agent
- Demonstrate specific analytical, diagnostic and evaluative skills

1.3 Introduction

This module has been designed to show you how to put strategic plans into action and manage change. A lot has been said and written about strategic planning in business – and yet many plans fail. Strategies are shunted aside for “real world” considerations. Goals are defeated by plain inertia or political in- fighting. Some plans aren’t revised to keep pace with changing competitive realities.

After the consultants have left and the corporate mission is defined, management is confronted with the task of executing the strategic plan. The first part of this module will show you: where to begin, who should do what, when to make changes and how to tie it all together. This section begins by demystifying the word strategy. The word strategy means different things to different people. What is strategy and what is *not* strategy? The purpose here is to limit the abuse of the word. There are good as well as bad strategies. What are the elements that make a good strategy? The models of strategic decision making are also discussed.

The next section focuses on the strategic process, explaining what it is and its importance. Specifically, the section highlights the process of developing a strategic vision and setting objectives for the organisation. Why is this all necessary? It is important that managers understand the environment of their business – both the internal and external environment. Key issues discussed here are the industry and competitive analysis, the political, economic, socio- cultural as well as the technological (PEST) factors facing the company.

The next phase in the strategy process is crafting the actual strategy. Here the five generic strategies are outlined. The discussion on the strategic process ends with the section on implementing and evaluating strategy. When is a strategy said to be successful? The first section ends with the section on mergers and acquisitions. Mergers and acquisitions are important triggers for change in organisations. What are mergers and acquisitions? Why are these important? And how are they affected? Answers to these questions are provided.

The format of this guide does not necessarily follow that of the prescribed and recommended texts. The contents of the guide are intended to be supplementary to the relevant chapter. The best way to learn strategy is through case studies, of which the textbook has many. At the end of each section, you are asked to study the cases that are relevant to that section. There is no correct or model answer to a case study; more important is for you to identify pertinent issues that need to be addressed.

A guide to case analysis is provided on the website: **www.mhhe.com/thompson**. Time spent studying this guide and applying it to the cases will be an excellent investment. Additional material is available from the authors on the Internet; you will find access details in the introductory section of the book. In addition, the websites of some of the companies used in examples and case studies are also given, and generally worth visiting. As with most business situations, the more information you can get, the more you are likely to understand the situation. So we suggest you study those websites thoroughly.

If you find that some of the problems raised don't have clear or obvious solutions to them, you are probably in the same boat as many others – the case studies are designed to encourage you to think, discuss and question. The more you debate the issues, the more you learn.

This second part of this module introduces you to the concept of Change Management. It is important to note that Change Management is also known as Organisation Development (OD). Change can "just happen" or it can be planned. Similarly, change agents can direct their efforts at changing people - as well as systems, processes and structures. Whilst change may or may not be strategic, the focus of this part of the module is on planned, and more specifically, strategic change.

Today, the pace and scope of change has meant that the role of the Change Agent is rapidly growing and assuming increasing importance in organisations throughout the world. This is especially true in Africa where operating paradigms have shifted dramatically over the past decade or so, and will continue to do so as businesses and other organisations strive to become globally more competitive and significant. African countries have been embracing market reforms, opening up their economies to foreign competition in order to attract much needed hard currency, specialist skills and create jobs. This process has resulted in countless change initiatives on the continent.

The object of this module is to create an *awareness* of the importance of critical but current change management issues. These include, but are not limited to, the topics of: organisation renewal or transformation, changing the corporate culture, the change agent, self-managed work teams, organisation compensation, managing diversity, total quality management and empowerment. Organisational change should always aim to accomplish the organisation's strategic objectives, so that the organisation can become more competitive and ultimately remain in business.

In general, organisational change encompasses a much wider spectrum of initiatives, including business acquisitions or mergers (which is covered in the first part of the module), business contractions (such as downsizing or plant closures), business expansions (such as new territories or lines of business), culture changes, new computer systems, process improvement or reengineering, restructuring, technology changes, Total Quality Management (TQM) changes and new business strategies.

As in the first part of this module, the syllabus does not always follow the format of the recommended text by Harvey & Brown (2006) because important deviations are made to address unique situations that pertain to Africa and to follow a particular approach that will make the change themes much clearer. Important sections in the recommended text are provided in the reading section at the beginning of each chapter.

The section on change management begins with a general introduction to the subject, including key definitions. Managers must know who the stakeholders to their organisations are and the nature of their interest in the organisation. This is important so that they can effectively manage these stakeholders. The next section is the consequences of change which explains the possible consequences to an organisation once change (whether planned or unplanned) is implemented.

According to Robbins (1987), change is triggered by certain forces in the internal or external environments and these forces are then acted upon in the organisation by the change agent. Among the more visible reasons for change listed by Robbins (1987) are: change in objectives, purchase of new equipment, scarcity of labour, implementing sophisticated IT equipment, government regulations, the economy, unionisation, increased pressure from consumer-advocate groups, mergers or acquisitions, rapid changes in price or availability of raw materials, actions by competitors, decline in employee morale, increase in turnover, sudden internal or external hostility, insufficient supply of internal executive candidates, and, finally, a drastic decline in profits.

The agent decides *what* is to be changed. He or she does this by going through a diagnostic procedure on the organisation to try and understand what may be wrong with the organisation. In general, he checks the goals and the value system of the organisation, the technology and systems in operation in the organisation, the processes, and the culture and climate of the organisation. After understanding the problems of an organisation, the change agent then selects a suitable intervention. The intervention must incorporate strategies to manage resistance to the change initiative in the organisation. This is because some authors (Maurer, 1996; Wandell & Sohal, 1998) argue that resistance to change is at the centre of the failure of numerous change initiatives.

Implementing the intervention consists of both *what* is to be done and *how* it is done. The *what* requires attention to three phases: unfreezing the status quo, moving to the new state, and then refreezing the new state to make it permanent. The *how* refers to the way in which the agent chooses to put the change process into effect. The change agent must choose appropriate change models for the job at hand, bearing in mind the general principles of change. Successful change improves the organisation's effectiveness and, naturally, a change in one area will impact on other areas and is likely to initiate new forces for other changes. Once change has been implemented, it must be consolidated. Such techniques as TQM and other personal and interpersonal behavioural interventions help to consolidate change in an organisation.

2. DEMYSTIFYING STRATEGY

2.1 Learning Outcomes

At the end of this section you should be able to:

- Evaluate the meaning of strategy and its implications on business
- Outline the importance of strategy
- Describe the elements of a good strategy
- Differentiate between models of strategic decision making

READING

This section has been designed to be read in conjunction with the following textbook: Thompson, Arthur A. Jr., Strickland, A.J., Peteraf, M.A III and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19th Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 1

2.2 Introduction

The word strategy means different things to different people – ranging from penalty kicks for soccer fans, to aerial bombardments of enemy territory, to the options available to operations researchers, to the way an economy is managed. Thus we need to identify the distinctive role of business strategy in the management of a company. Discussions about strategy with many executives have revealed several sources of confusion. If we immediately set these aside, the nature of strategy becomes clearer. Yavitz and Newman (1982) provide the following arguments:

1. Strategy is *not* a response to short-term fluctuations in operations or the environment, nor is it the response to the frequent short-term reports, on for example, sales, labour turnover, weekly output, or competitor prices that every manager receives.
2. Strategy is *not* a set of numbers merely projected for three to five years; nor is it an extrapolation exercise based on this year's balance sheet and profit and loss statement.
3. Strategy is *not* rationalisation of what we did last year or of what appears in next year's budget. With a bit of imagination and artful wording, a statement that looks like a strategy can be written around almost any set of activities of a going concern.
4. Strategy is *not* a functional plan (not even a long-term one) - such as a five-year marketing plan or a seven-year production plan.
5. Strategy is *not* a statement of pious intentions or optimistic wishes. Merely envisioning a future world and selecting an attractive position in that world is not a strategic plan.
6. Strategy is *not* a cluster of ideas in the minds of a few select leaders of the company - ideas labelled strategy if and when they are voiced because they come from key individuals.

2.3 What is Strategy?

Strategy is made of sterner stuff. But what is strategy? The underlying assumptions have to be examined, alternatives considered, risks appraised, ramifications and side effects weighed. A strategy is a course of action to which valuable resources (including one's own energies) will be committed. It is the basis of doing some things rather than others today. The company's future will be altered because of it; survival may be at risk. Consequently, strategy should be earthy and realistic. Ansoff (1987) warned that strategy is an elusive and somewhat abstract concept.

In trying to demystify the concept, Mintzberg, Quinn and James (1988) define strategy as a *plan*, a *ploy*, a *pattern*, a *position* and a *perspective*. Strategy deals with the predetermined direction towards the achievement of some goal (plan). It is concerned with the longer-term course that the ship is steering, not with the waves. Strategy may be designed to outwit an opponent (ploy). It is primarily qualitative, provides guidance for preparation of short-term plans, integrates functional plans into an overall scheme for the company, is realistic and action oriented, and is understood throughout the top and middle levels of the organisation (pattern). Strategy is about positioning the organisation in order to achieve or maintain a sustainable competitive advantage (position). Strategy is sometimes seen as a somewhat abstract concept that exists primarily in people's minds (perspective).

Unless the strategy provides underlying guidance, its preparation is mere window dressing. Rather, strategy involves the integration of all these functional plans into a balanced overall scheme. In some circumstances one function may drive the others - product development, say, may determine marketing efforts or vice versa. Nevertheless, it is company strategy that sets the priorities and weighs or minimises the risks. An overall viewpoint is essential.

An essential feature of all strategic planning is a forecast of the world ahead - or, at best, a forecast of those parts of the environment that will have significant impact on the company's success and failures. Of course, there will be a variety of uncertainties, and our strategic planning will have to deal with them. Nevertheless, forecast we must if we are to grasp full advantage of the changes that lie ahead.
This scenario of the future should cover social, political, and technological changes as well as economic shifts. Ideally, we would like to spot each change that will create significant opportunities or threats to our industry and then relate that external change back to the particular parts of our operations that will be affected. Analysis of these anticipated developments should enable us to decide what strengths or capabilities, such as access to low cost materials or strong market position, will be

crucial for future success. Conversely, the forecasts should warn us of weakness that would spell disaster.

A second kind of forecast and analysis focuses on our company's strength and weaknesses relative to present and anticipated competition. Future actions by these competitors sharply impact on the strategy that makes most sense for us. Then we need to be creative and skilled in identifying future opportunities where our relative strengths give us a comparative advantage. On the down side, we try to spot declining or unprofitable segments that require a fresh approach, or we withdraw.
From such a set of forecast and analyses, a picture emerges of where and what we would like our company to be in the future world. What are the particular products or service we believe we can provide to what markets in a distinctive manner with the resources we can mobilise? This becomes our strategic mission. As events unfold we may adjust the target, but at any point in time the strategy tells us the best direction to move towards.

This list sets some helpful boundaries on the meaning of company strategy. By weeding out what may mistakenly be called strategy, we can focus on the potential power of the main concept.

2.4 The Importance of Strategy

Managing a company, always a challenging task, is becoming more difficult, and careful analysis is vital to cut through the maze. Yavitz and Newman (1982) detail forces that are making strategy crucial:

1. A wider range of external pressures that must be taken into account in their major decisions is confronting managers. These include environmental protection, employment opportunities for disadvantaged, shielding the consumer, and conforming to increasing government regulations.
2. Shorter pay out periods is necessary for most investments. The more frequent shifts in technology, consumer preferences, resource availability, foreign exchange rates, etc., trim the time available to recoup investments. Consequently, better forecasting and faster responses to external changes have to be built into the planning process.

3. Improved communications aid competitors, suppliers, customers and us alike. Jet travel, cell phones, television via satellite, internet and world-wide news services all increase the range of factors to be considered and the speed of responses to events everywhere. These add to the information explosion. One result is that strategic shifts must be more discerning and more frequent.
4. Growing intensity of competition quickly removes any slack from the system. Global trade means competition anywhere; advancing technology encourages cross-industry competition. Consequently, strategic planning must consider whom our future competitors will be, not only who is here today.
5. Larger enterprises require more levels of management and usually embrace more diverse kinds of business. This size itself leads to antitrust complications, potential synergies, hedging risks, more formal internal systems, and less first-hand experience in the industries managed.
6. Changing values of members of the organisation complicate strategy formulation. Attitudes toward leisure self-fulfilment, mobility, insecurity (future shock), ethical behaviour, "participation," and loyalty to one's employer affect the alternative strategies proposed and the commitment to new ventures. Moreover, growing sophistication of techniques within each function (finance, marketing, production and the like) increases the danger that highly specialised technicians will pursue narrow goals, which is, sub-optimise. Strategy helps to integrate these specialist skills.
7. Management professionalism arising from an increasing separation of owners and managers impacts on managerial styles. Tomorrow's managers will be even more sophisticated about available planning and control techniques, subjected to more formal control, open to conflict-of- interest questions, and perhaps more averse to risk taking. One important function of strategy is to counteract a tendency of professional managers to become too conservative and bureaucratic.

Each of the trends just listed will probably continue, and, in so doing they will make forward planning increasingly complicated. They compound the problems to new opportunities and new threats. That complexity, however, heightens the need for company strategy, because strategy becomes the beacon light that guides most planning. It cuts through the fog. It provides a direction and a sense of practical operational terms.

2.5 The Elements of a Good Strategy

To move from the status quo to the strategic objective will require some supporting changes along the way. The main features of these planned changes, which become part of the corporate strategy, deal with charters for present units (domains, expectations, constraints), changes in the portfolio, resource plans (including sources and allocations of capital), and target results at intervals along the course.

According to Yavitz and Newman (1982), a well-developed business-unit strategy should include four basic elements:

1. *Domain Sought*. What products or intangible services will the business-unit sell to what group of customers? The starting point in clarifying the strategy of almost any business-unit is to define the market scope for its products or services. This is the domain it seeks. Selecting an industry is the first narrowing step- for instance the electronics industry. The key issue is to identify a niche market in the industry.
2. *Differential advantage in serving selected domain*. On what basis - such as access to raw materials, better personnel, new technology, or low costs and prices - will the business-unit seek an advantage over competitors in providing its products or services? New product designs, quick deliveries, low production costs, better personnel policies, fewer fights with environmentalists are some examples where businesses can identify areas in which they can acquire an edge over their competitors.
3. *Strategic Thrusts*. To move from where the business-unit is now, to where it wants to be – as spelt out in (1) and (2) requires actions or strategic thrusts - what moves will be made, when and what can be deferred? Strategic thrusts include recruiting new personnel, injection of capital in the business, forging new relationships with other organisations etc.

4. *Target results expected*. What financial and other criteria will the business-unit use to measure its success, and what levels of achievements are expected? The strategy must include some statement of anticipated results e.g. return on investment, company growth, contribution to social welfare, stability and security of employment and earnings (of all employees and or of executives).

All four parts of a business-unit strategy - the domain sought, differential advantages, major thrusts, and target results - are interrelated. Figure 2.1 stresses this interdependence. Each of the four parts contributes an essential dimension; together they set a clear course.

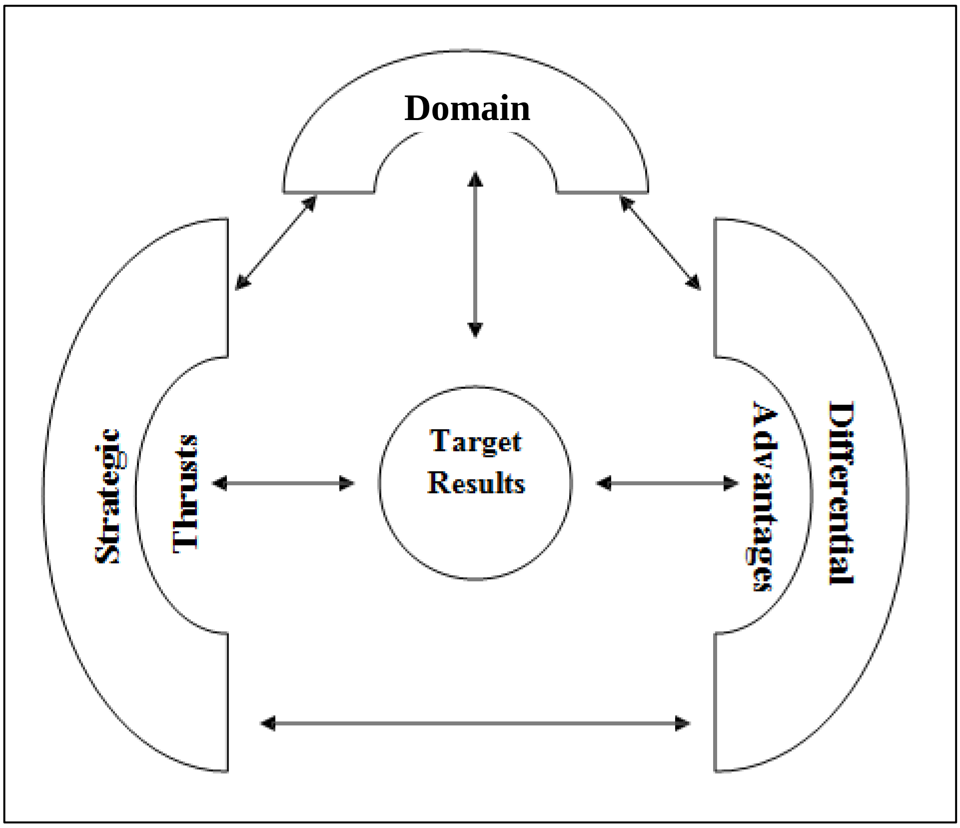


Figure 2.1: Four Essential Parts of a Business-Unit Strategy

Unless a business-unit can devise a strategy that couples an obtainable differential with an attractive domain, the domain is likely to be captured by a competitor.

2.6 Models of Strategic Decision Making

A much formalised approach to strategic decision making would involve a logical and sequential approach to all the elements we are describing in this unit. Organisations that have adopted this approach have often set up large corporate planning departments. However, such highly systematised approaches have faced a number of criticisms and are now not so widely used.

In practice, organisations are more inclined to take an incremental approach to strategic decisions. This means that their future strategic direction will tend to be connected to where they are now, rather than being a radical departure from that position. It also means that their thinking, in practice, will concentrate on where they are now and what they know most.

- **The Rational- Comprehensive Approach**

The Rational-Comprehensive approach is closest to full, systematic corporate planning. Administrators work through policy alternatives and evaluate them against stated criteria. This is called the 'Root method'.

- **The Successive- Limited Comparisons Approach**

The Successive-Limited Comparisons approach takes the current position and develops strategy in small steps. It does not go right back to assessing objectives and values. This is the 'Branch method'.

Strategic decision making in most organisations will fall somewhere between these two approaches. These two approaches belong to incremental approaches. Most organisations will make some use of formalised techniques but will take short-cuts, using the Branch method.

Quinn's work on **logical incrementalism** (1980) emerged from these approaches. Quinn found that:

- Effective strategies emerge from a number of organisational strategic sub-systems; each has different players and timescales; incrementalism is blended with opportunism
- The timing of decisions may be different in different areas of large organisations

- Sub-systems throw up a collection of strategies which are logical and, taken together, make up the organisational strategy
- Logical incrementalism is a purposeful technique and not just ‘muddling through’.

Finally, it is worth recalling that Tom Peters rejects the grandiose approach and favours managers developing strategies by **doing** – a bias for action. Strategies emerge by concentration on customers and staff.

2.7 Does Strategic Planning in Business still make any sense?

Why do great companies fail? Equally important: What are the differentiators for successful companies? The answer to these questions is as diverse and complex as the context of business itself!

Equally important: What is the role and the value-add of strategic planning in business today?

In the world of contemporary business, managers and business leaders are dealing with a wide variety of challenges: the unpredictability of the exchange rate, shrinking margins, competing globally, severe competition on various levels, compliance to new legislation, the inundation of information and new computer technologies, as well as the ever-growing demands of stakeholders. This dilemma is often compounded by the challenges of the standard day-to-day operational hassles that demand the continuous attention and problem-solving skills of managers.

The result is therefore that, both locally and internationally, the most common complaint from business leaders seem to pertain to “a lack of time”, or “an unbalanced lifestyle” or “the pace at which decisions have to be taken and executed in order to ensure the success of the business”.

In this complex - even chaotic – but certainly harsh environment, it is no wonder that business leaders sometimes seem to have become sceptical about the effectiveness of strategic planning!

In the 1970’s to 1990’s, managers prioritised the organisation’s strategic planning break-away sessions, (or what is popularly referred to as the “bosberaad”, or “indaba’s”), as one of the most important events on the annual business agenda. During these strategic planning sessions, the organisation’s Vision and Mission statements and SWOT analyses were eagerly and intelligently debated. After the strategic planning session (and some serious social activities!), the strategic planning document would however often land in file thirteen – and the planning session only to be repeated the following year!

This is however not suggesting that these strategic planning sessions were simply futile exercises and not meaningful in any way! Within the political and socio-economic context of South Africa at the time, the business focus was largely inward-looking, regulated and protected. Market conditions, although also challenging at the time, seemed more predictable, and therefore planning for the future was mostly executed by analysing cause-and-effect objectives. In retrospect, one could argue that, during the time, many business and strategy practitioners unfortunately adopted inappropriate planning systems. Yet, although mistakes were made, such as executives falsely believing that the future could be predicted accurately, or that strategic planning was an exclusively corporate or senior executive function, value was added in terms of identifying what a business was capable of doing, within the reality of what it could possibly achieve in future.

Between the 1970’s to 1990’s, most companies had a choice to apply one or more of a wide variety of excellent concepts, theories and models (mostly designed by “gurus” from American Business Schools!) during their planning sessions. These included one of the strategic planning models designed by Michael Porter (e.g. the “Five Forces Model”) or the concept of driving strategy by focusing on the business “core competencies and capabilities” (by Hamel and Prahalad), or applying the business matrix designed by the Boston Consulting Group. In the world of strategic planning and change management, business consultants seemed to earn more status with clients by dropping the names of the strategy guru’s such as Mintzberg, Porter and Drucker!

A well-known South African business consultant, Tony Manning, ("Radical Strategy", Zebra Press, 1998) describes the probable causes for "the sad performance of so many well-meant change efforts", as follows:

- Change agents fall in love with notions that sound sexy, but have no substance. They are suckers for the latest 'package';
- They attack the process from the wrong end. They start off with the notion that they have to change the company's culture to make it more competitive. But culture is a means to an end, not the ultimate goal;
- They over-complicate things. They chart the processes minute detail. This means that step 3 cannot be taken before step 1 and 2;
- They get busy with specifics, but ignore the context in which the changes must occur. Talking about customer service is useless if the CEO isn't seen to be passionate about customers;
- Organisational arrangements pull in different directions. The reward system pays people to maintain the status quo rather than change. The organisation's structure keeps power in the wrong places, and blocks communication. Old policies and redundant systems block new practices and processes. Obsolete equipment gets in the way of new technologies;
- The wrong people are put in charge of the process. People with limited clout or nominated 'champions' are put in charge of the change process;
- Too much time is allowed for results. Deadlines are too far out. Current problems come first; 'strategic' issues can wait;
- 'Real work' comes first. Strategic goals and change projects are not woven into the fabric of the organisation's life. This means they are attended to when there's time – which there never is;
- There is not enough money (or other resources). Strategy implementation requires a matching budget. These changes might be costly. People may need training, new technology may be necessary; exploiting opportunities may require heavy investment;
- The effort is abandoned too early. Either people lose interest and turn to something new, or 'get back to work'. The need for short-term results always blurs managers' view of what they should aim for over the long term.

Has strategic planning therefore become obsolete in the twenty first century? Definitely NO! Do contemporary strategic planning sessions establish sustainable competitive advantages for the business? It depends….

Recently, valuable thinking tools are applied and meaningful interventions are being facilitated in small to large sized businesses by knowledgeable facilitators. Apart from the valuable models and theories such as those mentioned, more recently, Peter Senge's theory on "strategy as learning" and Kaplan and Norton's theory on "Balanced Scorecard" have become exceptionally popular strategic planning tools. Yet, they have been applied by organisations worldwide with a lesser or greater degree of success.

When one analyses the current situation in business, it seems that most of the successful businesses worldwide have in fact increased their attention to, and also their budgeting for, strategic thinking and capacity building! However, effective strategy practitioners have come to realise that successful execution of a business strategy depends on both the content as well as the process that would enhance the potential success of the business.

Effective strategic planning is underpinned by continuous strategic conversation in the organisation. The level of learning and knowledge transfer enable the organisation to design a business model and an architecture that would distinguish themselves and that would lead to higher levels of performance in the organisation. Moreover, these businesses could in fact constructively change the industry in which they operate!

Effective business leaders agree that the context for business has changed - therefore strategic planning sessions require a fresh approach, a new methodology, a process that would lead to better outcomes! The shift in strategic planning is therefore to follow a new approach in facilitating the strategic thinking process, and to exercise the art of guiding the thinking process to enable the business to perform at a higher level.

In their article published in Harvard Business Review (1998), Campbell and Alexander have identified three camps of strategists for the new business environment:

- Those with an operational efficiency focus, and who prefer models that would include re-engineering, time-based competition, benchmarking and total quality management (TQM);
- Those with a future focus, who aim to identify the most critical factors for future success. This includes applying the tried and tested competitive strategy analysis models of Michael Porter and others, or the Hamel and Prahalad scenario analysis and developing industry foresight (the latter often applied by Clem Sunter of Anglo American, who is widely regarded as an expert in this field);
- Those who prefer a behaviour and culture focus, which includes data-free planning based on a vision that would in fact create cognitive dissonance. The theory is that this will ensure a more energised organisation that would move towards realising its idealised, dream position. Organisational learning, the theories and viewpoints of Peter Senge and others, are included in the developing of these strategic insights.

Strategic business planning processes in the twenty first century therefore offer choices in the approach to the process. The choice of a fresh approach should however suit the current and future capacity of the business. This often relates to following a systemic approach to strategic thinking and planning, where the interaction of the various functions and elements of the business are debated and deeply understood. Information relating to the industry, the competitors, the market and the business itself is interpreted in order to obtain new insights and knowledge about the possibilities for the business that would result in long-term success.

The business strategy that is based on in-depth strategic conversations also has a better chance to result in collective and emerging patterns of behaviour. The result is that most stakeholders, and particularly employees, better understand the strategic goals and can relate to the operational goals and actions required from them. This could also be reflected in the culture and climate of the business, and could result in an organisation that differentiates itself and that ensures its sustainability and success over a long period of time.

Strategic planning today is however more than ensuring sustainable success. It is an essential process for building the knowledge base of the business, and for building its capacity through continuous learning and innovation. It is a transformed consciousness demonstrated by business leaders who are accepting that there is no longer only one right way.

Gary Hamel in his article “Strategy as Revolution” (Harvard Business Review, July-August 1996) says: “Giving planners’ responsibility for strategy is like asking a bricklayer to create Michelangelo’s Piéta”. This implies that strategies which are well implemented are firstly professionally facilitated by external consultants. These professionals are able to stimulate and channel the strategic thinking process to higher levels of insight and understanding. This, to a large extent, determines the effectiveness of the strategic planning process.

An effective strategic plan includes being flexible and fleet-footed in order to effectively adjust to changes in the environment - without ever losing sight of the vision and the desired future reality or the shared focus on the organisation’s core capabilities! It surely does not imply firing one silver bullet after the other, or following one trend after the other!

Leadership’s ability to think hard and deep about the organisations’ problems and opportunities is vital. They need to continuously develop the ability to critically evaluate and understand business “inside out”. They need to understand the systemic interaction of the various drivers and functions that are integrally part of the strategic planning process that would ensure successful businesses over the long term. The ability to enhance the thinking processes, and to transfer knowledge during the strategic planning process, links directly to leadership capabilities throughout the organisation. Leadership’s power to create an exciting and challenging culture of growth and innovation, whilst ensuring meaningful, sound business principles is seen as an important element in effective strategic planning and implementation.

The strategic thinking process would normally include:

- Creating a (challenging!) future reality, based on the knowledge (of the industry/business/markets, etc.) of the past;
- Applying the knowledge to design possible strategic options and strategic objectives;
- Defining a unique but workable business model or architecture, within the context of the various identified competitive market forces;
- Clarifying the business' character, i.e. ethics and values that are demonstrated in the way business is conducted;
- Critically analysing and framing the business' current situation, and interpreting the real issues objectively and honestly;
- Identifying the strategic priorities, and leveraging the choices by a clear decision-making process;
- Identifying the gaps (also known as the "gap analysis") between the ideal future reality and the current reality. The identified gaps could be weighted or measured in order to determine their estimated individual and collective impact on the long-term planning and on implementing changes;
- Implementing the strategic plans by clearly defined action planning and/or project planning with measurable desired results. Translating the strategic plans to measurable and workable operational plans;
- Ensuring the continuation of consistent strategic conversations in the business, by focusing on the business' desired future reality! The vision remains the steering light through good and bad times!
- Evaluating the strategy continuously! Answering to questions such as:" Do we make a difference to our stakeholders?" and "Do we add value?" Adapt and change and innovate as and when necessary!
- Communicating transparent, honest and clear messages, without impeding on the business competitive strategic plans.

The strategic thinking process in today's business environment requires building capacity and empowering people, and it demands continuous innovation and learning. It demands leveraging the business' strengths and exploiting opportunities effectively and purposefully. Successful business strategies that truly make a difference are designed by many informed and knowledgeable stakeholders, and implemented by robust leadership practices that mobilise people through clear decision-making processes.

Strategic planning in the twenty first century is essential in retaining a market leadership position and in ensuring sustainable, meaningful results for most of the stakeholders.

In their best-selling book “Good to Great”, Collins and Porras describe the phenomenon of the Stockdale Paradox in as follows: “Retain faith that you will prevail in the end, regardless of the difficulties - and at the same time – confront the most brutal facts of your current reality, whatever they might be.”

Examples of South African case studies: (“Radical Strategy”, T Manning)
Many local companies have worked hard to shape up. Also, there are more players in many fields.

- All the local motor manufacturers continue to invest in new infrastructure, rationalise their dealer networks, and improve their customer service.
- Once, steakhouses had a secure place in the restaurant industry. Now, diners have a choice of South African, Italian, Indian, Thai, Chinese, Mongolian, or French cuisine, as well as seafood, health food pub grub and much else besides. Chains like Nando’s, Steers, and Spur are truly world class (And they’re expanding overseas to prove it!).
- Virtually overnight, retail food malls have mushroomed in many suburbs. They offer consumers a plethora of options. Randburg’s Waterfront, for example, has almost 60 restaurants, coffee shops and pubs. The Thrupps Centre in the Johannesburg suburb of Illovo has 11 venues, and there are another five on the road. There are at least 24 restaurants in Sandton City and adjoining Sandton Square and more than 30 in Cape Town’s V&A Waterfront.
- ‘Wheels’ banks like Wesbank and Bankfin used to have their segment to themselves. Suddenly they must fight for deals against non-traditional competitors such as BMW Financial Services and Ford Credit. The Imperial

and McCarthy groups – both major motor distributors – have acquired banking licenses.

- A non-bank – Edgars – is the biggest issuer of credit cards in the country. Pick 'n Pay offers banking products at its checkouts. Shoprite Checkers sells insurance policies. Mergers between banks and life assurers promise to transform the financial services sector further and faster.
- From about 20 radio stations a few years ago, there are now more than 125. SABC-TV and M-NET that compete with DSTV. A new, free-to-air television service will add to viewers' channel choices. (And here as elsewhere in the world, TV broadcasters face growing competition from cinemas, computer games, and the Internet).
- In the lodging business, conventional hotels are challenged by furnished executive apartments. Guesthouses are flourishing – in Cape Town alone, it's estimated that there are more than 200. Any number of portfolios of lodges, inns, and private game reserves compete for guests. Conference centers with accommodation are popping up everywhere.
- Training firms fall over each other with courses on virtually everything. They stray into management consulting territory by claiming expertise in strategy, culture change, and productivity and quality improvement. The consulting field is also swamped by large numbers of executives who were retrenched, took early retirement for tax reasons, or were given packages to make way for affirmative action appointees.

ACTIVITY

Focusing on an organisation that you are familiar with, analyse the strategy of the organisation using the four essential parts of the business unit strategy.

3. THE STRATEGY PROCESS: DEVELOPING A STRATEGIC VISION AND SETTING OBJECTIVES

3.1 Learning Outcomes

At the end of this section you should be able to:

- Analyse the strategy process
- Develop a strategic vision and mission statement for the business
- Expound on the importance of a vision and mission statement to the business
- Establish objectives that support the business vision

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III, Peteraf, M.A and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19^{th} Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 1 and 2

3.2 Introduction

This section consists of two phases of the strategy process- developing a strategic vision and setting objectives. These two phases have been combined in this section. It must be emphasised however, that these are two separate phases. Diversified companies need two levels of strategic planning. On the first level each distinct product line faces questions about how it can best serve its customers. Then at the corporate level quite a different set of questions arises about how to combine the various operating units into an optimum overall pattern. Of course, single-line companies do not have the second tier (although the very search for a second line may well require this duality), but for the large number of corporations that do operate distinct businesses, separate strategic planning is crucial.

For purposes of strategic management, it is clearly desirable to think first of each distinct business as though it were a separate firm. Each of these businesses must find some basis of distinction over its competitors, usually by going through the strategic process. In the long run, each business must attract its own resources. Problems of integration and balance, of stability and aggressiveness, must be reconciled internally and also fitted to the specific environment of each particular business. Whatever the stock ownership and affiliations, a strategy must be devised that will make the business unit workable.

By *business-unit* we mean a single-line, self-contained company, or a division within a larger company that operates as a distinct business. For strategic management, business-units within a corporation can be differentiated from one another when each:

a) Has its own single-line homogeneous cluster of products or services,
b) Serves a separate and reasonably homogeneous market, and
c) Employs reasonably homogeneous technology.

3.3 The Strategy Process

According to Thompson et al. (2007:19-20), the managerial process of crafting and executing a company's strategy consists of five interrelated and integrated phases.

These are:

1. **Developing a strategic vision** of where the company need to head and what its future product/market/customer technology focus should be.

2. **Setting objectives** and using them as yardsticks for measuring the company's performance and progress.

3. **Crafting a strategy to achieve the objectives** and move the company along the strategic course that management has chartered.

4. **Implementing and executing the chosen strategy efficiently and effectively.**

5. **Evaluating performance and initiating corrective adjustments** in the company's long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas and new opportunities.

The five-phase process is illustrated in Figure 3.1, on the next page.

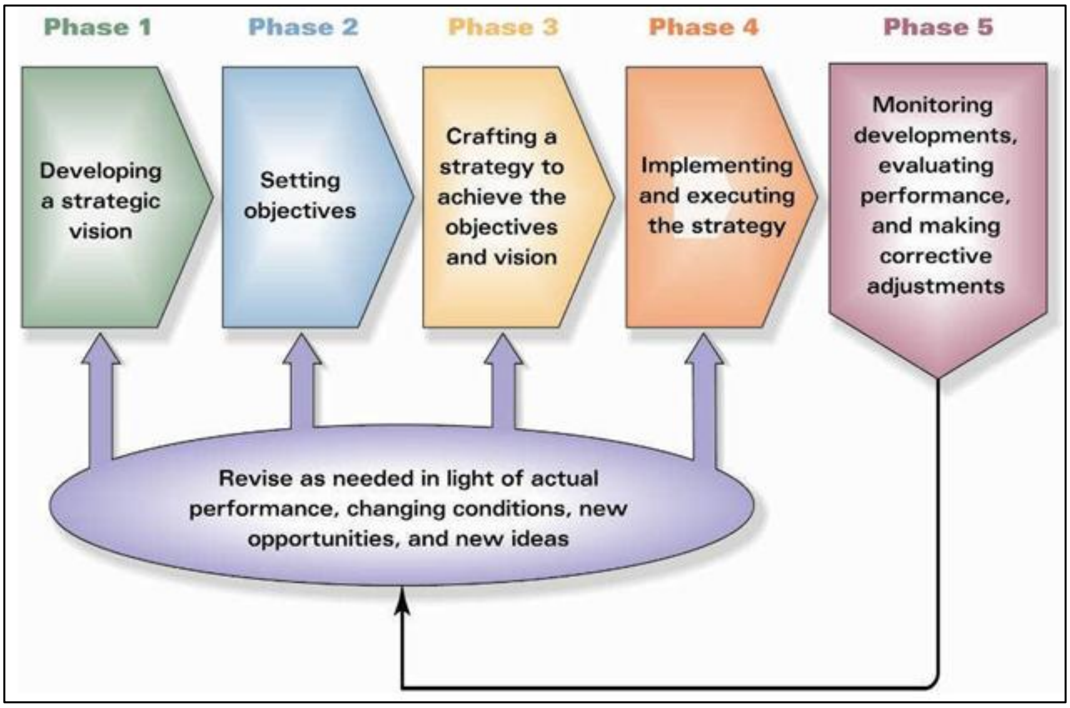


Figure 3.1: The Strategy-Making, Strategy-Executing Process

Source: Thompson et al. (2007:20)

3.4 The Vision and Mission Statement

Often a vision of what the company might become emerges, at least in a few venturesome minds. Perhaps after some checking, the vision turns to a mission with sustained aspiration and commitment. Many successful people tell of forming such goals early in their career. Very briefly, the strategy of a business-unit stakes out its mission and indicates the main distinctive means to be used in fulfilling that mission. As a guide to all key people in the business-unit, the strategy should be started in terms that have operational significance.

Too often senior managers fail to move their strategy thinking from the broad-aspiration stage. The head of a small, successful electronics firm, for instance, said in a statement to employees:

Our strategy is to become a leader in our industry - peripheral equipment for computers. Starting with a present base in printout devices, we intend to grow at least 20% per year. To do that we will add new lines, through acquisition if necessary. Growth is the key to better job opportunities for our employees and increased for stockholders.

The CEO of a fast-food chain was even more general. He stated:

Our strategy is to be a growth company. We plan to grow about 25% each year, expanding on a regional basis. Because growth involves start-up expenses we will not try to increase our ROI above a constant 15%, but the prospect of the future earnings should make our stock prices move up faster.

Neither of the above statements provides adequate guidance. One simply identifies an industry in which the company will operate and the growth goals, but little else. The other cites goals but fails even to mention the industry, market or product. In fact, neither concern is close to its targets; the electronic-device firm is being acquired rather than absorbing other firms.

? THINK POINT

Describe the importance of a vision to an enterprise. Use an example to support your arguments.

3.5 Setting Objectives

The starting point in clarifying the strategy of almost any business-unit is to define the domain it seeks its product (or service)/ market scope. Selecting an industry is the first narrowing step - say, the health-care industry or the coal industry (In fact, most business-units have their resources and strengths so deeply committed to an industry that they have only limited choice in this matter). The chief issue, however, is picking a propitious niche in the industry. The niche may be a segment of the total products (or services) offered by the industry, or it may be a selected group of customers defined in terms of size, income, location, or some other characteristics. Obviously, each business tries to select a niche in which the growth and profit prospects are attractive, and in which it has strengths relative to competitors.

Crown Cork & Seal Company in the United States was so bound up in the container industry that it could not move out and survive the transition; so it sought one or more niches that were more attractive than the average, and that matched their capabilities. Pressurised cans used by breweries and aerosol product manufacturers met these criteria. That particular market became the primary domain sought by the company.

A redefinition of one’s industry or niche within that industry sometimes suggests an attractive domain. The classical examples of redefinition - breaking down conventional boundaries - are total transportation instead of railroading, and packaging instead of glass containers. Such a shift in perspective enabled O. M. Scott & Sons to expand from grass seed into an array of fertilisers and herbicides, all related to lawn care. Of course, the recasting of the concept of an industry is only a start; the need to select an attractive niche within that new scope remains.

Clear identification of a desired domain enables a business to concentrate on the particular activities necessary to serve that domain well. Especially important is anticipating changes in demand, supply and regulation in the domain, and preparing in advance to meet these new requirements.

A secondary benefit of a well-defined domain is as a guide on what not to do. Activities that are irrelevant to serving the domain can be pushed aside.

The desired domain does not remain static. The nature of markets and competition frequently change. Products mature. A business may achieve a dominant position in one niche and have to look elsewhere for growth. But until a change is decided on, the selected domain provides positive direction to other business-unit planning.

The strategic advantage of picking a niche very carefully does not necessarily mean that a company should confine its activities to a single niche. Synergistic benefits may be obtainable from serving closely related niches. An expansion matrix suggests possibilities. Clearly, expansion from fuller use of productive capability would lead in quite different directions than providing the same services to a wider range of customers.

4. ANALYSING THE COMPANY'S ENVIRONMENT

4.1 Learning Outcomes

At the end of this section you should be able to:

- Analyse the industry and competitive conditions and the company environment
- Define the key issues in the company's operating environment, and assess how these will affect the company
- Identify opportunities and threats in the company's operating environment
- Evaluate the company's resources and competitive capabilities in the context of the industry being served
- Undertake a SWOT analysis

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III, Peteraf, M.A and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19th Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 3, 4 and 6

4.2 Introduction

Analysing the environment requires that managers understand the impact of environmental change on all aspects of organisational activity. Auditing environmental influences will enable management to understand the nature of change and the extent to which future strategic management can deliver necessary opportunities for success.

The steps that we need to take in assessing an organisation's strategic position are as follows:

- Audit environmental influences
- Assess nature of the environment
- Relate to business position
- Relate to resources
- Identify opportunities and threats
- Define strategic position

This approach provides a framework for an environmental audit. The next step is to assess each major factor. The following checklist should help in this assessment:

Customers

- How many customers are there?
- Who are they? (For example, which demographic categories?)
- Are you losing or gaining customers?
- Who are your potential customers?

An organisation will probably have to carry out market research to find the answers to these questions:

Competitors

- Who are my competitors?
- Where are they?
- What are their products?
- What are the market segments and market shares?

Suppliers

- Who are they? How many?
- Home-produced or imported?
- What are the alternatives?
- Who do your competitors use?
- Are there alternative raw materials?
- How would potential new products or raw materials be supplied?

4.3 Pest Analysis

The acronym PEST stands for political (or legal), economic, socio-cultural and technological factors. The key issues to be considered when doing a PEST analysis are now examined.

The Political (Legal) Factors

- What is government policy?
- How does current or planned legislation affect your organisation?
- How does the law affect your costs, operational policies and marketing policies?
- What laws govern competition?

The Economic Factors

Factors to consider under economic factors are:

- Interest rates and investment
- Inflation (effect on costs and prices)
- Wage rate
- Exchange rates
- Trade statistics relevant to your organisation
- Consumer spending
- Government spending
- Share prices
- Mergers and take-overs
- Availability of capital and its cost
- Analyse it in terms of size, potential, skills, regional location, gender, age etc.

You can also look at the environmental variables and ask a series of questions (You will want to know their effects on the groups in your environment and also on your organisation directly).

Socio-cultural Factors

- What new trends are there which affect your products and customers? (For example, concentration on health, healthy food and trends in clothing.)

Technological Factors

- How is technology affecting production methods, products on sale, prices, and consumer demand?

4.4 Industry and Competitive Analysis

Thompson et al. (2007:51-52) consider answers to the following questions as critical in carrying out and industry and competitive analysis:

1. What are the industry's dominant economic features?
2. What kinds of competitive forces are industry members facing and how strong is each force?
3. What are the drivers of change in the industry and what impact will they have?
4. Which companies are in the strongest/ weakest competitive positions?
5. What strategic moves are rivals likely to make next?
6. What are the key factors for future competitive success?
7. How attractive is the industry in terms of its prospects for above-average profitability?

Companies are faced with the difficult problems of achieving growth in the following areas:

- Customer satisfaction
- Market share, and
- Return of investment

This is achieved by formulating strategies that are concerned with matching organisational capabilities with the changing environment. It is imperative therefore that the manager understands the impact of environmental change on all aspects of organisational activity. Environmental change could either be relatively simple where historical perspectives can be used to forecast the future or more dynamic where future orientation ideology is more sensible. Therefore, auditing environmental influences will enable management to understand the nature of change and the extent to which future strategic management can deliver necessary opportunities for success.

We can analyse the environment in terms of its current situation and attempt to forecast the future by looking for opportunities and threats provided by the environment as part of a SWOT analysis. But often this has to be linked to the strengths and weaknesses of different aspects of the organisation. In short, analysis of the organisational environment takes on a strategic meaning for us only when related to the organisation with which we are concerned.

In some textbooks, the study of business position is incorporated into the analysis of the environment. In this unit, we will look at business positions separately. There is a good reason for this: an assessment of organisation's strategic position is not just about the environment - it is about relating the environment to the organisation's resources.

The Five Forces Model

Earlier on, we looked at environmental audits and assessing the nature of the major variables in the environment. We said that the major elements are interrelated. The Five Forces Model is a way of looking at some of these interrelationships. It is a model that looks at the structure of an industry as a whole and deals primarily with a competitive industrial structure.

The following model shown in Figure 4.1 was developed by Michael Porter and is now extensively used in books on the subject.

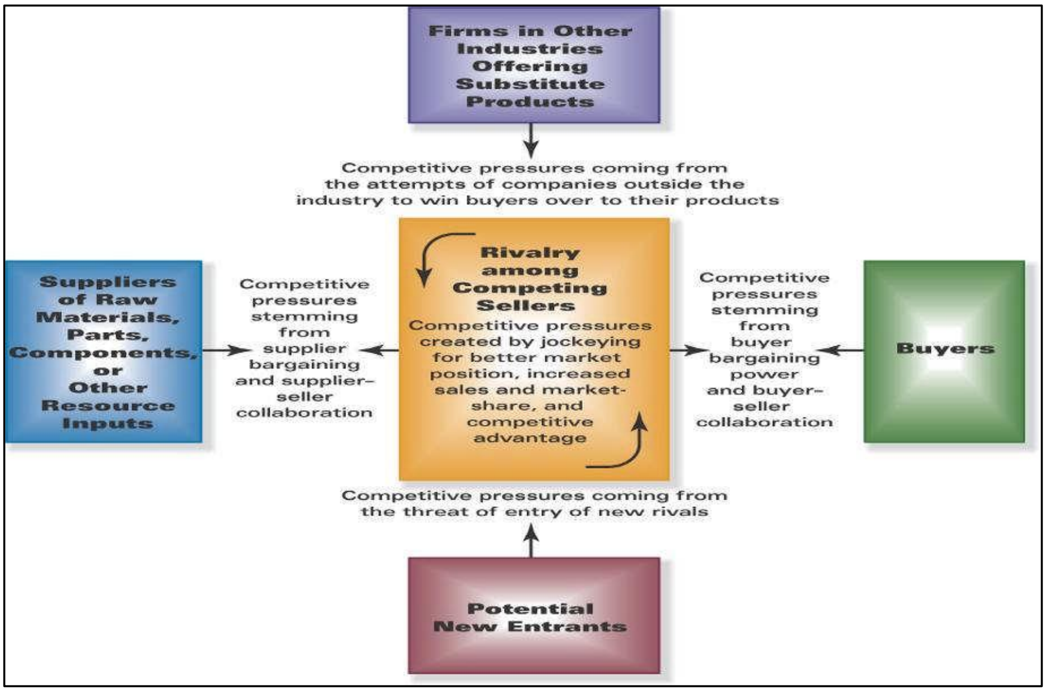


Figure 4.1: The Five Forces Model

Source: Thompson et al. (2006:55)

The model provides a framework for analysing industry structure within which the organisations operate. It is a structured means of illustrating how the positioning of a company can capture opportunities within their industries and ultimately lead them to sustainable competitive advantage.

Key elements for consideration within each of the forces are typically as follows:

Barriers to Entry

Threats to entry into industries take many forms:

- Economies of scale
- Capital requirement of entry
- Access to distribution channels
- Expected retaliation
- Legislation or political action
- Differentiation

These elements require significant management attention.

Power of Buyer and Suppliers

Elements of consideration in these areas are as follows:

- Concentration of buyers or suppliers
- Switching costs
- Branding
- Vertical integration
- Costs/pricing policies

These elements may impact the attractiveness of the industry or the profitability of the company.

Threat of Substitutes

Threat of substitutes can take many forms, e.g:

- Fax machine for telephone
- Sweeteners for sugar
- Opportunity cost (alternative use of discretionary expenditure)

The threat of substitutes can place a ceiling on prices for a company's products thereby reducing its attractiveness in the market.

Key questions to ask are:

- Does the substitute pose a threat of obsolescence?
- Does the substitute offer perceived added value?
- Is it easy for a customer to switch to the substitute?

The answer to these and many more will aid decision making by management.

Competitive Rivalry

Organisations are clearly interested in the degree of rivalry between them and other players in the industry.

Key questions might be:

- Who are my competitors?
- What size are they?
- Is the market growing or declining?
- Is the production capacity impacting the supply/demand considerations of the industry?
- Do rivals have an advantage via differentiation?
- Do rivals have an advantage via lower costs?
- What are the exit barriers should things go wrong?

These questions require specific answers in order to ensure good positioning within the industry.

In carrying out your environmental analysis, you need to examine the current situation and to forecast how these five forces might change. Remember that you are still looking for opportunities and threats from the environment.

4.5 SWOT Analysis

POTENTIAL RESOURCE STRENGTHS AND COMPETITIVE CAPABILITIES

- A powerful strategy supported by good skills and expertise in key areas
- A strong financial condition; ample financial resources to grow the business
- Strong brand-name image/company reputation
- A widely recognised market leader and an attractive customer base
- Ability to take advantage of economies of scale and/or learning and experience curve effects
- Proprietary technology/superior technology skills/important patents
- Cost advantage
- Strong advertising and promotion
- Product innovation skills
- Proven skills in improving production processes
- A reputation for good customer service
- Better product quality relative to rivals
- Wide geographic coverage and distribution capability
- Alliance/joint ventures with other firms

POTENTIAL RESOURCE WEAKNESSES AND COMPETITIVE DEFICIENCIES

- No clear strategic direction
- Obsolete facilities
- A weak balance sheet; burdened with too much debt
- Higher overall unit costs relative to key competitors
- Missing some key skills or competencies/lack of management depth
- Sub-par profitability
- Plagued with internal operating problems
- Falling behind in Research & Development
- Too narrow a product line relative to rivals
- Weak brand image or reputation
- Weaker dealer or distribution network than key rivals
- Sub-par marketing skills relative to rivals
- Short on financial resources to fund promising strategic initiatives
- Lots of under-utilised plant capacity
- Behind on product quality

POTENTIAL COMPANY OPPORTUNITIES

- Serving additional customer groups or expanding into new geographic markets or product segments
- Expanding the company's product line to meet a broader range of customer needs
- Transferring company skills or technological know-how to new products or businesses
- Integrating forward or backward
- Falling trade barriers in attractive foreign markets
- Openings to take market share away from rival firms
- Ability to grow rapidly because of strong increases in market demand
- Acquisition of rival firms
- Alliances or joint ventures that expand the firm's market coverage and competitive capability
- Openings to exploit emerging new technologies
- Market openings to extend the company's brand name or reputation to new geographic areas

POTENTIAL EXTERNAL THREATS TO A COMPANY'S WELL-BEING

- Likely entry of potent new competitors
- Loss of sales to substitute products
- Slowdowns in market growth
- Adverse shifts in foreign exchange rates and trade policies of foreign governments
- Costly new regulatory requirements
- Vulnerability to recession and business cycle
- Growing bargaining power of customers or suppliers
- A shift in buyer needs and tastes away from the industry's product
- Vulnerability to industry driving forces

Signs of Competitive Strength

- Important resource strengths, core competencies, and competitive capabilities
- A distinctive competence in a competitively important value chain activity
- Strong market share (or a leading market share)
- A pace-setting or distinctive strategy
- Growing customer base and customer loyalty
- Above average market visibility
- In a favourably situated strategic group
- Well positioned in attractive market segments
- Strongly differentiated products
- Cost advantages
- Above average profit margins
- Above average technological and innovation capability
- A creative, entrepreneurial alert management
- In position to capitalise on emerging market opportunities

Signs of Competitive Weakness

- Confronted with competitive disadvantages
- Losing ground to rival firms
- Below average growth in revenues
- Short on financial resources
- A slipping reputation with customers
- Trailing in product development and product innovation capability
- In a strategic group destined to lose ground
- Weak in areas where there is the most market potential
- A higher cost producer
- Too small to be a major factor in the market place
- Not in good position to deal with emerging threats
- Weak product quality
- Lacking skills, resources, and competitive capabilities in key areas
- Weaker distribution capability than rivals

4.6 Forecasting

Executives handling day to day affairs of a business unit are rightfully sceptical about forecasts of the problems they will face, say, five years in the future. 'Who knows whether our major competitor will hold his price of imports from Korea? Consumers are fickle – last year sports cars were hot; this year Mrs Cabot wants a pick-up truck! Even a three-month budget gets out of date.'

Indeed, the specifics do change, but experience indicates that most of the broad trends affecting business unit strategy can be predicted within a useful range. There is sufficient momentum in society to make sudden turnabouts rare, and new discoveries take quite a while to have widespread effects – as the history of satellite communication or equal rights for women bear witness.

One helpful approach is to think in terms of the four types of underlying forces listed previously – economic, social, technological, and political. First ask what particular elements in each of these categories are already changing in a way that has important impacts on our business, and second, where in our operations is the impact being felt. The aim of this exercise is to identify a limited number of elements that, at least at present, are significant. Then with this list as an agenda, we can forecast how those elements are likely to behave in the future.

To illustrate with a mature product – passenger motorcar tyres – several basic forecasts can be made with considerably confidence. Technologically, belted tyres, which have already been around for a few decades will continue to be more dominant. Lighter cars will reduce tyre wear. Politically, safety will continue to be stressed. Socially, both potential car owners and cars per capita continue to increase, but at a slower pace. Economically, the replacement tyre market will flatten out, because of the longer life of belted tyres, lighter cars, and some driving restraint (because of high petrol prices). Also, the original equipment market will continue to be dominated by a few, low-cost producers; except for well-established companies like Michelin, no new producers will have the clout to enter the original equipment business.

This sort of forecast has reasonable reliability because of inertia – the energy required to stop a prevailing force and the energy needed to launch an alternative. Of course, time spans must be considered. If a business unit strategy will take five years to execute and five years to 'harvest', then an environmental force likely to persist for at least a decade is long enough. However, if the inertia may run out in five years and the business unit needs 15 years for a full cycle of development and harvest, future uncertainty jumps sharply.

Several words of caution must be added.

- A mathematical model is not being suggested. Our experience indicates that identification of several key elements and qualitatively relating such elements to factors in a strategy is as far as this approach should be pursued
- Some but not all the issues to be weighed will emerge in this approach – as a business unit and its competitors undertake different activities, additional environmental elements must be included on the agenda.

- Within the general drifts that are identified, cyclical and other short-term ups and downs will also occur. Timing of moves remains a delicate problem, even when the general direction is clear

Many managers lament their 'lack of data' for good environmental forecasting. For most strategy choices, however, substantial quantities do exist. When looking back at 'surprises', several large companies discovered that they had possessed warning data, but this information was in some other department, or it was not recognised as relevant. The forecasting task of general drifts over the relevant time-span is more digging out information, recognising its significance, and interpreting its impacts. Moreover, consultants who are acquainted with available data can be tapped. We do not under-rate the difficulty of forecasting, but we do observe that, frequently, lack of data is more an alibi than an insurmountable hurdle.

? **THINK POINT**

What trends can you identify in the business in which you operate? How are these trends likely to affect your business?

- **Social and Political Forecasting**

One method is to gather information from a variety of sources – market research, observation, talking to informed sources – and then to create scenarios. Scenarios are the different ways in which events may develop. Their creation involves making judgements and making assumptions.

Having identified possibilities based on assumptions, you can then assign probabilities to the likelihood of each scenario happening. It is worth noting that the allocation of these probabilities is often as much due to qualitative as to quantitative techniques.

Note that, when a strategic choice comes to be made, there will be elements of risk associated with decision making. The judgements and assumptions chosen in forecasting the future often determine the quality of strategic decision.

- **Technological Forecasting**

The organisation needs to forecast its own and its competitors' development, both in production methods and in products. But this forecasting is not carried out in complete isolation from social and political forecasting. Trends in consumer tastes and behaviour are inextricably linked to technological advance.

- **Economic Forecasting**

In this area, quantitative techniques can be used. Organisations can use their own methods and models, and draw on published forecasts by the government and other organisations. But, yet again, this forecasting cannot be carried out in isolation: political and social factors need to be taken into consideration. Because of this, qualitative judgements again have to be used to assess qualitative data and create scenarios.

4.7 Scenario Planning

4.7.1 Overview

Scenarios are possible and plausible pictures of the future. They are created through a series of conversations, through which a group of people invent and consider several varied stories about how the world may turn out. Ideally, these stories should be carefully researched and full of detail, able to expose new understandings and some surprises. Scenarios are powerful tools for challenging assumptions about the world, and in so doing, they lift the barriers of our own creativity and understanding about the future.

The term “scenario planning” was originally coined by the RAND Corporation during and after World War II, as part of their corporate strategy. When Herman Kahn left the RAND Corporation, he set up the Hudson Institute and further developed the process, and went on to write a book called “The Year 2000” which was published in 1967. Since the late 60’s, the process has taken off as a tool and has evolved considerably from its origins.

Scenario planning as a process started with a paradigm of “predict and control”, where probabilistic scenarios were sketched out about the future. This paradigm as a basis for the process has changed significantly over the years, mainly due to the work of Pierre Wack at Shell in the 1970’s. Wack separated issues which were predictable from those which were uncertain, and worked with uncertainties and how they influenced various scenarios.

Nowadays, scenario planning then supports the notion that the world is inherently uncertain. Scenarios are used not so much as a tool for predicting the future, but rather as a process which challenges assumptions, values and mental models of various stakeholders about how uncertainties might affect their collective futures. By encouraging scenario planning processes at different levels of an organisation or community, old paradigms are challenged, and innovation encouraged through surprising possible stories of the future. Scenarios therefore help develop new and valuable knowledge.

By bringing multiple perspectives into a conversation about the future, a rich and multidimensional variety of scenarios are created. Scenarios encourage storytelling and dialogue between people who would not necessarily share their perspectives with each other. As Peter Schwartz points out: “Scenario-making is intensely participatory, or else it fails.”

4.7.2 Preparing for a Scenario Planning Process

Before embarking on a scenario process, it is important to establish whether it is the right process to use, and in what context it would be most useful. Scenarios are generally used when the following conditions exist:

- There is a high level of complexity in a given situation which is difficult to understand
- There is a longer term (at least a few years ahead) focus required in looking into the future, and how to respond to it
- There is uncertainty about how the external environment will impact a particular situation
- There are resources available to invest in a series of conversations amongst different stakeholders over a period of time, and to distribute these scenarios extensively.

Scenarios can also be very broad and are not necessarily useful if the focus and purpose is unclear. Once a particular organisation or community has decided to use scenarios, the following questions will help make the outcome relevant to all concerned. The scenario planning process can then be adapted to these specific needs:

- What is the purpose of this process?
- How many “players” need to be part of this process in order to view the necessary perspectives of the future?
- What parts of the external environment are important to focus on when considering these scenarios?
- Is there any level of control by any of the stakeholders of these external variables?
- What is the time horizon?
- Who is endorsing this process at a leadership level?
- Who needs to “buy-in” to the potential outcomes?

4.7.3 The Process

There are many ways of developing scenarios. The process below is but one simple example of how to facilitate a scenario-building exercise, which considers the important principles of uncertainty and control. South Africans, Chantal Illbury and Clem Sunter, have mapped out this process for building a set of scenarios to consider for future strategy:

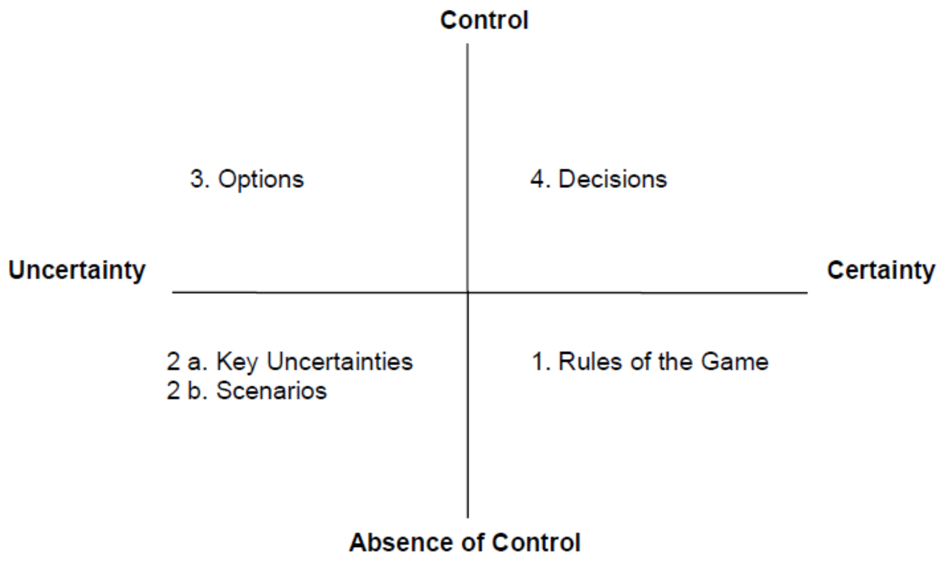


Figure 4.2: Scenario Planning

The horizontal axis represents the continuum of certainty/ uncertainty, and the vertical axis represents the continuum of control/ absence of control. All of the steps of this scenario process are numbered in order and move through the four quadrants highlighted in the diagram. The scenarios themselves are generally based on a set of different uncertainties which may play out in the future, and where there is absence of control by the "players" of the game.

The steps of the process are explained as follows:

1. What are the rules?

In any given situation, rules of "the game" are certain, but not necessarily controllable. "The game" is a metaphor of the context being examined in the scenario process. It is important to firstly distinguish between the written and unwritten rules of the game. The unwritten rules can also be referred to as "tacit", and are often socially constructed. By surfacing these unwritten rules, it is easier to better understand "the game". On the other hand, written rules are often aspirational – they are aspired to by the organisation, but not necessarily implemented in reality.

2. a. What are the key uncertainties?

The next step in this scenario process is to map out the key uncertainties for the future. This is a highly creative step, where it is important to get multiple perspectives of what is uncertain. By mapping the key uncertainties in order of importance and level of uncertainty, the group can start to decide which ones to explore in more detail to start developing scenarios. The diagram below assists the process of prioritising scenarios:

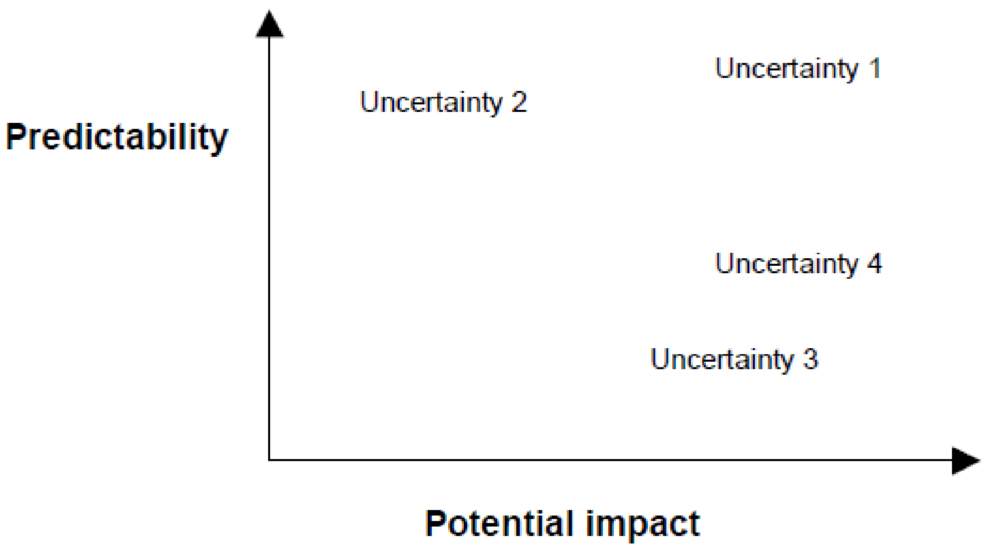


Figure 4.3: Scenario Prioritisation

2. b. Develop the scenarios

As mentioned above, scenarios can be viewed as multiple pictures of the future. This glimpse can give participants an understanding of what is possible, and the motivation to plan towards their preferred scenario. A useful technique to decide on the preferred scenarios is to expand on the key uncertainties by examining the possible outcomes of those uncertainties. For example, in a country context, one of the uncertainties might be economic growth. So the scenarios could explore the stories which would unfold if there would be high economic growth or low economic growth. To give a scenario a more multi-dimensional aspect, two key uncertainties could be explored – see graph below. Scenarios are developed to surprise us, and to bring to the surface possibilities we wouldn't normally anticipate for the future. This means it is important to base the scenarios on uncertainties which have low predictability and high impact (uncertainties 3 and 4 in graph above). The graph below is an example of scenarios which may be developed based on 2 key uncertainties.

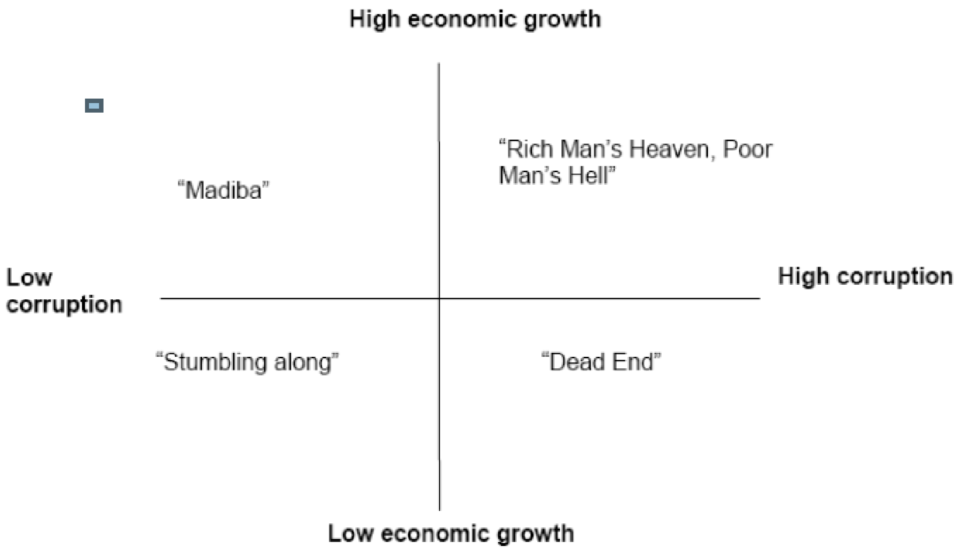


Figure 4.4: Scenario Examples

3. Identify options for future action

Options are determined from the scenarios. The scenarios can be seen as the bridge between the key uncertainties and options – they help order a group process in a way that paints a set of vivid and detailed pictures of what is possible, and therefore the possibility to map out options to match each of these scenarios. It is therefore important that the scenarios are written up in a lot of detail, and explore all components of a given situation. This will assist the process of mapping out options of action for each scenario.

4. Make decisions

The final stage is to make decisions based on the scenarios and the options. Illbury & Sunter refer to George Kelley who introduces us to the "personal construct theory". He claims that we make decisions based on our own interpretations of the world, which are informed by our experiences. If our experiences are cut off from those of others, we limit the decisions we make. Scenarios help bring these different experiences into pictures of the future through a dialogue, which in turn helps us make more informed decisions for the future.

4.7.4 Applications

Scenarios have been used since the 1960s. Back then, the process was mostly used within companies to help them make more informed decisions about the future. Since then, the process has been more widely applied to social contexts with multiple stakeholder involvement. Scenarios have been used extensively all over the world in varied contexts from mapping out country strategies (Jamaica, South Africa, Botswana, Kenya and others), corporate strategies (Shell, Anglo American, Old Mutual), as well as at multiple community levels.

Case Example: Mont Fleur Scenario-Process, 1991, South Africa
In his book, Solving Tough Problems, Adam Kahane tells the story of facilitating the Mont Fleur Scenarios. In 1991, 22 key influential South African figures came together for a scenario-building process about the future of the country. It was shortly after Mandela’s release, when the future was very uncertain and divided.

The group included leaders from the (ANC, PAC, National Union of Mineworkers, South African Communist Party), as well as their adversaries from white business and academia. They all saw the reality of South Africa from different perspectives. Participants included Trevor Manuel, Tito Mboweni and Vincent Maphai.

The group sat for a couple of days talking to each other. They met multiple times over a period of months, and talked through a number of scenarios. They eventually decided on four scenarios they found most plausible for South Africa. These scenarios were all based on the question of: “How will the transition go, and will the country succeed in “taking off”?

The four, richly explained stories were based on bird analogies. Firstly, there was the Ostrich, where the white government sticks its head in the sand to avoid a negotiated settlement. Then there was the Lame Duck where the transition goes on for too long, trying to satisfy all parties and not succeeding. Thirdly, there was Icarus, where a black government comes to power and institutes a massive public spending policy which bankrupts the economy. Finally, the most positive scenario was The Flight of the Flamingos, where a successful transition takes place, and where everyone is South Africa rises slowly together.

From the group, the Flamingo scenario was unanimously agreed on as the best alternative. These scenarios were written up in a 25-page report and distributed widely through the media, and workshops all over the country. From these multiple engagements, the outcomes of Mont Fleur had a significant effect on the economic policy of South Africa. Many leaders and politicians have referred to these scenarios in various debates and discussions.

This process was so remarkably successful for four overarching reasons:

1. The timing was right – it was the window of opportunity to create a new future at the beginning of South Africa’s transition. There was much uncertainty and absence of control.
2. There was top political buy-in and participation at all levels.
3. The process itself built meaningful relationships and all involved bought into the scenarios, which also demonstrates excellent facilitation.
4. The follow-up was extensive – the stories were well written in detail, and communicated through mass media, television, and workshops. Many political speeches and strategy sessions referred to this documentation.

These scenarios proved to be powerful tools for both planning and debate, and are still spoken of over 10 years later. The Mont Fleur process highlights the impact of facilitated dialogue about the future, and the power of stories.

4.7.5 Commentary

Many organisations work in an increasingly complex situation both internally and externally. When we are faced with complex systems, one of the key capacities that is needed is to be able to not only work from one point of view or frame of reference. Scenarios help us to work simultaneously with more than one perspective and story, and to take actions that make sense across multiple frames. The real power of the scenario planning process is the ability to bring many different stakeholders into a conversation about the future, thereby creating collective ownership of these sets of pictures, and building important relationships across differences.

The outcome of a scenario-building process can be useful in two ways:

1. The set of possible stories of the future help a group/ organisation/ community respond to that situation should the event arise. This is a more responsive interpretation of the process. The 4 scenarios chosen at the end may not have an order of preference (good or bad), but rather map out the positive and negative outcomes of all scenarios. This is typically an outcome of an organisation-specific process, where the primary purpose would be to respond in a more informed manner to situations as they arise.
2. A more proactive response would be to strive towards the scenario of choice, and map out strategies to help a group move towards that picture. Scenarios would therefore have an order of preference amongst stakeholders involved, and the most preferred scenario is the one to strive for. Peter Drucker once said: “The best way to predict the future is to create it”. Scenarios are a powerful way of moving towards a more desired future, as has been highlighted by the incredible outcome of the Mont Fleur scenarios. The process and examples we have used in this explanation demonstrates this view of futurist thinking.

4.8 VUCA Environment

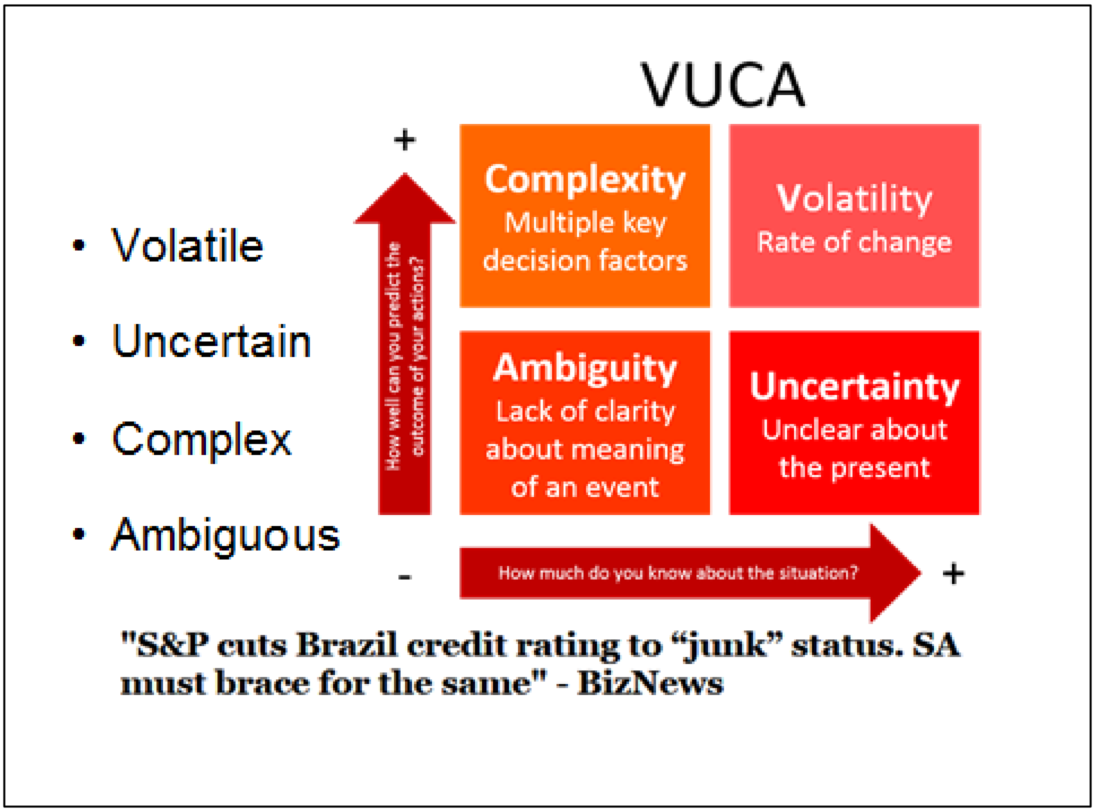


Figure 4.5: VUCA

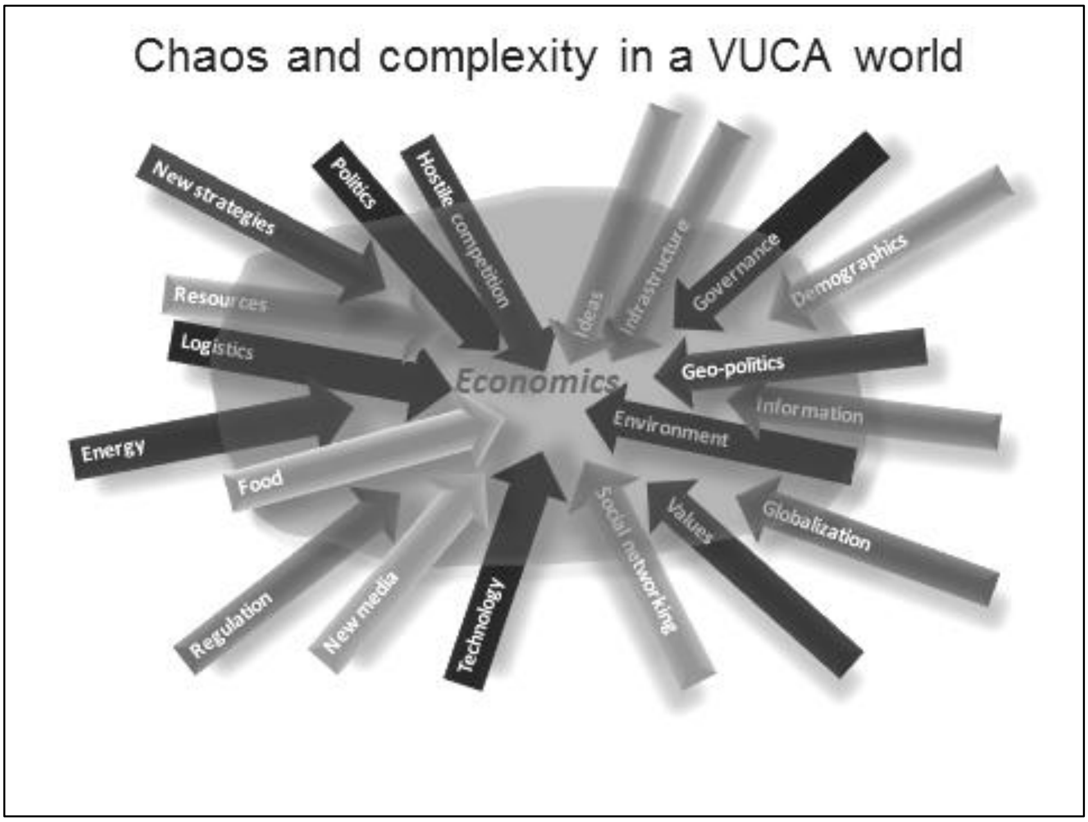


Figure 4.6: Chaos and Complexity in a VUCA World

4.8.1 Introduction

The World Is Flat, Thomas Friedman notes that the rate of change today is much different than in the past. “Whenever civilization has gone through one of these disruptive, dislocating technical revolutions—like Gutenberg’s introduction of the printing press—the whole world has changed in profound ways,” he writes. “But there is something different about the flattening of the world that is going to be qualitatively different from other such profound changes: the speed and breadth with which it is taking hold….This flattening process is happening at warp speed and directly or indirectly touching a lot more people on the planet at once. The faster and broader this transition to a new era, the more likely is the potential of disruption.”

“To put it another way, the experiences of high-tech companies in the last few decades who failed to navigate the rapid changes brought about in their marketplace by these types of forces may be a warning to all the businesses, institutions and nation states that are now facing these inevitable, even predictable, changes but lack the leadership, flexibility and imagination to adapt—not because they are not smart or aware, but because the speed of change is simply overwhelming them.”

This rapid flattening, as Friedman calls it, is creating a new environment that strategic business leaders are increasingly calling a “VUCA” environment. Coined in the late 1990’s, the military-derived acronym stands for the volatility, uncertainty, complexity, and ambiguity—terms that reflect an increasingly unstable and rapidly changing business world. This new VUCA environment will require HR and talent management professionals to change the focus and methods of leadership development.

4.8.2 The main aspect of VUCA

Discuss the history of VUCA and how it applies to business strategy and development. Explores how VUCA is relevant to leadership development.

Discuss the “VUCA Prime,” which flips the acronym to focus on vision, understanding, clarity, and agility.

Offers suggestions on what HR and talent managers must do to change their leadership development approach to foster leadership vision, understanding, clarity, and agility.

4.8.3 The Origins of VUCA

The notion of VUCA was introduced by the U.S. Army War College to describe the more volatile, uncertain, complex, and ambiguous, multilateral world which resulted from the end of the Cold War (Kinsinger & Walch, 2012). The acronym itself was not created until the late 1990s, and it was not until the terrorist attacks of September 11, 2001, that notion and acronym really took hold. VUCA was subsequently adopted by strategic business leaders to describe the chaotic, turbulent, and rapidly changing business environment that has become the “new normal.”

By all accounts, the chaotic “new normal” in business is real. The financial crisis of 2008-2009, for example, rendered many business models obsolete, as organisations throughout the world were plunged into turbulent environments similar to those faced by the military. At the same time, rapid changes marched forward as technological developments like social media exploded, the world’s population continued to simultaneously grow and age, and global disasters disrupted lives, economies, and businesses.

4.8.4 VUCA Defined

The “V” in the VUCA acronym stands for volatility. It means the nature, speed, volume, and magnitude of change that is not in a predictable pattern (Sullivan, 2012 January 16). Volatility is turbulence, a phenomenon that is occurring more frequently than in the past. The BCG study found that half of the most turbulent financial quarters during the past 30 years have occurred since 2002. The study also concluded that financial turbulence has increased in intensity and persists longer than in the past (Sullivan, 2012 October 22). Other drivers of turbulence in business today include digitisation, connectivity, trade liberalisation, global competition, and business model innovation (Reeves & Love, 2012).

The “U” in the VUCA acronym stands for uncertainty, or the lack of predictability in issues and events (Kinsinger & Walch, 2012). These volatile times make it difficult for leaders to use past issues and events as predictors of future outcomes, making forecasting extremely difficult and decision-making challenging (Sullivan, 2012 January 16).

The “C” in VUCA stands for complexity. As HR thought leader John Sullivan notes (2012 January 16), there are often numerous and difficult-to-understand causes and mitigating factors (both inside and outside the organisation) involved in a problem. This layer of complexity, added to the turbulence of change and the absence of past predictors, adds to the difficulty of decision making. It also leads to confusion, which can cause ambiguity, the last letter in the acronym.

Ambiguity is the lack of clarity about the meaning of an event (Caron, 2009), or, as Sullivan writes, the “causes and the ‘who, what, where, how, and why’ behind the things that are happening (that) are unclear and hard to ascertain” (2012 January 16). Col. Eric G. Kail defines ambiguity in the VUCA model as the “inability to accurately conceptualize threats and opportunities before they become lethal” (Kail, 2010 December 3). A symptom of organisational ambiguity, according to Kail, is the frustration that results when compartmentalised accomplishments fail to add up to a comprehensive or enduring success.

4.8.5 VUCA and Leadership Development

This new VUCA environment, as Friedman notes, is taxing even the most able of leaders may find their skills growing obsolete as quickly as their organisations change in this volatile, unpredictable landscape. Leadership agility and adaptability are now required skills if organisations are to succeed in this VUCA world. As Horney, Pasmore, and O’Shea, authors of "Leadership Agility: A Business Imperative for a VUCA World" note, to succeed, “leaders must make continuous shifts in people, process, technology, and structure. This requires flexibility and quickness in decision making” (Horney, Pasmore, O’Shea, 2010) (For additional insights on a new approach for developing leadership agility, refer to the UNC Executive Development white paper: Leadership Agility: Using Improve to Build Critical Skills).

The Boston Consulting Group (BCG) concurs. A recent BCG study concluded that organisations today must shift their business models—and their leadership skills—to become “adaptive firms.” Adaptive firms can adjust and learn better, faster, and more economically than their peers, giving them an “adaptive advantage.” Adaptive firms, the study notes, include Apple, Google, 3M, Target, and Amazon.

A report by the Center for Creative Leadership (Petrie, 2011) also notes that today’s VUCA business environment requires leaders to possess more complex and adaptive thinking abilities. It also notes that the methods used to develop these new skill requirements (like on-the-job training, coaching, and mentoring) have not changed much, and as a result, leaders are not developing fast enough or in the right ways to keep up with the “new normal” for business.

HR and talent management professionals must position their organisations to succeed in today’s turbulent business environment by developing agile leaders. Applying the VUCA model as a framework to re-tool leadership development models may enable HR and talent management professionals to identify and foster the leaders their organisations need now and in the future.

4.8.6 The VUCA Prime

The VUCA model identifies the internal and external conditions affecting organisations today. The VUCA Prime was developed by Bob Johansen, distinguished fellow at the Institute for the Future and the author of Leaders Make the Future: Ten New Leadership Skills for an Uncertain World. Johansen proposes that the best VUCA leaders are characterized by vision, understanding, clarity, and agility - the “flips” to the VUCA model.

The VUCA Prime can be seen as the continuum of skills leaders can develop to help make sense of leading in a VUCA world. HR and talent management professionals can use the VUCA Prime as a “skills and abilities” blueprint when creating leadership development plans.

In the VUCA Prime, volatility can be countered with vision because vision is even more vital in turbulent times. Leaders with a clear vision of where they want their organisations to be in three to five years can better weather volatile environmental changes such as economic downturns or new competition in their markets, for example, by making business decisions to counter the turbulence while keeping the organisation's vision in mind.

Uncertainty can be countered with understanding, the ability of a leader to stop, look, and listen. To be effective in a VUCA environment, leaders must learn to look and listen beyond their functional areas of expertise to make sense of the volatility and to lead with vision. This requires leaders to communicate with all levels of employees in their organisation, and to develop and demonstrate teamwork and collaboration skills.

Complexity can be countered with clarity, the deliberative process to make sense of the chaos. In a VUCA world, chaos comes swift and hard. Leaders, who can quickly and clearly tune into all of the minutiae associated with the chaos, can make better, more informed business decisions.

Finally, ambiguity can be countered with agility, the ability to communicate across the organisation and to move quickly to apply solutions (Kinsinger and Walch, 2012). Vision, understanding, clarity, and agility are not mutually exclusive in the VUCA prime. Rather, they are intertwined elements that help managers become stronger VUCA leaders.
VUCA leaders must have foresight to see where they are going but must also remain flexible about how they get there (Apollo Research Institute staff, 2012).

They must be self-aware about their strengths and weaknesses as leaders, adaptable, open to change, and, according to the Center for Creative Leadership, knowledgeable about their organisation beyond their function (Management Education Group staff, 2011). Finally, they must work collaboratively and be excellent communicators to thrive in a complex VUCA environment (Kail, 2010 December 3). Above all, VUCA students must be able to learn fast because change is constant.

These skills and abilities are a far cry from the more function-specific skills and abilities leaders needed in the past to succeed. HR and talent management professionals must refocus their leadership development efforts to hone these more strategic, complex critical-thinking skills.

4.8.7 Case Studies

Company Spotlight: Unilever

In 2010, Unilever, one of the world's largest consumer goods companies, pledged to double the size of their business in the next 10 years while reducing its environmental footprint and increasing its social impact. Sustainability became a central component of their new business model, one based on VUCA principles. When asked by Forbes contributor Avi Dan why they changed their business model, Keith Weed, chief marketing and communication officer for Unilever, responded:

"We look at the world through a lens, which we call VUCA, which stands for 'Volatile, Unstable, Complex, and Ambiguous.' So you can say, 'It's a very tough world,' or you can say, 'It's a world that's changing fast, and we can help consumers navigate through it.' Two-and-a-half billion more people will be added to the planet between now and 2050, of which 2 billion will be added in developing countries. The digital revolution, the shift in consumer spending, all this suggests that companies have to reinvent the way they do business" (Dan, 2012).

To meet that VUCA challenge, Unilever has also changed its leadership development model.

Source: Sullivan, 2012 January.

Company Spotlight: McDonald's

Fast-food giant McDonald's was a frontrunner in adapting VUCA and VUCA Prime principles in its leadership development programs. In 2001, the company launched a new leadership development program for high-potential Regional Manager candidates. The company realised that there was a need for a specialised leadership development program for this position because the expectations and challenges for the role had changed significantly over the previous decade. These expectations and challenges included heightened competition, the increased challenge of a growing market share, increased job autonomy as the organisation became more decentralised, and the increased expectation for regional managers to act strategically as well as tactically.

The new leadership development program included the following goals:

1. To help participants take a critical look at themselves and their current management capabilities and to develop a personal learning plan that could help them increase the likelihood of success in a regional manager role.
2. To provide participants with action-learning assignments that would help them increase their understanding of the business while also contributing to the development of practical solutions to address significant business issues they worked on.
3. To give participants the opportunity to build relationships with peers from across the organisation.
4. To demonstrate the power of action learning as a model to accelerate the development of leaders.

The goals of this program acknowledge some key VUCA Prime skills and abilities, including self-awareness, knowledge of the business beyond the functional area, innovative and critical-thinking skills, collaboration, and the importance of rapid learning within the organisation.

Source: Intagliata & Small, 2005.

Company Spotlight: Procter & Gamble

In 2010, Supply Chain Quarterly staff reported that consumer goods giant Procter & Gamble (P&G) was revising its supply chain to reflect changes it expects in a VUCA world. Global Product Supply Officer R. Keith Harrison reported on the steps the company was taking to ensure that company's supply chain could accommodate the volatility, uncertainty, complexity, and ambiguity of today's business worlds. "VUCA is the reality for the foreseeable future, and it affects how we think about supply chains and design," he told attendees at the 2010 Supply Chain and Logistics conference (Supply Chain Quarterly staff, 2010).

P&G has embraced applied the VUCA concept beyond its supply chain. During a visit with students at Vanderbilt University's Owen Graduate School of Management, P&G CEO Bob McDonald discussed values-based leadership in an increasingly VUCA world. During the speech, he shared his ten rules of successful leadership, among them:

Rule #7: Ineffective strategies, systems, and cultures are bigger barriers to achievement than the talents of people. Recruiting and training are top priorities.

Rule # 9: Organisations must renew themselves. Only nine of the original Fortune 50 companies are still on the list today. The majority of successful companies don't realise that the world is changing around them. What differentiates those who succeed from those who don't is the ability to learn.

Source: Knight, 2011.

4.8.8 Conclusion

The volatility, uncertainty, complexity, and ambiguity inherent in today's business world is the "new normal", and it is profoundly changing not only how organisations do business, but how business leaders lead. The skills and abilities leaders once needed to help their organisations thrive, are no longer sufficient. Today, more strategic, complex critical-thinking skills are required of business leaders. HR and talent management professionals can help their organisations succeed in today's VUCA environment by developing leaders who can counter volatility, uncertainty, complexity, and ambiguity with vision, understanding, clarity, and agility.

5. THE STRATEGY PROCESS: CRAFTING STRATEGY

5.1 Learning Outcomes

At the end of this section you should be able to:

- Expound on the five generic competitive strategies
- Critically explain the process of choosing a strategy
- Analyse the manner in which available options can be generated
- Critically evaluate the methods of evaluating strategic options

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III, Peteraf, M.A and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19th Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 5

5.2 Introduction

In designing corporate strategy, many uncertainties must be resolved. Somehow – through some combination of facts, expert opinion, and intuition – forecasts of business conditions, industry outlooks, and business-unit success must be made. Of course, revisions and contingency plans may be included. But without agreed-upon forecasts, a full-blown strategy cannot be formulated.

Many forecasts can be made with reasonable confidence – at least within the time span and tolerance limits necessary for strategic planning. Other factors such as international political developments or finding a cure for cancer are baffling. When several key factors are interdependent, scenario forecasting is often the best we can do. For example, the attractiveness of a company planning to produce manganese from modules lying deep on the ocean floor depends on technological advances, world price of manganese, and international agreements on a law of the sea – to name only three related uncertainties. Forecasting in such areas is hazardous, and when a parent corporation is largely dependent on a naturally biased business-unit for assessment data, the evaluation becomes even tougher.

Two dimensions that are increasingly frustrating for international investment are rates of inflation and foreign exchange rates. Inflation is pushing long- range planning away from profits based on conventional accounting to annual cash flows. In the international area the cash-flow estimates have varying value because of shifts in exchange rates – assuming that transfer of the money will be permitted. Government regulations also are a major source of uncertainty, at least on lead times. The cumulative uncertainty in such computations may well exceed the tolerance of practical planning. In such circumstances some parts of a corporate strategic plan may have to retreat to prepared opportunism, discussed in the preceding chapter. The future is seen too dimly to lay out market positions and other expected results.

5.3 The Five Generic Competitive Strategies

Thompson et al. (2006:134) identifies five generic competitive strategies:

1. **A low-cost leadership strategy:** appealing to a broad spectrum of customers based on being the overall low-cost provider of a product or service

2. **A broad differentiation strategy:** seeking to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers

3. **A best-cost provider strategy:** giving customers more value for the money by combining an emphasis on low-cost with an emphasis on upscale differentiation; the target is to have the best (lowest) costs and prices relative to producers of products with comparable quality and features

4. **A focused or market niche strategy based on lower cost:** concentrating on a narrower buyer segment and out-competing rivals by serving niche members at a lower cost than rivals

5. **A focused or market niche strategy based on differentiation:** concentrating on a narrow buyer segment and out-competing rivals by offering niche members a customised product or service that meets their tastes and requirements better than rivals' offerings.

5.4 The Process of Choosing a Strategy

Making decisions about strategic choice – choosing a strategy – is one element in the stages of strategic management we have looked at so far – analysis, choice, implementation. There are also three stages in choosing a strategic direction:

- generating options
- evaluating options
- selecting a strategy.

In this section, we will be looking at each of these stages.

Don't forget, however, that strategic decision-making is never a totally sequential process. Whilst making strategic choices, strategic managers will be both analysing and considering issues of implementation. The process consists of testing options until plans are produced.

GENERATING OPTIONS

Strategic choice, and the way it is made, can be seen as an approach to operating the management system as an integral part of management planning – and, subsequently, implementation and control. The planning model developed in Figure 5.1 illustrates this.

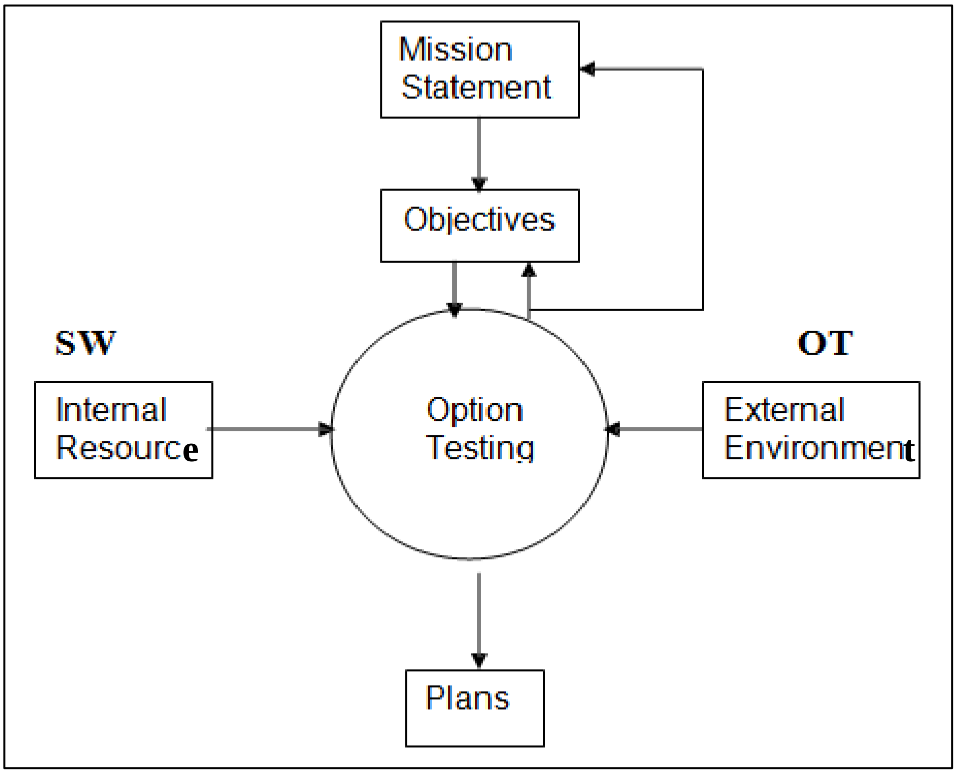


Figure 5.1: Planning Model

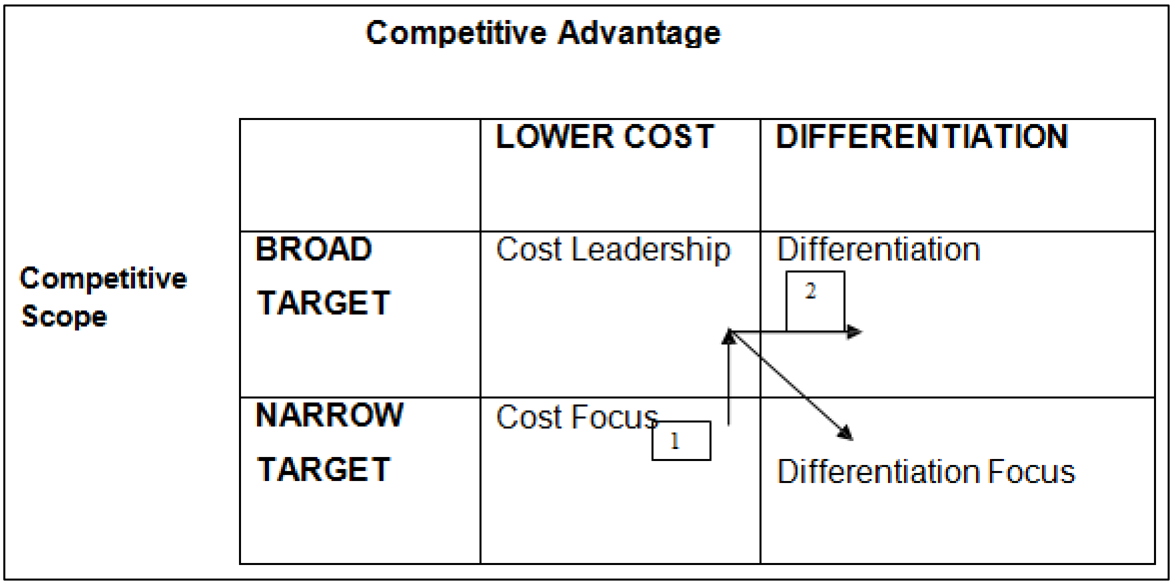


Figure 5.2: Moving on Porter's Matrix

Porter's matrix (see Figure 5.2) shows how the concepts of competitive advantage and competitive scope can help to identify and analyse an organisation's business position and to identify the current position. It can be used to help make strategic decisions about the future. For example, if the organisation identifies its position, but assesses its competitive advantage to be weak, it may aim to get a stronger position in one of the segments in the matrix. It may choose to move from one segment to another, for example, as shown in Figure 5.2

For example:

- using cost advantages to broaden scope
- moving from concentration on cost to differentiation (can be done if cost leadership is not strong).

The organisation is, in fact, generating options relating to:

- cost leadership
- differentiation
- degree of focus.

Igor Ansoff had produced work on alternative strategic directions earlier than Porter. In 1968, in *Corporate Strategy,* he produced what is now known as the *'Ansoff matrix'* [figure 5.3] – the matrix offers an organisation a number of strategic options in relation to its products and markets:

- do nothing
- withdraw
- consolidate
- market penetration
- market development
- product development
- diversification
- backward
- forward
- horizontal

		Product	
		PRESENT	**NEW**
Market	**PRESENT**	Do Nothing Withdraw Consolidate Market penetration	Product development
	EW	Market development	Diversification (related, unrelated)

Figure 5.3: Ansoff Matrix

Unrelated diversification does not fit into the above categories. But there is often a synergy. Activities which are apparently unrelated can come together to generate benefits – for example, selling an organisation's waste-products to create short-term cash-flow may lead to different products and markets.

Ansoff's matrix and Porter's matrix are extremely powerful tools for considering choice and direction in strategic management. They can be used in case studies and in real situations. Good strategic managers are the ones who see the opportunities and can use their concepts effectively in practice.

5.5 Evaluating Strategic Options

The Workability Test

No strategy is well conceived until its workability is weighed. If the chances of it being carried out are remote or the cost of doing so is very high, then the strategy itself should at least be reassessed.

Sometimes corporate strategy makes demands of a business-unit that are inconsistent with strategy, the unit would follow if it were independent. For example, the business-unit may wish to expand, whereas the corporate strategy wants it to be a cash cow. It is natural for unit executives to feel that they should be permitted to use the cash they generate to strengthen their own position, instead of denying themselves for the benefit of a small, upstart activity.

In other cases business-units are asked to incur risks (or avoid risks) because doing so helps corporate balance. Synergy may require that a business-unit refrain from developing its own raw materials or prepared opportunism may call for a form of expansion, that is very expensive from the unit viewpoint. Such corporate demands seem especially onerous to managers of a business-unit when they arise unexpectedly because of some other activities of the corporation.

Now, in a decentralised corporation the commitment of local executives to their strategy is very important for successful results. If, to the business-unit executives the corporate guides “don’t make sense,” foot-dragging or misleading information or other manoeuvring is likely to occur. If the conviction unit executives have a feeling that a corporate-imposed strategy “will never work,” then this can very easily become a self-fulfilling prophecy. The basic point is that there is a practical limit to which the business-units can be “pushed around,” and this limit is a constraint on what corporate strategy is workable.

Portfolio strategy may create a second kind of workability strain. Each business-unit strategy calls for a managerial system (planning, organising, leadership, and controlling) that is suited to that strategy.

A large cash-cow unit needs a different management system from a unit experimenting with coal gasification. The desirable management system for a commercial bank differs from that of an aircraft manufacturer. The more diverse the units within a portfolio, the more heterogeneous will be their management systems.

Few corporation managements have the capability of understanding, melding, and skilfully directing diverse management systems. Such diversity raises temperamental and management style issues, as well as difficulties of intellectual grasp. "We just don't know how to run that kind of business," is a frank and perceptive comment often heard.

Here again is a practical constraint on corporate portfolios. Cash flows and risk balance may appear desirable, but not beyond the point where effectively administering the diversity of units is no longer feasible. Meaningful strategies must be conceived in operational terms - products to sell, markets to reach, materials to acquire, research to perform, and so on. However, such actions take on value only as they contribute to desired results, and the pertinent results are defined by the criteria just discussed.

So to relate strategy to the selected criteria, a conversion or translation is needed. For instance, the actions contemplated in a strategy have to be expressed in anticipated costs and revenues, which give us an estimated profit. Similarly, the proposed actions have to be restated in manpower terms to estimate their effect on the stability of employment (if that is one of the key criteria), and likewise, for other criteria.

These restatements of anticipated results become the targets at which the strategy is aimed. But because the success of any strategy is never certain, these targets will be surrounded by many "if's and maybe's". Often they should be expressed as a range, not a single point, with subjective probabilities attached. Nevertheless, this is the currency in which a strategy will be evaluated.

Are Targets Acceptable?

Now, with criteria selected and the anticipated results of strategy expressed in terms of these criteria, the manager is in a position to say “Let’s go” or “That’s not good enough.” Rarely is there a choice among several strategies, each of which is quite attractive. Instead, the pressing question is whether any proposed plan is acceptable at all. The reason for this scarcity of attractive choices is that all of us have high aspirations, at least for one or two criteria. Thirty percent profits, no real risk, worldwide prestige, half of industry sales - any and all of these may be part of one’s dreams. The blunt facts are that few of these dreams will be realised by any strategy we can conceive. So we have to decide what level of achievement will be acceptable for each of our criteria.

This picking of acceptable levels is complicated by differences in values held by key executives. For instance, strategy A may promise a thirty percent return on capital but with a fifteen percent chance of complete loss and a sure transfer of ownership. Strategy B may promise only a fifteen percent return on capital but with small risk of total loss and little danger of change in control of the company. Many quantitative techniques exist for computing optimal combinations. Reality, however, indicates that personal perceptions and values strongly affect the decision. The chairman of the board - say, a wealthy person and a large stockholder - may prefer strategy A; the president - who came up from the ranks, is fifty two years old, and owns little stock, may prefer strategy B. Or, if the chairman likes the prestige of his position and the president thinks the chairman is too conservative, the preferences may be reversed.

It is difficult to generalise about whose values will predominate. Generally, the most active and aggressive senior executives will establish the pattern, provided their objectives meet at least the minimum acceptable requirement of each interest group whose withdrawal of support could paralyse the company. Thus, the output of the strategy must enable the company to fulfil at least the minimum needs of resource contributors.

There are a number of key questions to be asked about business strategies:

- What alternative methods are there for moving in a chosen direction?
- How will the strategy be developed?
- What is the basis on which the strategy is founded?
- In which direction will the organisation move to promote its chosen basis?

Each strategic option that is generated can be categorised by the combination of approaches it offers to these questions.

Let's look at each of these elements in turn.

When strategic options have been generated, they have to be evaluated; their viability has to be tested. To do this, criteria are needed. There are three:

- feasibility
- suitability
- acceptability

Feasibility asks the question, 'Will it work?' Can the strategy be funded? Is there a market for the option? Are the required skills available?

The evaluation involves going back to analysis and using analytical techniques – for finance, human resources, etc. These techniques are used to answer 'what if?' questions.

For example: If we launch new product x, what capital investment will be needed? When will it break even? What will be the payback and the discounted cash flow?

Suitability provides an even tighter test of viability. Whilst options may be generally feasible, it is necessary to consider the fit or match between the option for strategic direction and the organisation. In short, is it suitable for your organisation?

The concepts discussed earlier in this section again, provide the groundwork for evaluation. Using Ansoff's and Porter's matrices, we can then ask the question:

how big is the jump from where the organisation is now to the option under consideration? Is the size of this jump suitable for the organisation? Whilst it may be generally feasible, is it specifically feasible for this particular organisation? Are there the finances, resources, skills, etc. available for this organisation to make the option work?

Also, is there a cultural fit between the option and the organisation? This is important for all organisations. We have seen how it can be particularly significant with not-for-profit organisations.

Does the option bring the synergy effect (2 + 2 =5) to the organisation? (i.e. the output of the whole option is greater than the sum of its parts because this option is right for the organisation).

Acceptability refers to the attitudes of stakeholders – those people who have a stake in the decisions – those who will be affected by it such as:

- managers
- employees
- unions
- customers
- suppliers

How will these people react to the strategic option? Will they allow it to work? Will they help, resist or be passive?

Evaluation Techniques

When applying these viability tests in practice, a variety of techniques can be used. They can be divided between:

- quantitative techniques
- qualitative techniques
- objective factors
- subjective factors

Here are some of the techniques which assess marketing options or expenditure / investment plans:

- discounted cash flow
- cost / benefit analysis
- breakeven charts
- funds flow forecasts
- ratio analysis.

Another set of techniques is to use models to test situations such as:

- scenarios
- decision trees
- sensitivity analysis.

The more subjective factors are concerned with culture, values and power. This means knowing the organisation very well and assessing how it does things, what makes it tick – where is the power?

5.6 Selecting an Option

We have seen how strategies are generated and evaluated. We have looked at the models of how organisations select strategies in practice. In conclusion, therefore, the critical factors in the selection of a strategy are:

- the results of evaluation criteria and techniques
- the power in the organisation – who are the decision-makers?
- the values of the decision-makers
- the culture of the organisation, i.e. where it is on the scale of highly-formalised to opportunist-incremental.

5.7 Blue Ocean VS Red Ocean Strategies

Blue Ocean Strategy

Definition

Kim and Mauborgne (2005) created a new strategy called "Blue ocean strategy". Indeed, Kim and Mauborgne shared the market in two parts: Red and blue oceans. Red oceans are nowadays existing markets, known market spaces. On the other hand, Blue oceans represent non-existing markets with unknown market spaces.

Organisations that develop a blue ocean strategy analyse the market and create a new need, product, service that is well-adapted to the demand of consumers. Red oceans are over-saturated, and one of the solutions for companies is to 'abandon' these oceans by accepting the 'blue ocean strategy challenge'. In that challenge, companies will have to create a new market, where competition will be non-existent at the beginning, then irrelevant for a while. The company who creates the blue ocean will be monopolistic. To create a blue ocean strategy, leaders have to think outside the box and push limits beyond the barriers.

Red oceans are existing market spaces, with known products, strategies and competitors. Low-price and quality are some of the factors that the competition is based-on. The market is overcrowded and the goal is to acquire more market shares every year. All actors' positions are well-known and it is almost impossible for new entrants to settle and compete. Profit and growth are limited due to the strong competition.

On the contrary, according to Kim and Mauborgne (2005), blue ocean competition is irrelevant because it is new market space with no boundaries or rules. It is a strategic space, where the first entrant will create the product, demand, rules and it will on a long term perspective be extremely beneficial. Indeed, by fixing all the criteria, competition will be irrelevant. Nevertheless, creating a blue ocean requires a good analysis, risk-management and of course, money.

Concept of Blue Ocean strategy

To create a blue ocean is a necessity for companies who want to ‘move on’. Several factors as globalisation, technology, innovation, prices, and market shares are factors leading companies to choose their best solution: a blue ocean strategy. The strategy is to create a new demand and head in another direction from competition.

Thanks to blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant.

Some of the reasons to develop a Blue Ocean Strategy are:

- Supply exceeds demand in many industries
- Globalisation
- Price wars
- Low profit margins
- Niche markets disappearance
- Norms and regulations
- Brands are more and more similar so the selection is based on the price
- Commoditization of products and services

‘Companies’ innovation is related to price and costs. In red oceans, companies have to make a choice between differentiation and cost domination. In blue oceans, both objectives are targeted (Kim and Mauborgne, 2005).

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a company's activities with its strategic choice of differentiation *or* low cost	Align the whole system of a company's activities in pursuit of differentiation *and* low cost

Figure 5.4: Comparative of Red Ocean and Blue Ocean

The aim of the above table is to sum-up the advantages and disadvantages of a blue ocean strategy, by comparing it to the red ocean strategy. The table points out that red ocean focus on factors which cannot easily support modifications.

On the contrary, the blue ocean strategy makes value-innovation and improvements possible.

The key aim of the blue ocean strategy is to create value innovation – driving costs down while simultaneously driving up value for buyers. Value innovation is the cornerstone of the blue ocean strategy.

Value to buyer = offering utility – offering utility's price

Value of the company = offering's price – offering's price's cost

Value innovation is achievable only when a company's utility, price and cost structures are properly aligned. This whole system approach makes the creation of blue oceans sustainable because it integrates a firm's functional and operational activities" (Kim and Mauborgne, 2005).

Hence, value innovation has a positive impact on companies' cost structure and its offer. Moreover, on one hand, an economy of scale is done due to the limitation or expulsion of criteria. On the other hand, the value for the buyer is shown by creating new criteria or adjusting the old ones.

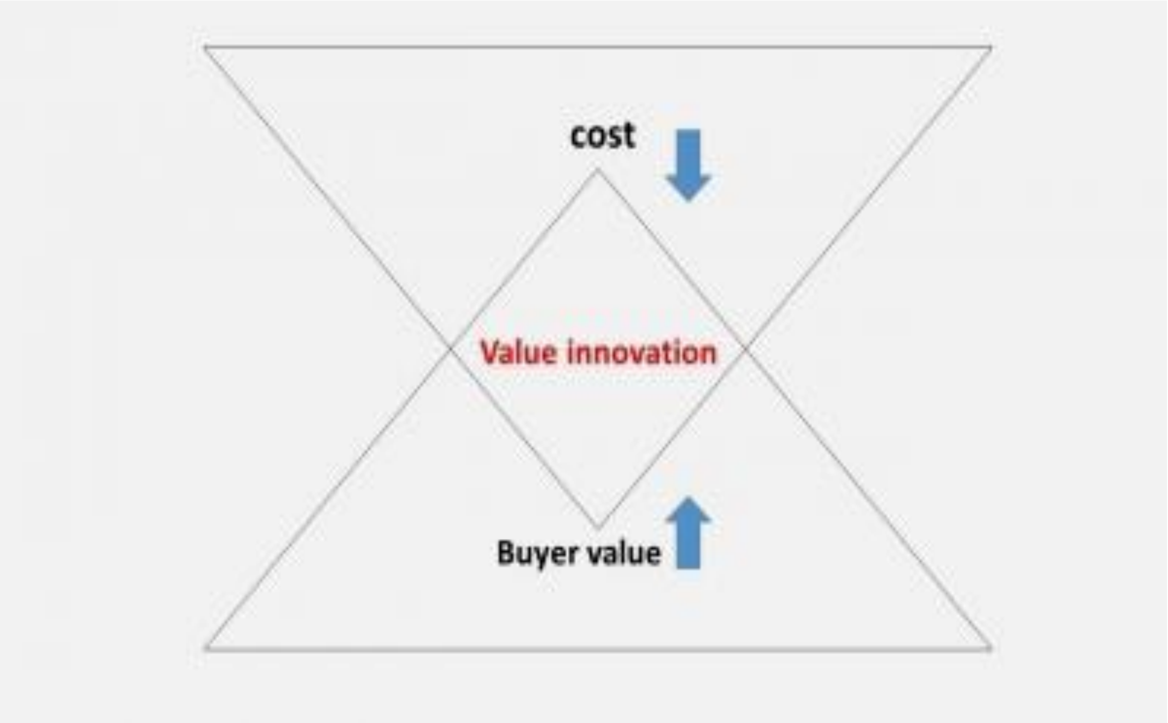


Figure 5.5: Value-innovation: Blue Ocean Strategy Cornerstone

Source: (Kim and Mauborgne, 2005)

Value-innovation defies one of the most commonly accepted dogmas of competition-based strategy: The value-cost trade-off. It is conventionally believed that companies can either create greater value to customers at higher cost or create reasonable value at a lower cost. Here, strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create blue oceans pursue differentiation and low cost simultaneously (Kim and Mauborgne, 2005).

In order to fully understand the concept of Blue Ocean Strategy, it is important to know the studies, concepts and theories related to this theory.

Porter's influence

In order to begin a blue ocean it is important to know and understand the market space.

According to Porter (1979), "Five forces analysis is a good tool to describe the structure of industry". The five forces help to know the profitability of an industry and its impact on strategy development. In 2008, Porter detailed his theory:

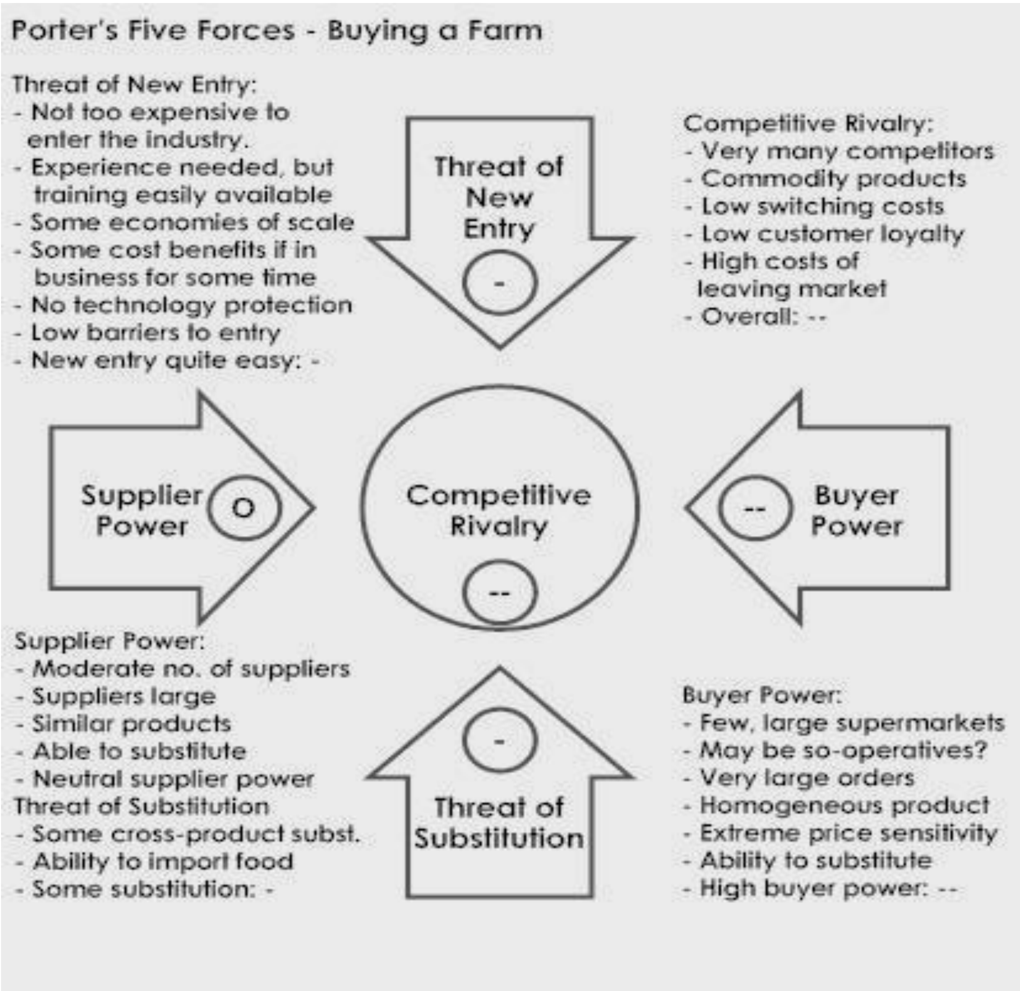


Figure 5.6: The five competitive forces that shape strategy

Source: Porter, 2008

Thanks to Porter’s five forces, it is easier to understand the market and its factors so as to initiate a blue ocean. Indeed, knowing market characteristics is one of the main points required to develop a blue ocean. It will bring along advantages on the elaboration of the strategy but also on the leads which have to be followed.

However, the idea of value innovation rejects the traditional view of Michael Porter on strategy, where companies achieve competitive advantage through either one of the two competencies: product differentiation or cost efficiency (Porter, 1979). Porter argues that only one strategy should be followed; if not, a firm will lose focus and thereby its direction. The counterargument here of Kim and Mauborgne (2005) is that companies compete against each other viciously with every action they take. Each company tries to capture as many customers as possible from the existing market by providing more value than competitors do. Value innovation does not differentiate the two competencies. Rather, it places equal importance on both, high value and reducing costs, and therefore follows both strategies at the same time.

Development of Blue Ocean strategy

In order to operate a successful blue ocean strategy you have to minimise risks by following a few principles. These assist in identifying the risks, planning, scaling and of the business model risks. Every company can develop thousands of different blue ocean strategies. That is why the goal is to find the more adapted ones. According to Kim and Mauborgne (2005), in order to find the best strategy (determine the market alternatives and develop a blue ocean), companies have to adhere to the following six steps:

Reconstruct Market Boundaries

Boundaries of Competition	Head-to-Head Competition	Creating New Market Space
Industry	Focuses on rivals within its industry	Looks across alternative industries
Strategic Group	Focuses on competitive position within strategic group	Looks across strategic groups within its industry
Buyer Group	Focuses on better serving the buyer group	Redefines the buyer group of the industry
Scope of Product and Service Offerings	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings that go beyond the bounds of its industry
Functional-emotional Orientation of an Industry	Focuses on improving price-performance with the functional-emotional orientation of this industry	Rethinks the functional-emotional orientation of its industry
Time/Trends	Focuses on adapting to external trends as they occur	Participation in shaping external trends over time

Figure 5.7: Reconstruct the market boundaries

Source: (Kim and Mauborgne, 2005)

All these steps will help for formulating the blue ocean strategy by reconstructing the market boundaries.

The first step indicates that value innovation can be done between alternative industries. Indeed, opportunities will be created due to products and services, different forms but serving a shared goal.

The second step suggests that the creation of a blue ocean is possible by proposing a common key factor from all strategic groups.

The third step points out that a blue ocean can be created by challenging established thoughts about who are the buyers and users.

The fourth step underlines the fact that companies need to find a complete solution for their products or services. For example, a restaurant can open a crèche for customer’s kids.

The fifth step suggests adding emotion to products or services.

The sixth step recommends identifying issues, trying to find solutions and forecast them.

In order to create a blue ocean, you have to think outside-the-box. You have to share an explicit vision which everyone will be able to understand. According to Kim and Mauborgne (2005), “you have to draw up your own company’s strategy canvas rather than producing a strategic plan”.

Although many people may find issues in developing a good strategy canvas, this certainly possesses advantages.

In order to develop a company’s strategic canvas, leaders will have to:

a) Share their vision and make it understandable for all employees. Employees need to know the situation of the company, and its position in the marketplace. They need to share the vision in order to feel as a part of a bigger plan.
b) Know their customers. A company must know their customers habits. This results in competitive advantage, since leaders will know the pros and cons of every product.
c) Ask employee’s for their inputs into strategic decisions. This will assist in attaining ‘the buy-in’ of the strategy by employees, since they have a say in the direction it may pursue.
d) Communicate with all services. A leader must keep his teams informed. A company operating a blue ocean should have two main goals about users: to keep their customers, but more importantly, to reach their non-customers.
e) To reach beyond existing demand is one of the key components of achieving value innovation. To succeed, companies have to focus on existing customers and non-customers in order to to maximise the size of the blue ocean. According to Kim and Mauborgne (2005), “non-customers can be classified into three different tiers”:

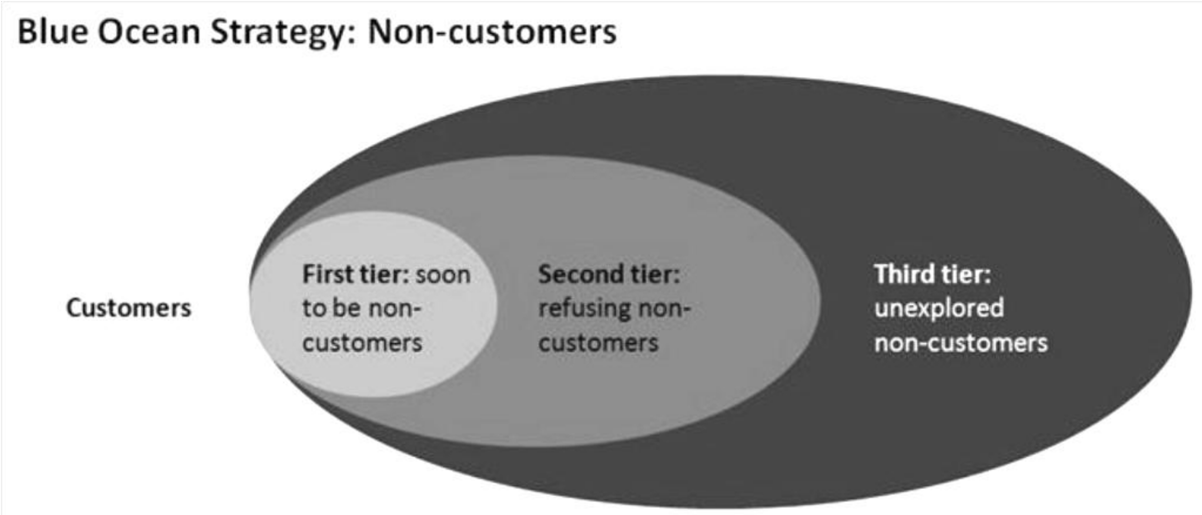


Figure 5.8: Blue ocean strategy: Non-customers

Source: (Kim and Mauborgne, 2005)

The first tier, "Soon-to-be," represents 'future customers' who are in search of improved or better products. Some factors may make these individuals reluctant to buy the initial product, but with some minor modifications to the product, customers will buy the revised product. This category also includes non-regular customers who choose your product since there is nothing better on the market. Companies should try to find out what customers want, so that their needs will be satisfied by newly adapted products, which in turn, may also attract new customers. A blue ocean will be created from this intervention. Additionally, non-customers provide better product feedback than existing customers.

The second tier, "Refusing," represents non-customers who are of the opinion that the products companies offer is unaffordable or not adapted to their demands. The goal here is to address these concerns in order to expand the market.

The third tier, "Unexplored," represents non-customers who have never used or explored your product or service. Indeed, their needs are fulfilled by other markets.

As a new strategy, Blue Ocean is constantly evolving. Indeed, in 2004, Kim and Mauborgne (2005) affirm that blue ocean is a tool to create brand equity for at least 10 years. In 2005, Kim and Mauborgne differentiate strategy and innovation, and emphasise the demand and the importance of strategies in business. They also developed the concept of value-innovation which now is the centre of blue ocean strategy. According to Kim and Mauborgne (2005) a company has to fully understand the market environment to create new demand. They suggest that a company structure and its competitive environment are two factors which need to be taken into consideration while leaders think about future strategies.

In order to assure the success of the new strategy, a company has to follow the principles and concept of blue ocean strategy one by one. This could very well result in a strong business model with exceedingly positive results.

According to Kim and Mauborgne (2005) companies have to focus on:

1. Utility for the buyer
2. Price
3. Costs
4. Share the new vision
5. Make sure that the vision is understood by all employees

This focus has to be sequential in order to provide the best results. Indeed, thanks to the right strategic sequence, the company will be allowed to implement its strategy and also decrease potential business model risks. If any of the steps are not fulfilled, you need to rethink the order/ sequence, and correct accordingly. If the sequence is correctly completed you will have created a viable blue ocean concept.

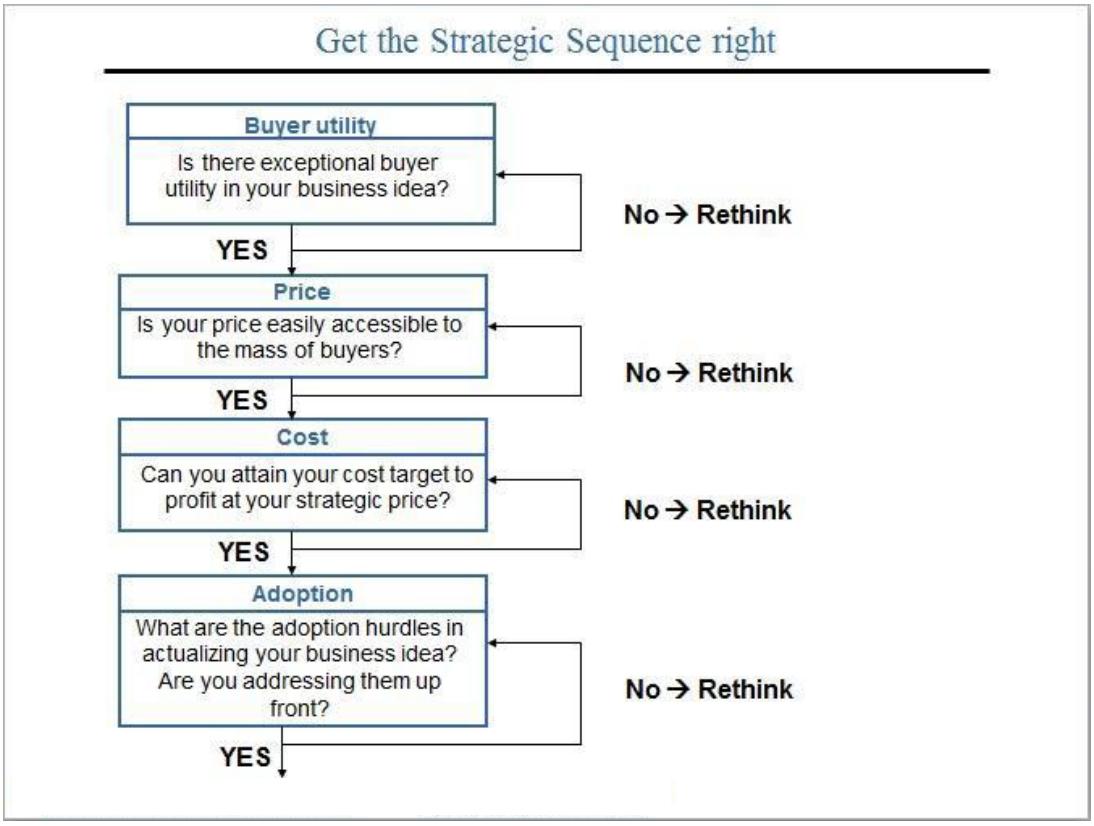


Figure 5.9: Blue ocean strategy **Source:** Kim and Mauborgne (2005)

As indicated in the figure above, companies need to build their strategy in the sequence of buyer utility, price, cost and adoption. The first point is buyer utility. Companies experiencing a lack of utility will notice a lack of blue ocean potential to start with. Companies will then have two options: park the idea, or rethink till the company can answer 'yes' to buyer utility as shown in figure 5.9. A company relies on price to create demand. Hence, in order to move forward, companies to answer the following question in the affirmative: "Is your price easily accessible to the mass of buyers?" If the answer is negative, people won't buy the product or service.

To strengthen revenue flow, the strategic price must be set. This procedure will ensure that consumers will want to buy. It is fundamental, from the start, to know the price that will create masses of target consumers. The strategic price defined must not only attract customers but also retain them. The reputation must be earned since day one and rapidly spread by the networked society. It is also important to avoid imitations and transform/ change the blue ocean to red ocean. When exceptional utility is combined with strategic pricing, imitation is discouraged.

Cost is really important to secure the profits. When the target cost cannot be met, the idea won't be profitable or you will have to innovate to hit the target cost. It is strategic to reach a cost structure that allows profitability that is difficult for competitors to imitate. To be successful with target costing, the strategy profile must be divergent, but with focus.

People have to adopt your idea. For that, you have to overcome hurdles. Concerns of employees, business partners and general public must be addressed to avoid resistance and fears. Awareness should be developed to communicate the advantages that everyone will have with the success of the actions.

Kim and Mauborgne (2005) explain that thanks to the blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant. To create this new value, the four actions framework has to be followed.

The four actions framework of Blue Ocean strategy

A blue ocean strategy resides on the fact to rethink the company's strategy from competitors to alternatives points of view, plus from attracting non-customers. According to Kim and Mauborgne (2005), "The strategy canvas contains two parts, a diagnostic and an action framework". The strategy canvas helps the company to situate itself on the market space. The four action framework is used to build a new blue ocean strategy in an existing market.

The four action framework consists of four questions which will lead to a new value curve:

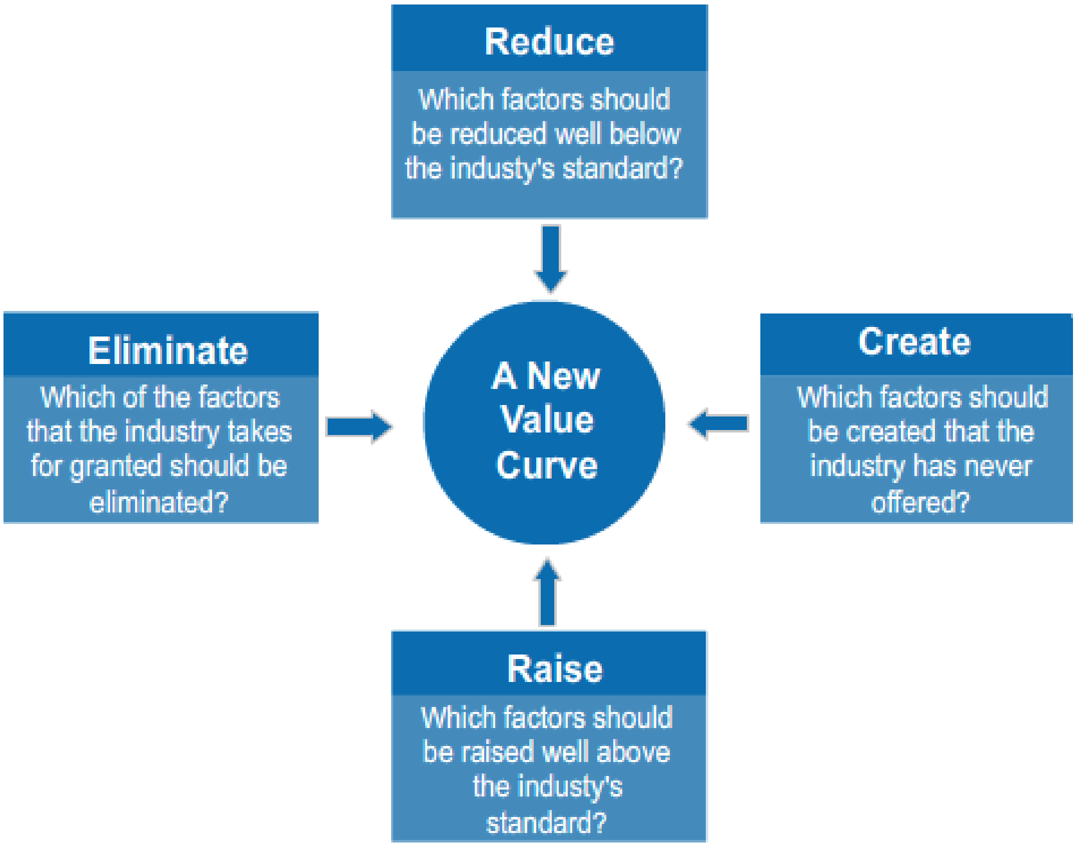


Figure 5.10: The four action framework

Source: (Kim and Mauborgne, 2005)

The goal of the "eliminate" factor is to cut costs used for competition.

The goal of the "reduce" factor is to limit the product and services to those which are "successful". Companies don't need to focus on products which do not work and cost a handful.

The goal of the "raise" factor is to understand what are customers' required standards, and to go beyond these to ensure that customer satisfaction is achieved.

The goal of the "create" factor is to find what will create a new demand/market. These factors combined, will allow a company to create a blue ocean.

The four action framework will help companies know which competitive factors are irrelevant. The company will not only ask itself these questions (i.e. four action framework), but will also work on it simultaneously, in order to create new value innovation.

Thanks to the four action framework, managers and all employees will be able to understand the strategy, the leader's vision, and work effectively to reach the company's goals. If all these tools are correctly used, an effective blue ocean strategy will be created and launched. According to Kim and Mauborgne (2005), "A good blue ocean strategy will have three defining characteristics". These characteristics are:

- The blue ocean strategy will be clear for every participant. So, employees will focus on key factors of success rather than working on unrelated things.
- One main characteristic of a blue ocean is that the strategy must be different from competitors.
- Companies must not focus on their competitors' strategy.
- A blue ocean strategy should be easy to explain and understand. Communication is key.
- Leaders must share their vision, ideas and explain them clearly.

Moreover, according to Kim and Mauborgne (2005), in order to create new strategic market spaces, it is important to take a new look at current characteristics. Hence, they created six steps that can be performed with ease.

These steps are:

	Head-to-Head Competition	**Blue Ocean Creations**
Industry	Focuses on rivals within its industry	Looks across alternative industries
Strategic group	Focuses on competitive position within strategic group	Looks across strategic groups within industry
Buyer group	Focuses on better serving the buyer group	Redefines the industry buyer group
Scope of product or service offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings
Functional-emotional orientation	Focuses on improving price performance within the functional-emotional orientation of its industry	Rethinks the functional-emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	Participates in shaping external trends over time

Figure 5.11: Blue ocean strategy

Source: (Kim and Mauborgne, 2005)

According to Kim and Mauborgne (2005), a company could encounter four barriers while developing a blue ocean strategy.

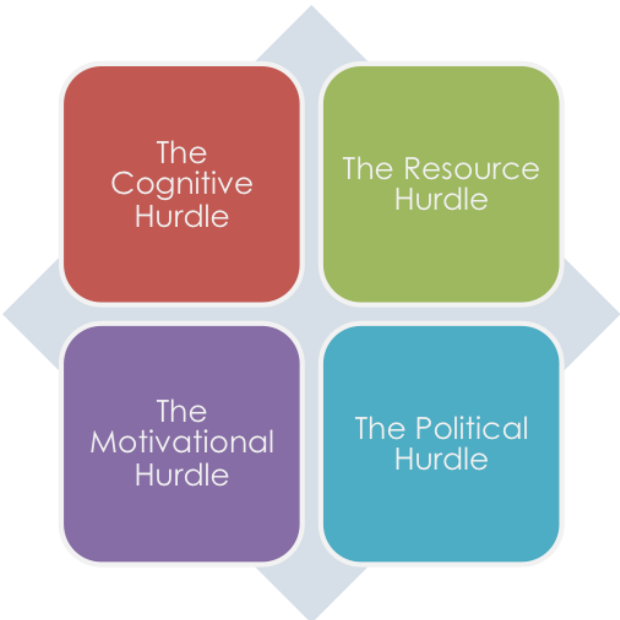


Figure 5.12: Overcome key organisational hurdles

Source: (Kim and Mauborgne, 2005)

Once a company has developed a blue ocean strategy with a profitable business model, it must execute it. The challenge of execution exists, of course, for any strategy. Companies, like individuals, often have a tough time translating thought into action, whether in red or blue oceans.

The challenges managers face are steep. They face four hurdles:

- A cognitive hurdle. Waking employees up to the need for a strategic shift. Red oceans may not be the paths to future profitable growth, but they feel comfortable to people and may have even served an organisation well until now, so why rock the boat?
- Limited resources. The greater the shift in strategy, the greater it is assumed are the resources needed to execute it. But many companies find resources in notoriously short supply
- Motivation. How do you motivate key players to move fast and tenaciously to carry out a break from the status quo?
- Politics. As one manager put it, “In our organisation you get shot down before you stand up.”

Although all companies face different degrees of these hurdles, and many may face only some subset of the four, knowing how to triumph over them is key to attenuating organisational risk. To achieve this effectively, however, companies must abandon perceived wisdom on effecting change. Conventional wisdom asserts that the greater the change, the greater the resources and time you will need to bring about results. Instead, you need to flip conventional wisdom on its head using what is called tipping point leadership. Tipping point leadership allows you to overcome these four hurdles fast and at low cost.

The key questions answered by tipping point leaders are as follows: What factors or acts exercise a disproportionately positive influence on breaking the status quo? How do we get the maximum bang out of each buck of resources? How do we motivate key players to aggressively move forward with change? And how do we eradicate political roadblocks that often trip up even the best strategies? By single-mindedly focusing on points of disproportionate influence, tipping point leaders can topple the four hurdles that limit the execution of blue ocean strategy. They can do this fast, and at a low cost.

Conclusion

Companies are used to competing into red oceans with high competition, low profit margins, and almost inexistent opportunities. However, a solution exists: the blue ocean strategy. Blue ocean strategy is a mix of concepts, theories and tools causing companies to think out of the box, where the company will fix the entire context, rules in which competition will be irrelevant. Companies will focus on the value of the customer rather than on the value of competitors. Value innovation is key in blue ocean strategy, and provides the strategic framework. Thanks to Blue Ocean, the company is “free” of modifying factors from competition.

In order to be more competitive, one of blue ocean strategy’s goals is to realise economies of scale by reducing costs and competitive characteristics. In order to achieve the blue ocean strategy successfully many steps (that was illustrated within this chapter) have to be fulfilled.

? THINK POINT

Throughout this section, we have emphasized the selection of OPTIONS. What do you think prevents companies from considering all available options when deciding on a strategy?

6. THE STRATEGIC PROCESS: IMPLEMENTING AND EVALUATING STRATEGY

6.1 Learning Outcomes

At the end of this section, you should be able to:

- Demonstrate critical knowledge related to the allocation of resources to match budgetary and staffing requirements of a new strategy
- Analyse the internal organisation dynamics of implementing a strategy
- Use appropriate organisation structures to implement a strategy
- Provide best practices and mechanisms for continuous improvement
- Devise a support system for the strategy
- Critically identify the advantages and disadvantages of using present executives to carry out a new strategy
- Evaluate the advantages and disadvantages of bringing in outsiders

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III, Peteraf, M.A and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19th Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 11 and 12

6.2 Introduction

The old saying, “He who holds the purse strings has the real power,” is an exaggeration, but the underlying point cannot be overlooked. In this chapter, we first see how the allocation of capital hurts or helps strategy implementation, and thereafter expand the issue to allotting other vital resources. Unless resources flow to priority programmes, strategy will stagnate.

6.3 Impact of Resource Allocation on Strategy Execution

Most companies have separate departments to mobilise, protect, and conserve major resources – capital, manpower, key raw materials, and the like. In their roles as guardians, such departments may place roadblocks in the path of strategic thrusts. They are understandably more concerned with protection than the risky use of their resources. The policies and procedures that they sponsor, stress care and caution with new ventures.

In a particular electronics company, for example, an appropriation for a pilot plant overseas was delayed for a year. The pilot operation was part of an off-the-record strategy to move closer to large customers, and out of a bad labour situation. However, the appropriations committee turned down the proposal because idle capacity existed in the plant and estimates for the new operation failed to show savings on an incremental cost basis. In this instance, the strategy was not openly discussed in the appropriations committee, and two members who did know the long-run rationale were unsympathetic with the move.

If strategies are to be carried out, ways must be developed that reconcile the planned moves on new fronts with the protective mechanisms of the resource departments. The criteria for approving an investment must be stated in terms of their deployment, rather than as a standard return on investment or minimum cost.

Inputs – Not Outputs

Of course, power over resource allocation relates only to inputs; the projected output may or may not be achieved. Just as the United States sending financial aid to, say, Sudan does not assure that Sudanese children will be better nourished, likewise an advertising appropriation will not necessarily result in increased sales of a new product. Resources are necessary but not sufficient.

This indirect, enabling character of resource allotments adds to the fuzziness of linkages between allocations and strategy. The people allocating necessary resources can either restrain or permit a project to proceed, but they do not carry out the work. Although they can hold back, it does them little good to "push on the end of a rope". They have learned that even critical problems cannot be solved by throwing money at them. Because their power lies on the constraining side, typically they are more concerned with not making a mistake than with risky successes. They are typically scored on their conservation and low risk exposure – while credits for a spectacular success go to the venture managers.

The Focus on Money

In business firms, money (technically the right to spend money) is the resource that is allotted with the greatest care. Because it is transferable to many different uses, money is a convenient overall-planning medium. Also, accounting records already exist to keep track of money flows. As a result, our allocation procedures concentrate on money.

An unstated assumption is that when money is allocated, other resources will follow. One simple theory is that money will buy whatever materials, people, facilities, distribution network, goodwill, or government co-operation needed to carry out a selected strategy. If that were so, financial allocations alone would resolve resource problems. In reality, one or more of these other resources may be just as scarce as money or it may not be tradable for money alone. For instance, companies often have and can attract only a limited pool of outstanding managers; programmes that do not get attention from these managers are very likely to fail. Similarly, a firm's distribution network may have capability of effectively selling a limited number of products; if so, getting prime time of the sales force may be a requisite for success.

The successful execution of strategy in such circumstances depends on how each of these critically scarce resources is allocated. Few companies, however, have formalised their allocation processes for non-financial resources. Those that do, such as large construction companies or consulting firms, typically work on a series of big projects and have a matrix organisation. For most other companies, the allocation of non-financial resources for strategic purposes calls for special treatment. They are more often than not obtained through informal bargaining by division managers.

In contrast, our procedures for rationing money are formal and elaborate. The two basic mechanisms, which have the potential for distorting strategy, deal with:

(a) capital appropriations for fixed assets, and
(b) strategic expense budgets. Strategic expenses are current outlays having long-run results that are intended to help achieve strategic targets.

We tend to consider capital allocation first and in most detail, because:

(a) capital is almost always a significant element in any strategic change, and
(b) most issues that arise in capital allocation are also prominent in other allocations. Thus the analysis of allotting capital provides a base for briefer scrutiny of other resource allocations.

6.4 Two Tracks to Capital Allocation

The point of no return for capital expenditures, normally, is when a contract is signed with an outside supplier. That contract commitment tends to freeze a bit of strategy. However, a long series of proposals, negotiations, and refinements precede the legal commitment, and it is during this earlier planning process that strategy and capital allocation must be harnessed together.

Who initiates specific proposals? Which ones receive continuing study and why? What early screening of proposals takes place? How is support for the remaining refined proposals mustered? What criteria are applied in giving the final authorisation to commit the company? These are the points at which strategy must have its impact.

Top-Down Approach

Broadly speaking, there are two approaches to initiating proposals for capital expenditures – top-down or bottom-up. Business-unit managers may identify needs and request their subordinates to work up specific proposals. If the managers have agreed on a company strategy, then ideas for capital outlays are likely to be steps for carrying out that strategy. Of course, the process of spelling out the move may uncover obstacles or opportunities that lead to modification of the original concept, buy the initiation and support flows down from the top.

The move of Dover Apparel Company in the USA into children's knitwear illustrates this top-down approach. The assistant to the president convinced the president that knitwear was a logical addition to the company's very successful girls' dress line. To make that strategy workable, they decided that Far East production was necessary. This decision, in turn, soon led to a proposal to invest in a joint venture in Sri Lanka. In this example, a change in strategy is clearly the driving force that will generate several capital- expenditure proposals.

The Dover Apparel Company, however, is distinctive in several respects. It is a relatively small - $50 million – firm in which the top executives know their operations in detail. They are able both to conceive of strategy and to think very concretely of ways to implement that strategy. And without the assistant (and son) of the CEO with the time and motivation to introduce a change, the risky proposal would never have been seriously considered.

In contrast, senior managers of diversified corporations rarely possess enough knowledge about operations to make specific capital proposals – like that made in Dover Apparel Company. Instead, they often lapse into a resource conservation mode and merely set up criteria for investments. Such criteria normally will reflect portfolio objectives for the various businesses. If the criteria are ambiguous, they invite padded estimates by operating managers who seek approval for pet projects. Another danger is that a wide separation of strategy formulation from operations will result in capital expenditure proposals that are unrelated to strategy. The larger and more diverse the corporation, the greater is the risk of such disconnection.

6.5 Sources of Conflict for Allocations

A second basic difficulty in linking capital allocations to strategy – in addition to getting good proposals submitted for approval – is the criteria on which the choice will be made – how to decide who gets the money?

What Uncertainty is Acceptable?

The outcome of a new strategic move is always uncertain. The responses of resource suppliers, customers, and competitors are in doubt. Secondary effects are even more difficult to predict. So a strategic thrust is usually taken with a degree of boldness and self-confidence. In contrast, the results of capital outlays that buttress present operations are more easily predicted. More is known about the setting, and the proposal will be upsetting to fewer people. The very mechanics of discounted cash flow put a premium on short- term, predictable revenue – but severely handicap longer-term investment- type allocations.

Moreover, the new strategy itself is admittedly subject to change. If it does not work well, something else will be tried. This dynamic quality means that a person strongly advocating a particular investment this year may turn up with a divergent proposal a couple of years hence.

Consequently, an executive allocating capital may have to choose between proposals surrounded by uncertainty and perhaps confounded by inconsistency over time. On the one hand, proposals with a relatively clear short-run, benefit. Especially when money is in short supply, the safer, easier choice is the short-run project.

The argument supporting the strategic projects must rest on the longer-run benefits of the overall strategy – relative to the status quo. This strategic question raises a variety of issues not normally addressed in a capital proposal, and the person (or committee) making the allocations is not necessarily best qualified to answer the question. Instead, the strategic objectives should have already been settled; most of the uncertainty is absorbed when the strategy is adopted. When the target is thus set, capital proposals can be compared, in terms of their contribution to that objective. A project may indeed be risky but its approval or rejection should depend on whether a less-risky alternative to reach the same objective is available.

To cite an example, a few years ago the farmers' co-operative in the USA, Agway, made a strategic decision to protect its supply of petroleum products by owning some oil wells. Each well-drilling proposal within this strategy is quite risky – much more so than, say, an expansion of a feed mill. Nevertheless, if Agway is to establish its own crude-oil position, it must accept that sort of uncertainty. Comparison of uncertainty of various drilling proposals is pertinent, but the uncertainty of drilling in general versus other uses of capital has already been absorbed in the strategic decision.

In practice, the uncertainty often involved in strategic projects is troublesome. Who should decide how much risk may be warranted, is often unclear – within a business-unit and even more so, among business-units in a diversified portfolio. That lack of clarity can upset the execution of a strategy.

Politics of Approval

The allocation of capital for strategic purposes may be further complicated by internal company politics. The flow of capital may be either expedited or hindered by an informal exchange of favours, which leads to joint behaviour.

Internal politics are natural and inevitable, and such political behaviour may be contrary to company interests, but managers can, with skill, harness political forces to support company strategy. The crux is to manage rewards and punishments so that mutual help in supporting company goals is encouraged, whereas deviant behaviour is firmly squelched.

Politics may enter the capital-allocation process at two points. Large proposals often affect several departments, and the support of managers in all those departments will help in getting the project approved. Also, review of proposals by a representative committee is common practice. This may be a special capital-appropriations committee or a general management committee. In multidivisional corporations, such committees often exist at both the division and corporate levels. Again, the support of people with diverse interests and values is needed.

In such a setting the implicit trading of support is common. Personal integrity need not be sacrificed. A statement such as, “I’ll support your new plant if you promise never to argue with the introduction of a new line in Division X,” is extreme. Instead, when there are wide areas of subjective judgement – as we have already noted are common in new strategic moves – deferring to one member who has a major interest or expertise creates some obligation for that member to defer to us when we need help! The American pioneers helped each other build barns by such social practice. But the distinction between constructive coalitions and political wheeling-dealing is not always clear.

Unfortunately, political dealing can overwhelm sound judgement. When agreement on overall objectives is lacking, coalitions pulling in different directions may form. In one commercial bank, for instance, approval of bank lines for a new customer increasingly reflected political jockeying among lending officers. A subsequent recession forced serious write-offs of several of these loans, depleting the bank’s capital to a point of which its chances for future growth are now undermined. In this instance, if an expansion strategy had to be carefully devised, the political manoeuvring could have been minimised.

In summary, conflict may arise when allocating capital, as the preceding discussion suggests. The four potential sources noted – high uncertainty, personal bias, internal politics, and unclear strategy – all open the way for serious gaps between a selected strategy and actual allocation of capital. In these situations, strategy fails to play its guiding role and does not get implemented because it lacks funds.

6.6 Using Present Executives to Carry Out a New Strategy

Key personnel who will execute a new strategy can be the existing staff of the organisation unit charged with the new mission (although they may be in different positions), or newcomers can be brought in. Specifications of the kind of executives best suited for the revised mission are essential in making this choice.

Advantages of Relying on Present Team

Using executives already in place is an alternative that should always be weighed. It has several distinct advantages.

- The old hands already know many key actors, the local conditions, and customary practices – roles – values. Consequently, the initial learning time is short, and the chances of inadvertent mistakes are low.
- Their own qualities (both good and bad) are better known and more deeply understood by their associates. Outsiders can be known only superficially at first.
- Insiders often, though not always, have a loyal following among subordinates and peers. Their participation in a new programme ensures a high degree of co-operation.
- By calling on people who have served well in the past, the company enhances its reputation for continuing employment.

If existing personnel also possess specific capabilities needed in the new team, then these carry-over advantages quickly resolve executive selection. However, such carry-over advantages alone are rarely sufficient.

Individual Adaptability

Last year's team, no matter how great, will have to change to meet next year's challenge. Every new strategy requires that at least some members change their behaviour. Thus we must predict how well specific individuals will adapt to the revised needs. Adaptability has several dimensions.

The most obvious is acquiring new knowledge – for example, understanding a switch in technology, the needs of a different customer group, newly minted government regulation and regulators, fresh international competitors, or the like. Able executives can often learn to "play in a new ballgame," unless the technical discipline or the complexities of culture and language call for years of training. However, individuals differ in their openness to unfamiliar ideas and their speed of absorption.

What is more difficult than acquiring knowledge is changing one's attitudes, values and commitment? A company's strategic shift, for instance, from being the quality leader – the Rolls Royce of the industry – to seeking volume on the basis of past reputation is no mere intellectual exercise. The people who have strived hard to build the quality image probably think of themselves as guardians of quality. They may have taken their present jobs as an opportunity to express this feeling of quality. Such values and commitment obviously decrease the adaptability of the persons holding them.

Managers may also be valuable because of their special skills – skill in labour negotiations, skill in financial analysis, skill in product styling, or skill in another function. Because those skills helped them advance, they cherish them, and tend to see their future as related to their uses. Naturally, their feelings about a re-organisation tied to a new strategy will be coloured by the importance of their skills in the new set-up. If their special talents drop in importance, then both, they and the company face a question of whether to attempt to switch emphasis to some other activity where they have less- outstanding track records.

Because executing a new strategy involves redirection, a manager's ability to promote change is especially significant for our purposes. This calls for willingness – perhaps eagerness – to upset old ways, to rearrange power and status, and to learn new patterns. The outcome may be uncertain, and there will be costs in terms of short-run efficiency and friendships. Up to a point, these costs rise with the speed of the change. Individuals vary widely in their capacity to tolerate and manage transitions.

Obviously the need for adaptability depends on the content, magnitude, and speed of the particular strategic change we seek. Thus the extension of established South African operations into the rest of Africa will require only minor adjustments by most of the present executives. In contrast, converting a research organisation into a production company will sharply alter the roles of the majority of key people. But in every strategy shift there will be at least a few individuals whose adaptability is crucial. For these people, we must carefully predict whether they can acquire necessary new knowledge, modify their attitudes – values – and commitments, focus on different skills, and pay the price of promoting a new alignment.

Building New Group Commitment

Two broad steps toward staffing to execute a new strategy have been outlined – carefully determining the capabilities needed and matching the talent and/ or adaptability of present executives against the prescribed needs. Let us assume for the moment that we have a reasonably good match. The task is not yet done. We have the players, but we may not have a team.

There is danger that the group as a whole is not committed to the new strategy. The executives and staff people whose jobs are not re-shuffled are likely to do “business as usual”. When interacting with peers, who do have revised missions, this status-quo group will be inclined to stick with old practices. For example, changes in cost accounting standards or a personnel routine will probably be resisted in that company which is currently expanding in Brazil. Even an adaptable executive with a modified job will find life easier by carrying forward much of past practices. In this climate, the new strategy is a painful necessity, with many managers being more sensitive to the pain than to the necessity.

Somehow, the old guard has to become enthused and committed to the new strategy. This feeling of rebirth may be generated by one or two individuals with missionary zeal. If they have influence or power and are active promoters, they may succeed in building a group commitment. When success of the strategy has become a group goal, the necessary voluntary co-ordination and allocation of effort will be forthcoming.

Another approach to attaining group commitment is group formulation of the strategy itself. Group involvement starts before any new strategy is devised and long before personnel assessment is considered. The process involves several steps. First, the total group confronts facts and predications about industry environment, competition, and company prospects. Second, from this objective interchange about the facts of life arises a consensus that remedial action is necessary. Third, alternative courses of action are frankly discussed (based on studies commissioned by the group), and again, consensus is developed. Fourth, an assessment of necessary tasks and decisions on who should do what (the first two broad steps outlined in this chapter) are agreed on. Consultants who assist companies (or self-contained divisions) to go through this process report that, in the proper setting and with modest nudging, executive groups usually do reach consensus. And when agreements emerge, there is strong social pressure on everyone to pursue the new programme vigorously.

Typically, this self-assessment by the existing managerial group works best when:

(a) The need for some kind of redirection can be quickly established,

(b) Workable remedial action does not deviate much beyond or below capabilities already within the group, and

(c) Persons with formal power have confidence in judgement of the group.

Limitations of No Shake-up

The likelihood that present executives will select and aggressively push a sharp change in strategy is low. This conservative tendency is a normal inheritance from past relationships. The old ways are easier and less uncertain. Having advocated those practices, most managers tend to defend their past judgements. Good personal relationships with outsiders often reflect prolonged cultivation and are currently valuable assets; there is an understandable reluctance to discard or upset such relationships, which were so hard to develop. Every manager over the year builds up informal debts and commitments to associates; these constrain future action.

For reasons such as these, responses to opportunities and threats may be slow, and there will be reluctance to change very much at any one time. Consequently, a person who is concerned with the execution of a new strategy must decide how urgent more vigorous action is. Perhaps one or more outsiders should replace present managers. The choice of executives strongly affects what happens, and the speed in which it happens.

6.7 Bringing in Outsiders

Many seasoned executives believe that the fastest and surest way to change strategy is to bring in one or more dedicated managers specifically charged to move the company in the new direction. The proverb “a new broom sweeps clean” expresses the feeling that a fresh start is desirable. The new manager(s) may be recruited from other companies or transferred from a sister division; they are outsiders in the sense that they are not part of the present team which has been working hard to carry out the old strategy.

Reasons For Using “New Brooms”

Bringing in an outsider has several potential advantages:

- An outsider who already believes in the new strategy can be selected. This avoids the hurdle present executives’ face of switching internalised commitment from the present to the new mission. Also, the outsider may already have industry knowledge or skills that will be valuable. In these respects, the outsider is likely to be *better prepared sooner* than an insider who has to “retool”.
- The challenge of a new assignment typically stirs up *excitement and vigour.* The urge to make a showing can lead to creative effort.
- The newcomer is unhampered by previous commitments – on budgets or to other people. The *slate is clean* – at least with respect to the new appointee personally.
- Moreover, bringing in an outsider sends signals to the entire organisation and outside that something different and important is expected to happen. Especially when a manager who has been powerful is replaced, associates and subordinates recognise that they may have to modify their own behaviour.

When present executives are either too busy or clearly unsuited for new thrusts, calling on an outsider is the only way to move ahead. The inside versus outside choice becomes much harder when there is an insider who might do a tolerable, but not outstanding job.

Drawbacks to Injecting Outsiders

Like the execution of strategy generally, bringing in outsiders may prove difficult to do successfully. Possible drawbacks deal both with the individual(s) recruited and with side effects:

- Candidates who are suitable in all respects may be unavailable. For each job we want a very specific combination of values, skills, knowledge, energy, and compatibility. And we are constrained in the inducements that we can offer. Thus *compromise* to some degree is inevitable, and dealing with a stranger increases the uncertainty of how the marriage will actually work out.
- Some time and expense is always involved in *learning to work together*. The newcomer has to become well acquainted with the new associates, and them with him or her. Local feelings, values, strengths, loyalties – all affect co-operative action.
- Appointees from a different industry will require even more time *building external contacts* and credibility.
- Usually an outsider takes a job that several insiders would like to have had. Maybe someone was moved out of the job, and certainly several insiders feel they were passed over. Naturally, these disappointments create *morale problems*. If the displaced or passed-over people are popular with their colleagues, the poor morale – even resentment – can be widespread (Of course, if the company situation is desperate, the incoming executive can be viewed as a saviour).
- Especially prickly is what to do with "*poor old Bill.*" His long, loyal service – and large share ownership – does not offset an inability to perform the new job well. Being both humane and courageous in such situations may call for lots of ingenuity.

The number of successful transplants in the annals of business testifies that problems of the sort just listed often can be overcome. However, the failures and examples of mediocre results are so numerous when bringing in "new blood," that the need for great care is compelling.

? THINK POINT

Think about how capital and other resources are allocated in your company? If you wanted resources for a particular project, how would you go about obtaining them?

ACTIVITY

Elaborate on the role of benchmarking as an instrument for the development of best practices.

7. MERGERS AND ACQUISITIONS

7.1 Learning Outcomes

After studying this chapter, you should be able to:

- Evaluate how mergers, acquisitions and alliances can be used as means of business expansion
- Analyse the conceptual framework of mergers and acquisitions
- Critically analyse the nature and forms of strategic alliances and the reasons why they are chosen

READING

This section has been designed to be read in conjunction with the following textbook:

Thompson, Arthur A. Jr., Strickland, A.J. III, Peteraf, M.A and Gamble JE. (2014). Crafting and Executing Strategy – Concepts and Cases. 19th Edition. Boston: Irwin McGraw – Hill.

Refer to Chapter 6.

7.2 Introduction

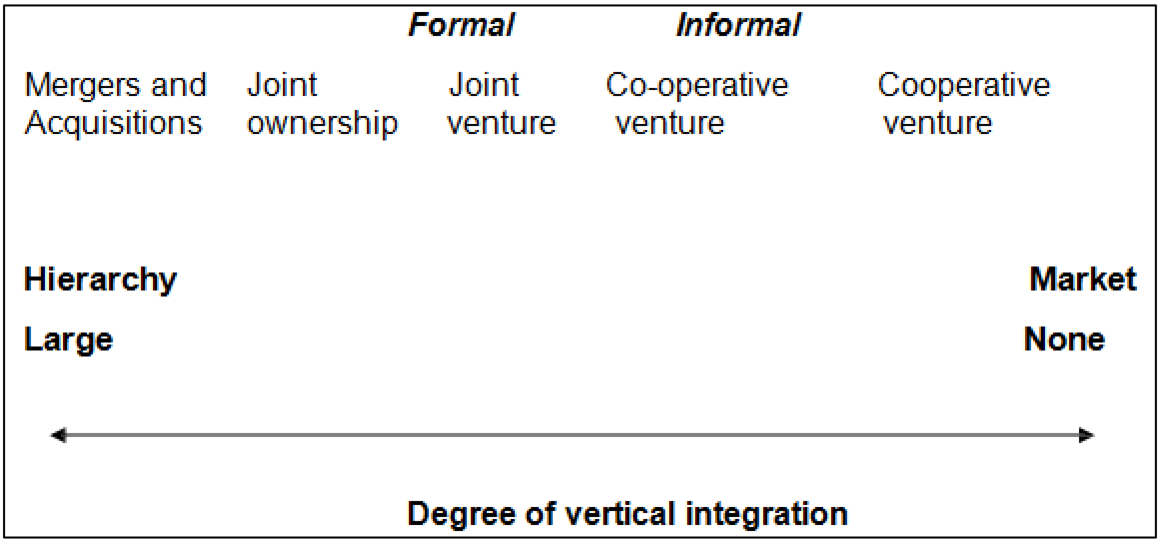


Figure 7.1: Degree of Vertical Integration

Source: (Lorange & Roos, 1992)

Another approach is based on the degree of interdependency. The higher the interdependence, the harder it is to reverse the shared business activity. This is shown below:

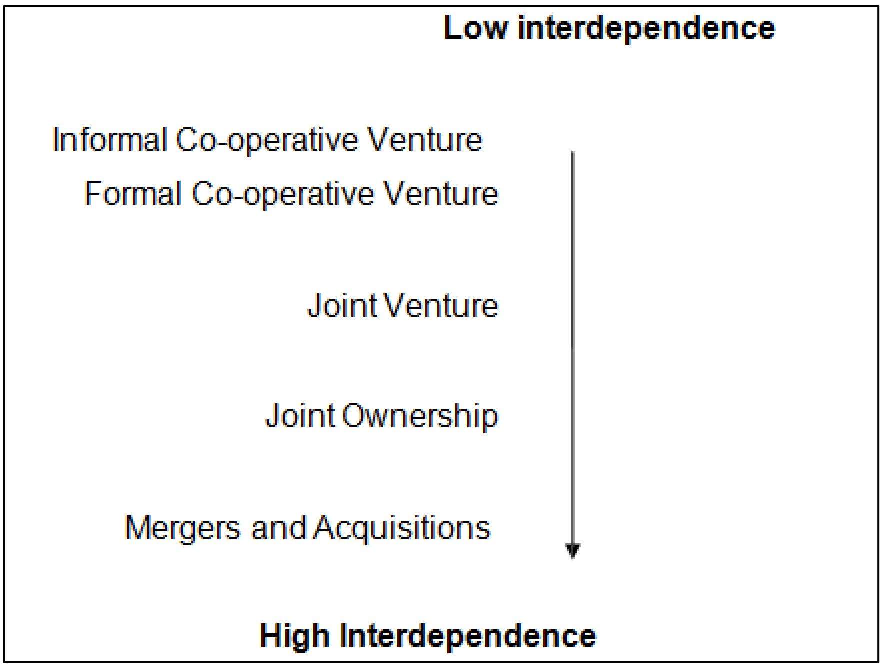


Figure 7.2: Degree of Interdependence

All these types of activities can obviously take place on an international scale as well as on a national basis.

It is important to note that two organisations approaching some form of co-operation do not necessarily see their place in the above models in the same way. This can lead to difficulties in establishing a form of co-operation in the first place and is subsequently an issue that has to be managed in the implementation phase.

Generic motives for seeking some form of co-operation can be seen in terms of the strategic importance of a business in the parent company's portfolio, and its business market position. This is shown diagrammatically below. How the parent then chooses a method, is the subject of the two previous models (above).

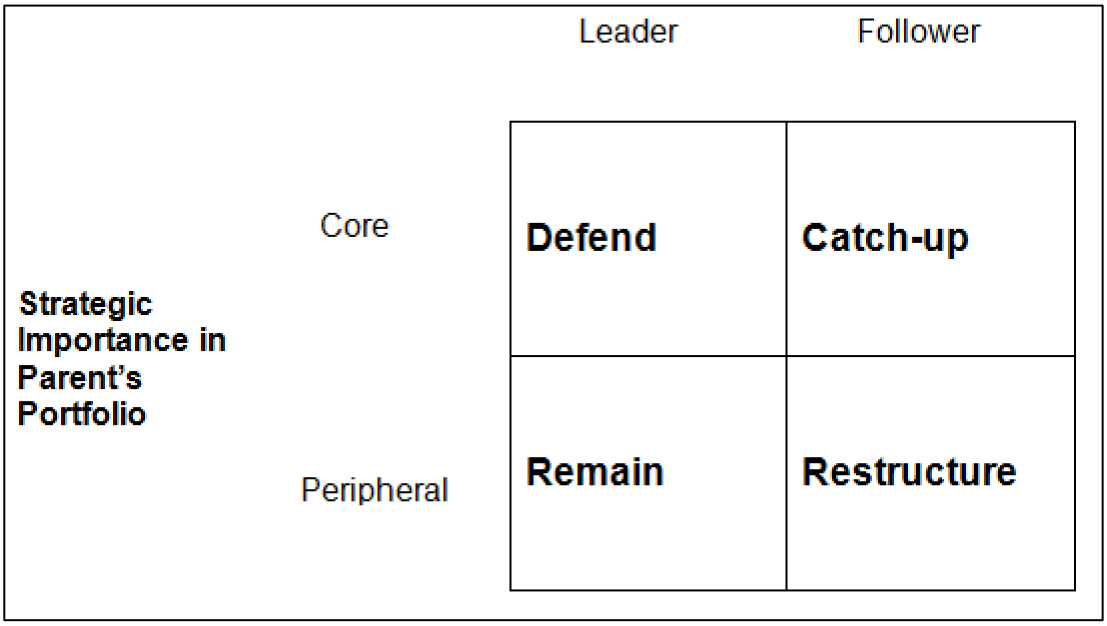


Figure 7.3: Strategic Importance in Parent's Portfolio

Source: (Lorange & Roos, 1992)

Defend strategies are where leading companies want new technology, business opportunities or to secure the sourcing of raw materials.

Catch-up strategies are employed by leaders in their non-core activities, aiming to gain maximum efficiency from the company's position.

Restructure strategies are used where a follower has some peripheral business and needs to set about recreating a strong position by restructuring and reconfiguring. This may eventually lead to adding value in order to sell off non-core activities.

It is worth noting here that although we are concentrating on growth and expansion, companies do disinvest and hive off. This fits in with Michael Porter's theories on competitive advantage. The model we are considering now gives a good conceptual explanation of why this happens – that is, when companies realise that a part of their business is peripheral and that they are followers.

7.3 Mergers and Acquisitions – The Process

The terms mergers and acquisitions are self-explanatory. When two companies are of equal strength they merge to form a new corporate hierarchy. When one is dominant over the other, the dominant company buys or acquires and absorbs the other into its own corporate hierarchy.

In a world of large multinational companies, it is possible to acquire or sell off parts of your business within the corporate whole. This is essentially the issue of core business, competitive advantage and merger/acquisition, or de- invest/hive-off to achieve this, as we discussed under the conceptual framework.

Expansion by merger and acquisition goes in waves. The 1980s saw much activity with strong companies working to expand at the expense of others. However, there can be over-eagerness. Over-expansion can lead to financial problems and erosion of competitive advantage. When this happens, it can lead into another part of the business cycle on this issue, disinvestment and restructuring. This is happening to some of the 1980s excesses. On the other hand, acquisition to subsequently hive off part of the business can be a carefully planned move. Some companies have done very well out of asset stripping.

The process by which this activity is carried out can be represented diagrammatically below:

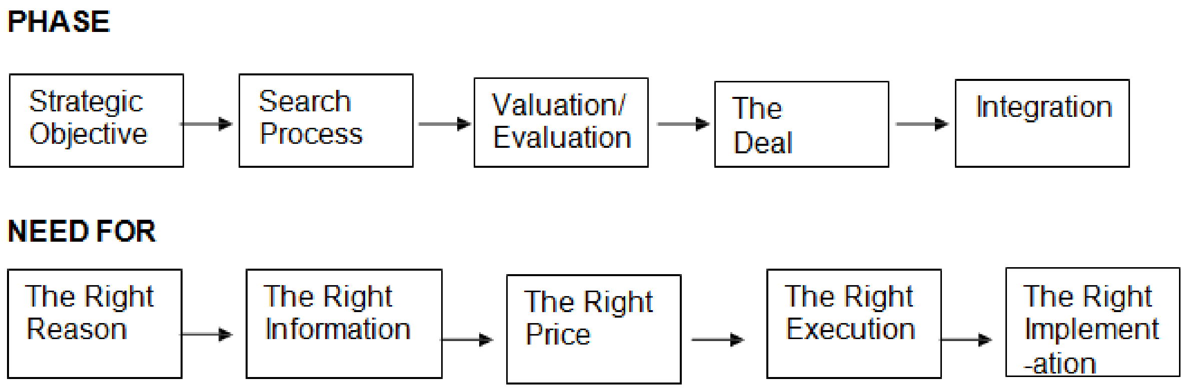


Figure 7.4: Mergers and Acquisitions Process

Source: (Grundy, 1995)

We will concentrate on acquisitions; the merger process is similar, and is the process used when partners are of more equal strength.

Strategic Objectives

Acquisitions have a much better chance of being successful if they are undertaken for the **right reasons**. As a means of growth, this method is faster than internal growth, but does have greater risks. That is why care is needed in the early steps of the management process.

One categorisation of objectives has already been seen in terms of:

- Defend
- Catch up
- Remain
- Restructure

Haspelagh and Jeminson (1991) categorise strategic objectives in terms of:

- Domain strengthening (capability)
- Domain extension (new platform)
- Domain exploration (new business position)

When clear objectives have been set and understood, the next step is to choose the right partner for a merger or target for an acquisition.

The Search Process

In order to access the **right information** required to make decisions regarding potential target companies, it is important to understand the likely source of information.

Internal Sources

In many instances it is possible to access relevant information from sources within the organisation. Market research data can be made available from within the marketing function and can provide valuable information that might help to form the basis for decision making with regards to potential target companies.

In addition to this, there is a multitude of market information that is inherent in the company's value chain. Information from the company's sales forces, from customers or trade buyers and from suppliers, provide a useful set of data which will help the decision making process.

External Sources

Many external sources exist which will enhance the information available within the organisation. Some examples are:

- Chamber of Commerce Analyses
- Trade associations: Industry publications
- Fairs and exhibition catalogues
- Intermediaries' data bases

Evaluation of the Target Company – The Right Price

The key to a good acquisition strategy is to ensure that the potential target meets the overall corporate objectives of value creation (that is, it adds value to the enterprise by way of present value of future cash flows).

In order to achieve these objectives, various options or alternative courses of action must be evaluated and the necessary steps required to fulfil the objectives should be assessed in order to make a realistic forecast of likely outcomes or risks.

The acquisition strategy process should consider a stand-alone assessment of the target, the likely effect of synergies as a result of the acquisition and what management and cultural factors are in evidence, which are potential barriers to successful implementation.

Stand Alone Assessment

The assessment of the proposed target should evaluate its position with regard to the industry within which it operates and what marketing variables may impact upon future profitability. The following questions should be addressed:

- How is value created in the industry?
- Are the trends for “value added” favourable?
- How is the market segmented?
- How important is the product to the customer?
- Are some customers more important than others?
- Are new products being introduced?
- Are distribution channels changing?
- How important is brand strength?

These questions related to the competitive position of the company, plus a financial evaluation and an assessment of the incumbent management should be evaluated in order to review the potential for the base business in the future.

Effects of Synergy

A thorough evaluation of all activities in the “Value Chain” must be undertaken in order to identify potential synergies as a result of the acquisition. These may include the following:

Cost Management

- Productivity improvements
- Purchasing power
- Shared resources

Economies of Scale

- Manufacturing
- Sales and service
- Distribution
- Overheads

Marketing

- New customers/products
- Branding of new sales
- Service provision

The key in this evaluation process is to compile a reality check and to uncover any hidden issues.

Management and Culture

It is essential to assess the incumbent management, culture and style of the potential target in order to identify likely implementation issues. Pre- acquisition planning is a necessary prerequisite to successful post acquisition management.

The Deal – Right Execution

It is essential that the purchaser negotiates from a basis of strength and evaluates the target company rigorously. The acquisition team should be involved in all aspects of the deal and should negotiate a pre-offer price prior to the compilation of "Heads of Agreement" (letter of intent to the purchase).

At this stage in the acquisition process, the prospective purchaser will then insist on a full financial and commercial **Due Diligence** to be carried out in order to ensure that there are no hidden surprises likely to appear after the deal has been completed.

The financial, legal and business advisors will take full responsibility for a rigorous **Due Diligence** process to be enacted. Following this, a Purchase Agreement should be drawn up, highlighting the terms and conditions agreed by both parties.

Right Implementation

Responsibility for post-acquisition implementation should be allocated to a Board Director of the acquirer. In addition, it is essential to decide whether to integrate the newly acquired company into the parent organisation or to allow it to maintain autonomy.

An implementation plan should be compiled which indicates the course of action to be undertaken from immediate possession of the newly acquired company. The implementation plan must be clearly communicated to all affected parties.

In addition to planning activities, it is essential for the new management to take immediate control of:

- Reporting systems
- People and communications
- Cash and financial management

A clear focus on strategy and performance objectives must be in evidence, coupled with fast, decisive action.

There are a number of key issues that must be addressed in order to ensure successful implementation. A checklist of these issues may be as follows:

- Culture and style of the organisation
- Business objectives
- People
- Customer satisfaction
- Sales/marketing/product development
- Financial controls/reporting/systems
- Communications
- Legal considerations

In making acquisitions, companies seek to add value to their organisation/s. In order to achieve "value added" objectives, the parent organisation must ensure that the relationships between the two organisations are in harmony and that decision making styles focus on value drivers.

7.4 Strategic Alliances

Types of Alliances

As you noted in the first part of this section, there are various forms of shared activities, or alliances, in addition to mergers and acquisitions. We have seen a classification that refers to the degree of hierarchical control by the parent.

Strategic alliances of this form can be seen as partnerships or co-operative activity. This raises another issue – the extent to which there is a dominant partner or there is an alliance of equals. The nature of the alliance, which is established or emerges, and the extent of its success, will depend on the reasons for its establishment and the objectives of the partners.

Lorange and Roos (1992) categorise the types of strategic alliance according to the resources a parent puts in and the output it takes out. This is shown diagrammatically below:

		Parents' Input of Resources	
		Sufficient for Short-term	Sufficient for Long-term
Parents' Retrieval of Output	To parents	Ad hoc Pool	Consortium
	Retain	Project Based Joint Venture	Full Blown Joint Venture

Figure 7.5: Types of Strategic Alliances

Source: (Lorange & Roos, 1992)

These activities, of course can take place across borders on a global scale. Many organisations build up networks of partnerships and do not restrict themselves to one partner or strategic alliance.

Also, strong multinational companies (MNCs) may form alliances with another MNCs in one area of business – probably as an equal rather than on a dominant basis in this case – and still compete with the MNC in other areas of business.

Reasons for Building a Strategic Alliance

Cauley de la Sierra (1995) lists ten reasons why companies enter strategic alliances rather than rely on internal growth:

1. Build global market capabilities
2. Cope with escalating research and development costs
3. Pre-empt competitive threats
4. Speed up product innovation
5. Cope with the integration of technologies and markets
6. Build world class capabilities
7. Establish global standards
8. Jump market barriers in emerging markets and regional trading areas
9. Cut exit costs
10. Take opportunities from the greening of global business

Whilst there may be a dominant relationship in strategic alliances, it can be argued that alliances as opposed to acquisitions lessen the chance of problems associated with supervisor – subordinate relationships. The argument is that MNCs need strong partners, not weak ones, to be successful in global competition.

Choosing a Partner

Cauley de la Sierra (1995) refers to the three Cs:

- Compatibility
- Capability
- Commitment

Compatibility

Partners in strategic alliances have to be able to work together. This does not mean that there will be no friction or cultural differences. It does mean that there has to be sufficient respect, understanding and goodwill to overcome these.

Where a company has existing allies, this can be a good place to start when considering a partner for a new alliance. However, there are limitations to this. In a world of expanding business networks there are advantages in spreading alliances.

Compatibility can be judged in terms of hard and soft factors. The hard data will be in relation to:

- existing network and track record
- complementary strategies
- management practices and organisation
- manufacturing capability and systems
- marketing and distribution
- finance
- corporate safety, health and environment policies

The soft factors are concerned with culture and the intangible but crucial element of trust.

Capability

Companies want capable partners. Beyond that, they want partners who have capability in a **complementary** area that can add value to the alliance. Testing this should involve a full evaluation of the potential candidate (they will be doing the same to you, if they are serious).

Commitment

There are two key questions that will help to assess the commitment of a potential partner:

- Does the alliance fall within a core business or product line of the partner?
- How difficult would it be for a partner to withdraw from the alliance?

Formation of Alliances

The formation of an alliance goes through the choice of partner phase through to the signing of a contract. Working with the three Cs will involve an initial search phase and an intensive phase when the deal is being finalised with the short listed partner. In the initial phase, it is important to have an awareness of strategic match and blessing from the shareholders. In the intensive phase, this must move to a strategic plan and internal support on both sides.

Lorange and Roos (1992) discuss the strategic alliance formation process in relation to their four types:

- ad hoc pool
- consortium
- project based joint venture
- full blown joint ventures

Ad hoc Pool Alliance

There is generally a dominant partner who expects outputs to flow back to the parent, and the motivation is defensive. The smaller partner can be faced with opportunities of expansion but must be aware of being dominated. In these circumstances, finding a strategic match and gaining shareholder blessing can be difficult.

Consortium

Here it is important to assess complementaries between approximately equal partners where the parent expects returns. For example, it could be to share research programmes where each partner has insufficient resources.

Planning has to be detailed to avoid duplication and to ensure that internal support is gained.

Project Based Joint Venture

An example of this type of project is where two companies want to enter a new market, which could be in a different country. One has the marketing skill, the other has the technology. As this fits into the short-term type of alliance, it may be disbanded as learning takes place and objectives change.

Full Blown Joint Venture

These alliances are intended to last but they are often motivated by a catch- up strategy. Both parties have to realise that neither of them will be dominant and that they need to co-operate.

7.5 Managing Alliances

Managing Strategic Alliances brings difficulties and raises issues that have to be dealt with for the alliance to be successful. The partners will have to come together because they can achieve jointly what they could not achieve alone. However, they will still have their own interests and will often not want to ‘give too much’ to their partners. Cultural differences at the organisational and national level can create difficulties and lead to the need for cultural understanding. Part of the section aims to raise some of the issues for you to consider. We will divide them into:

- Planning and control considerations
- Human resource management
- Cultural differences
- Challenges and obstacles

Planning and Control

Partners need to establish management processes that meet their needs and the needs of the alliance.

In the objective-setting phase, it is crucial to establish a common outlook and common information base in order to achieve a consensus and congruence. Senior management should provide the commitment and support in order to convert strategic intent into strategic reality.

Setting a budget and implementing a strategic programme involves the need for co-ordination from a variety of functional disciplines. Care is needed to ensure that responsibilities are understood; senior management should reduce ambiguity. To make this work, partners should commit adequate and realistic budgets.

Partners need to ensure adequate control of the alliance venture itself. They will also want to control their own input. For example, if their main business has competitive advantage from unique ownership of a core competency, they will want to protect it from leakage into the market place. The skill is to devise and agree on control systems that meet this balance.

Human Resource Management

Choosing the right people to work with as partners in a strategic alliance can be a crucial element in determining its degree of success. Senior managers should give thought to this, rather than merely allocating people on a functional basis.

Providing training and support, particularly when the situation involves new cultural relationships, could make a valuable contribution.

The people assigned to work with or in alliances must be capable of working both with the alliance and in their own company. They must be prepared to transfer in and out at some stage. Above all, they should avoid value judgments about the people they work with.

Cultural Differences

The question of value judgments raises the issue of culture. Cultural misunderstanding can be the main cause of problems in carrying out the management functions discussed above. It is crucial that people involved in the management of alliances seek to understand their own and their partners' views and predisposition without jumping to conclusions or making value judgments.

Challenges and Obstacles

Some alliances are successful; others fail. Others serve a purpose for a time to meet the needs of the partners, and are then consciously discarded. Management should seek to avoid alliances breaking up whilst they could still serve a useful purpose.

As alliances become more global, the management challenges become greater and the cultural issues, more important. This can also focus attention on the issue of equal partners or an alliance with a dominant partner. Many commentators argue that alliances have a stronger chance of success if they are between partners of equal strength, each offering something complementary.

Lorange and Roos (1992) identify seven challenges which managers have to meet:

- how to overcome reluctance to give up autonomy over partner's own resources
- how to achieve operating momentum
- how to focus on external environment (customers, competition) rather than internal friction
- how to avoid unnecessary politicking
- how to maintain energy and commitment over time
- how to increase the willingness to learn
- how to prevent particular individuals from becoming bottlenecks

7.6 Section Summary

In this section we considered the conceptual framework, context and different forms of mergers, acquisitions and alliances.

The section examined issues concerned with their successful formation and management.

When two companies merge, they form a new hierarchy. When one company acquires another, it absorbs it into its hierarchy. When there is a strategic alliance, two or more corporate hierarchies co-operate with each other.

? THINK POINT

If you or your company is involved in a strategic alliance, consider answers to the following questions:

- What problems (if any) is the alliance currently facing?
- What is causing them?
- How can they be overcome?

8. PLANNED CHANGE

8.1 Learning Outcomes

By the end of this section you should be able to:

- Analyse the various management approaches to planned change
- Critically differentiate between the various consequences of change
- Provide an overview of the Systems Approach to change
- Evaluate the Sociotechnical System
- Explain the Contingency Theory and Future Shock approaches to change

READING

Brown, D. R. (2011). An Experiential Approach to Organisational Development, 8th Edition. Pearson: New Jersey

Study Chapter 1 and 2.

8.2 Introduction

The pace of global, economic and technological development makes change an inevitable feature of organisational life (Cummins & Worley, 2005:22). We live in a period in which organisation change is so rapid that even the bad old days are beginning to look good, by comparison. Change is not just happening to companies whose job it is to change and innovate - the Microsofts, Intels, and Volvos of this world, who come up with fresh consignments of new models and product ideas every spring - but also to the average companies that have offered the same product or service for several decades. Everyone is expected to renew, at least, *the process* by which they produce the same old offerings.

No industry or organisation is exempt. In fact no country is isolated from this trend. To this extent, Harvey and Brown (1996: 30) begin their discussion with the statement, “Change is the name of the game in management today.” Furthermore, on the same page, they assert that, “In today’s business environment, more than at any time in history, the only constant is change.”

The upshot of all this is that the modern manager must not only learn to cope with inordinate amounts of change but must also learn to manage it and, more importantly, to lead his department and others to effectively cope with it. Increasingly, it is becoming a business imperative that organisations need to respond to changes in their operating environments by making adjustments to the *whole enterprise*: in other words, by becoming a learning organisation.

In this regard, the *Systems Approach*, coupled with a management style which is based on *Contingency Theory*, offers a more effective means of anticipating, identifying and integrating change into the mission and culture of the organisation. We have already made the point that, for all practical purposes, the terms Change Management and Organisation Development are synonymous. Change that occurs in an organisation can be distinguished from change that is planned by its members. This section focuses on planned change. Planned change is often initiated and implemented by managers, often with the assistance of a change agent.

8.3 Management Approaches to Change

The model of adaptive orientation in organisations by Harvey and Brown (2006:38), looks at organisations in terms of two dimensions- environmental stability and adaptive orientation. Firstly, along the *y* axis, environmental stability is depicted; and then, along the *x* axis, the organisation's adaptive orientation is shown. Figure 9.1 shows the model of Adaptive Orientation in Organisations.

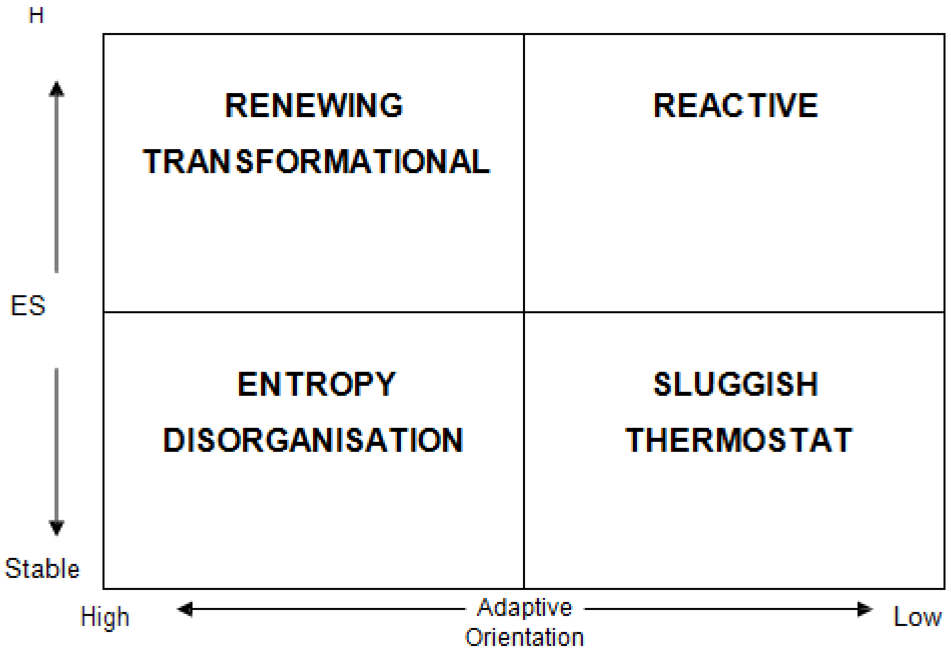


Figure 8.1: Model of Adaptive Orientation in Organisations

Source: (Harvey and Brown 2006:38)

ES: Environmental Stability

H: Hyper turbulent

Let us now examine each of the four quadrants in turn, starting with the Sluggish Thermostat and then moving in a clockwise direction. These quadrants reflect the various orientations used by managers in managing their organisations and their perception of change.

- Sluggish-Thermostat Management (Stable Environment, Low Adaptation)

Sluggish management is a management style favouring low risk, formal procedures with a high degree of structure and control. Thus, organisations depicted by this quadrant usually have more managerial levels, a higher ratio of managers to subordinates, with significant emphasis on control systems. High value is placed on tradition and generally there is an unwillingness to accept new ideas. Although low risk, this style may lead to problems in the future.

- Satisfying Management (Stable Environment, High Adaptation)

Satisfying management means a management style that is satisfactory i.e. management which is adequate and average. It is characterised by a centralised decision-making structure with problems being referred to senior management. This entails more levels of management, and changes in such organisations occur at moderate rates. Wheatley (1996), the author of the ground-breaking treatise, “Leadership and the New Sciences”, claims that all organisations are living systems and, as such, they have a propensity to self- organise in response to change and to move toward greater complexity and adaptive patterns and structures, as needed to cope with change. In this state, then, change is the organising force, not a problematic intrusion, and structures and solutions are temporary. “Leaders emerge from the needs of the moment. There are fewer levels of management. Experimentation is the norm…Involvement and participation constantly deepens” (Wheatley, 1996:19).

- Reactive Management (Hyper turbulent Environment, High Adaptation)

Organisations that have a low level of adaptation exist in a rapidly changing environment. Reactive management is a style of reacting to a stimulus after conditions in the business environment have changed. In the last quadrant, we have the situation where changes are small and occur only infrequently. It is a management style that deals with problems on a crisis basis. This may involve reduction of personnel or product lines, hasty reorganisation, replacing of key personnel, freezing promotions etc. Fundamentally, this management style implies inaction until problems occur. So, the lack of challenge and stimulus for organisations in this area ultimately leads to their demise, unless some form of artificial stimulation can be administered.

- Renewing /Transformational Management (Hyper turbulent Environment, High Adaptation)

Renewing/transformational management refers to introducing change to deal with situations before the situations actually occur. Organisations that exist in a hyper turbulent environment must go beyond reacting to a situation but must innovate as a result. These companies tend to be champions of new innovation with a faster development of ideas. Change can provide new avenues for growth but can also increase organisational entropy, i.e. the inability to change.

8.4 Consequences of Change

When planned change is implemented in an organisation, it will inevitably have consequences, depending on the magnitude of the planned change. Small, incremental change or renewal can be the result. Alternatively, the change can be transformational or strategic, cutting across the whole organisation. These two are positive changes. The consequences of change can also be negative. Examples are chaos and entropy which can result from planned change.

Table 8.1 contrasts and illustrates a number of the functional characteristics that an organisation may encounter in the execution of the positive changes.

Table 8.1: Some Characteristics of Organisational Change

Renewal/Development	Transformation/Turnaround
Requires proficient Management and enhances efficiency, or doing things right	Requires proficient Leadership and enhances effectiveness, or doing the right things
Frequently low risk, trendy and short term solutions with a high participative content	Higher risk, longer term and comprehensive change that is driven from the top down
Relatively simple and one dimensional changes that do not greatly affect organisation culture	Complex, multidimensional changes that will have a profound effect on organisation culture
There is seldom any concerted resistance and the emotional content is less pervasive	There is often a strong emotional content and resistance is more forceful
Change interventions are small & incremental, and the results are generally predictable	Interventions are significant and mainly take place synchronously, while the results are frequently not predictable
Changes required are quite small and can be introduced after only one or two fairly quick and limited interventions	Changes are time consuming and Momentous, and require detailed planning as well as a number of co-ordinated interventions
A limited number of people are involved or affected and an outside consultant can facilitate changes in processes, behaviours and structural systems	The involvement and commitment of all the stakeholders is essential and an outside consultant can become part of the change process

? **THINK POINT**

Discuss the factors that characterise transformational/turnaround change

8.5 The Systems Approach to Organisational Change

Harvey and Brown (2006) employ an approach based on Systems Theory. The Sociotechnical Systems, High Performance Systems, the Contingency Approach, and Future Shock and Change which the authors discuss are all based on a *Systems Approach* to Change Management. The Systems Approach to organisational change will be briefly discussed.

Basically, the systems perspective states that changes in any part of the system have a reverberating effect on all other parts of the system. For example, if an organisation implements a new computer system, this will trigger a series of changes in other sections of the organisation. Staff will need to be retrained and in some respects, have their culture changed. Some positions will become redundant (this is a form of restructuring). The new technology may facilitate the introduction of new processes or at least the modification of existing processes.

Simply knowing that this will occur is healthy, because we will not make the mistake of confining our problems only to one part. The Systems Approach provides a conceptual framework for integrating the various components within the system and for linking its subsystems with larger organisational needs (Cascio, 1995: 48).

The student is urged to study the characteristics of *Open Systems*, *Socio- technical Systems*, and *High Performance Systems* in Harvey and Brown (2006:39-50).

Systems Thinking in Change Management

Systemic Thinking

Systemic thinking is a simple thinking technique for gaining systemic (situation-wide) insights into complex situations and problems. It puts the benefits of the systems thinking revolution within the reach of everyone.

Distinctions

Systematic Thinking	Systems Thinking	Systemic Thinking
Thinking methodically.	Thinking about how things interact with one another.	A simple technique for finding system-wide focus.

The diagram on the left will help you create a mental framework for understanding the systemic thinking concept.

Conventional thinking techniques are fundamentally analytical.

Systemic thinking is different – it combines analytical thinking with synthetical thinking. Analytical thinking is common – it's thinking about the parts or elements of a situation. Synthetical thinking isn't that common – it's thinking about how those parts or elements work together.

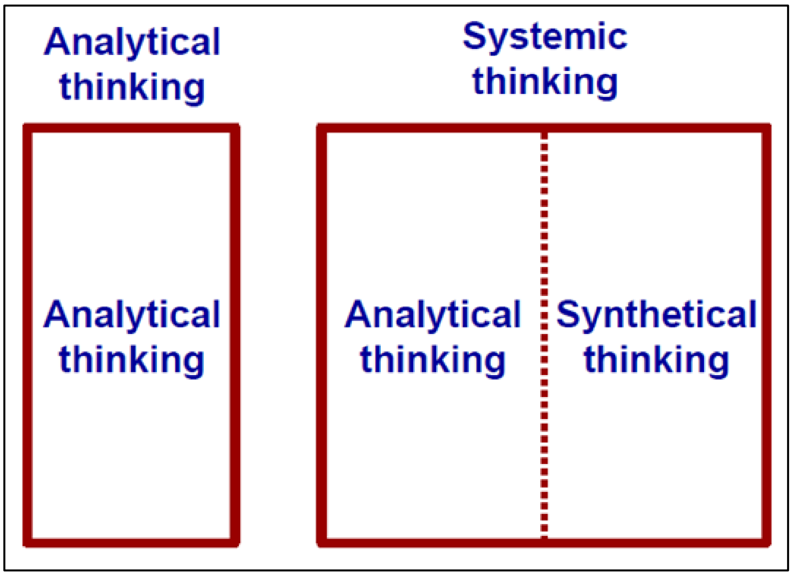


Figure 8.2: Analytical VS Systemic Thinking

The Systemic thinking concept has its primary origins in elements and abstracts of the following thinking techniques:

Creativity and lateral thinking: Dr Edward de Bono (generating alternatives, thinking as a skill and "mechanism of mind").

TOC – The Theory of Constraints: Dr Eliyahu Goldratt (The "3-cloud" method and the single constraint)

TRIZ – The Theory of Inventive Problem Solving: Dr Genrich Altshuller (patterns in problems and solutions)

ST – Systems Thinking: Joseph O'Connor & Ian McDermott et al (system interactions)

NLP – Neuro-Linguistic Programming: various (mental modelling)

8.6 Contingency Theory and Future Shock.

The *Contingency Approach* is based on Systems Theory and its basic premise is that there is no single best way to manage. The corollary to this principle is that there is nearly always more than one way to achieve an organisational goal. Managers must, therefore, be flexible and adapt to the contingencies that are present or reflected in:

1. their external environments,
2. the organisation's own capabilities,
3. employees' values, goals, skills and attitudes, and
4. the technology used by the organisation.

The term *Future Shock* was coined by Alvin Toffler in 1970 and over the years it has come to be associated, amongst other things, with a hyper-turbulent operating environment. Many experts have argued along the lines that, in such an environment, an organisation may be required to develop new products or services on a continuing basis, just to survive. Also, it may have to continuously re-examine its relationships with customers, government agencies, and suppliers. The environment that characterised the personal computer manufacturing industry in the late 1980s and early 1990s is often put forward as a good example of this type of milieu.

ACTIVITY

Discuss the importance of the sociotechnical systems approach to managing change.

9. THE DIAGNOSTIC PROCESS

9.1 Learning Outcomes

By the end of this section you should be able to:

- Conceptually provide meaning to the term “organisational diagnosis”
- Grasp the importance or value of organisational diagnosis
- Evaluate the diagnostic process
- Ascertain the main diagnostic models and examples of diagnostic techniques
- Expound on the features of organisational subsystems on which the diagnosis focuses on

READING

Brown, D. R. (2011). An Experiential Approach to Organisational Development, 8th Edition. Pearson: New Jersey

Study Chapter 5

9.2 Introduction

A medical practitioner would not prescribe a course of treatment for a physical ailment without first doing some form of diagnosis. Similarly, the change management agent would not undertake a change intervention of any kind on an organisation without carrying out a comprehensive organisational diagnosis in the first instance. Undertaking a change initiative without carrying out a diagnosis of the organisation would substantially increase the risk of failure of the change initiative. The identification of areas for improvement and problems is an important element in developing a high-performance organisation (Harvey & Brown, 2006:127).

It is axiomatic that the probability of success of a change management intervention is increased considerably if the choice and application of the method or technique is based on an initial in-depth diagnostic analysis. While nearly all organisations keep meticulous indices of their key performance measures including cash flows, profit, turnover, sales, return on investments, return on assets, and so on, not many ever bother with keeping reliable and valid information on their most important asset: their people in terms of their perceptions, attitudes and commitment, as reflected in the ruling corporate climate.

Keeping current measures of employee perceptions and attitudes by means of a reliable technique is a proven and valid means of tracking organisational performance and effectiveness, as well as being a valuable input when conducting an organisational diagnosis. The diagnosis will provide wide- ranging information that can be used as a basis for planning and carrying out change interventions. Organisational diagnosis provides information that allows a faster-reacting organisation to emerge, one that can deal proactively with changing forces (Harvey & Brown, 2006:127).

It becomes obvious, then, that a thorough scientific organisation diagnosis has many advantages.
These will include:

- Identifying the essential problems and needs of the organisation and ensuring that interventions are based on these identified problems and needs
- Providing organisation members with an occasion to bring their ideas and feelings to the attention of top management in a material and objective way
- Giving senior management a broad picture as well as detailed information on the organisation's well-being in terms of a variety of factors which include the organisation climate and management practices, team, workgroup and departmental performance, job satisfaction and the quality of work life of employees, and, finally, the extent to which organisation members feel that they are empowered and committed to their jobs
- Leading members to become involved in problem identification and problem- solving, thus encouraging participation, and a sense of ownership, possession and commitment

? **THINK POINT**

Describe the potential risks or pitfalls of effecting change before an organisational diagnosis has been conducted.

9.3 What is Organisational Diagnosis

Diagnosis has been described by French and Bell as "... a continuous collection of data about the total system or its sub-units, and about system processes, culture and other targets of interest" (Coetsee, 2000: 87). Beer (1993), on the other hand sees diagnosis as a method of analysing organisational problems and learning new patterns of behaviour. Harvey and Brown (2006;128) define diagnosis as “a systematic approach to understanding and describing the present state of the organisation”. These are essentially three different views of the same thing, making the term organisational diagnosis much clearer.

The main aim of diagnosis in studying the organisation is to ascertain what the problem areas or weaknesses are. This helps to isolate the gap between the organisation’s current situation and its desired future state. Diagnosis identifies the strengths, opportunities and problem areas in an organisation. What are the organisation’s strengths? What are its problem areas? What are the opportunities open to an organisation? A SWOT analysis will provide answers to these questions. This analysis forms the foundation for conclusions regarding specific interventions and action plans.

The diagnostic phase of change management is mainly a data gathering or research activity aimed at producing useful information upon which subsequent intervention decisions can be based. It is important, therefore, that the normal rules with respect to the validity, reliability and consistency of scientific data gathering and data treatment are applied. In other words, the information-gathering instrument used must accurately measure the factor that it is supposed to measure (validity), it must measure it every time it occurs (reliability), and it must accurately reflect multiple occurrences of the factor concerned (consistency).

Having employed scientific methods to gather the data and satisfied the requirements of the scientific method in its treatment, the researcher will be much better placed in terms of how the data are to be used for analysis, interpretation and reporting, both at the commencement of the intervention and then again upon its completion. Particular attention must be given to the interpretation of data as the same data may be open to different and sometimes contradictory interpretation. If the correct data has been collected but interpretation is incorrect, then this may defeat the purpose of the diagnosis.

? **THINK POINT**

Conduct a SWOT analysis of your organisation.

Hint: The process of analysing strengths and weaknesses comprises the internal assessment of the organisation, while the process of analysing opportunities and threats comprises the external assessment of the environment.

9.4 The Diagnostic Process

The diagnostic process is a cyclical process that involves data gathering, interpretations, identification of problem areas and possible action programmes (Harvey & Brown, 2006:129).

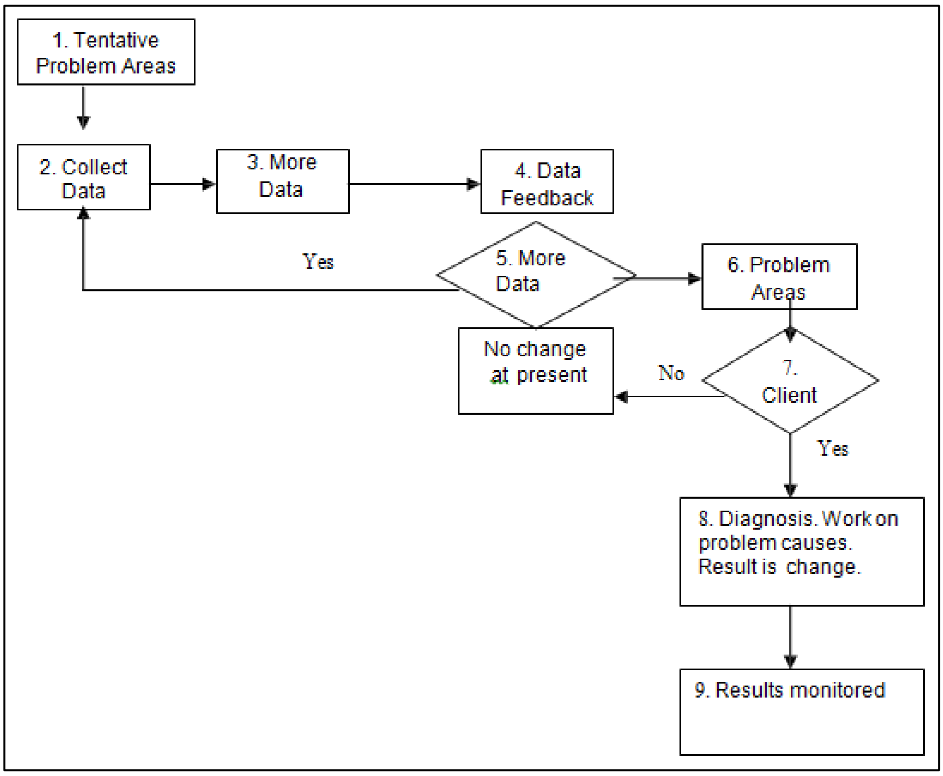


Figure 9.1: The Diagnostic Process

Source: (Harvey and Brown 2006:129)

A diagnostic process follows the following steps:

Step 1: Preliminary Identification of the Problem Area

This step sums up the efforts required to identify the symptoms of the problems bedevilling the organisation. This is the stage when the organisation realises the existence of a performance gap between the desired performance and the actual performance. For example, it might be necessary to investigate why the company's market share has been falling for the past two years.

Step 2: Gathering Data

During this stage, the change agent collects information on the problem identified in the previous stage. This information can be collected from employees, managers, customers, board of directors, suppliers and other stakeholders of the organisation.

Step 3: Analysis of Data

The change agent sifts through the data, separating the irrelevant from the vital. He/she then categorises the data into various groups or sections depending on the criteria that has been set. Analysis of the data allows the change agent to get a clearer idea of what is wrong with the organisation. The data can be gathered using various data gathering methods such as interviews, questionnaires, observations etc.

Step 4: Data Feedback

Data feedback to the organisation can be through a workshop where a presentation is made to the organisation's management. The feedback or reaction may be in the form questions, queries, agreement or disagreement in key areas. The collected data is then categorised, analysed and presented to the client in a feedback session.

Step 5: Confirming Adequacy of Data

If this data is deemed inadequate, it may be necessary at this stage to collect more data. If it is determined that enough data is available then the change agent can proceed to step 6.

Step 6: Problem Area Identified

The change agent and the client identify the problem areas. Diagnosis is based on an understanding of how an organisation functions. Their use of diagnostic models and the client and consultant jointly diagnose and identify likely problem areas.

Step 7: Motivation to Work on Problem

At this point, the level of motivation of the client to work on the problems is determined.

Step 8: Conduct Organisational Diagnosis

Based upon the diagnosis, the target systems are identified and the change strategy is designed.

Step 9: Monitoring Results

The results are monitored to determine the level of degree of change that has been attained versus the desired change goals. It is not always that change results in the desired outcomes, so it is important to compare the actual results versus the initial objectives of the change initiative.

9.5 Diagnostic Models

Harvey and Brown (2006: 139-141) set out the salient features of six different diagnostic models in terms of which organisational functioning is theoretically explained. These models are the Analytical Model, the Emergent-Group Behaviour Model, the Management Practitioner Model, The Sociotechnical Systems Model, the Cause Maps and Social Network Analysis Model and the Force-Field Analysis Model. Five of these models will be described briefly:

a) The Analytical Model (difference-integration Model) emphasises the importance of a sound diagnosis as the basis for planned change in an organisation. The model was developed to study interdepartmental issues by carrying out a diagnosis of the organisation’s problem areas.

b) The Emergent-Group Behaviour Model posits that a complex pattern of behaviour consisting of activities, relationships, sentiments and norms develops among a group that is required to perform some work. This model helps in understanding how teams operate and in identifying problems in the organisation.

c) The Management Practitioner Model analyses six basic areas - basic planning, general business practices of the company, advertising and promotion, market research and the personnel of the organisation.

d) The Sociotechnical Systems Model analyses the organisation as a sociotechnical system interacting with its external environment. Every organisation comprises a social system consisting of the network of interpersonal relationships and a technological system. These two systems are interrelated and interdependent. The diagnosis determines how they interrelate, placing emphasis on the feedback or lack of feedback between the various systems.

e) Cause Maps and Social Network Analysis Model - Cause maps are mathematical representations of perceived causal relationships between variables. The social network analysis is also based on mathematical representation of the relations between individuals or work groups. Analysis of the causal makeup of the organisation and the specific interdepartmental relationships provide knowledge about key interdependencies.

9.6 Organisational Subsystems

The following table from the work of French and Bell (1995) are included with a view to illustrating both the organisation subsystems (Table 9.1) and the organisation processes that often form the units of analysis in a diagnostic exercise (Coetsee, 2000: 97-103). In practice the consultant would work from the table in an effort to diagnose an organisation, its processes, and its sub-units concurrently.

Table 9.1: Diagnosing Organisational Processes

Source: (French & Bell, 1995)

DIAGNOSTIC FOCUS OR TARGET	EXPLANATION AND IDENTIFYING EXAMPLES	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
The total organisation **(having a common "charter" or mission and a common power structure)**	The total system is the entity assessed and analysed. The diagnosis might also include, if relevant, extra system (environmental) groups, organisations, or forces, such as customers, suppliers, and governmental regulations. Examples are a manufacturing organisation, a hospital, a school system, a department store chain, or a church denomination.	What are the norms ("cultural right") of the organisation? What is the organisation's culture? What are the attitudes, opinions, & feelings of system members toward the various "cognitive objects" such as compensation, organisation goals, supervision, & top management? What is the organisation climate - open vs. closed, authoritarian vs. democratic, repressive vs. developmental, trusting vs. suspicious, co-operative vs. competitive? How well do key organisational processes such as decision making & goal setting, function? What kind & how effective are the organisation's sensing mechanisms to monitor internal & external demands? Are organisation goals understood and accepted?	Questionnaire surveys are most popular with a large organisation. Interviews, both group and individual, are useful for getting detailed information, especially if based on effective sampling techniques. A panel of representative members who are surveyed or interviewed periodically is useful to chart changes over time. Examination of organisational "relics"- rules, regulations, policies, symbols of office and/or status etc., yields insight into the organisation's culture. Diagnostic meetings held at various levels in the organisation yield a great amount of information in a short time period.

DIAGNOSTIC FOCUS OR TARGET	EXPLANATION AND IDENTIFYING EXAMPLES	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Large subsystems that are by nature complex and heterogeneous	This group stems from making different "slices" of the organisation, such as by hierarchical level, function, and geographical location. Two criteria help to identify this set of subsystems: first they are viewed as a subsystem by themselves or others; and second, they are heterogeneous in makeup; that is, the members have some things in common, but many differences from each other, too. Examples would be the middle-management group, consisting of managers from diverse functional groups; the personnel department members of an organisation that has widely dispersed operations with a personnel group at each location, everyone in 1 plant in a company that has 10 plants, a division made up of several different businesses.	All the above plus: How does this subsystem view the whole and *vice versa*? How do the members of this subsystem get along together? What are the unique demands of these subsystems? Are organisation structures and processes related to the unique demands? Are there "high" and "low" sub-units within the subsystem in terms of performance? Why? What are the major problems confronting this subsystem. Are its goals compatible with organisation goals? Does the heterogeneity of role demands & functional identity hinder effective subsystem performance?	If the subsystems are large or widely dispersed, questionnaire and survey methods are recommended. Interviews & observations may be used to provide additional supporting or hypothesis-testing information. Organisation records, reports and information are good sources of information about performance and problems.

DIAGNOSTIC FOCUS OR TARGET	EXPLANATION AND IDENTIFYING EXAMPLES	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Small subsystems that are simple and relatively homogeneous	These are typically formal work groups or teams that have frequent face to face interaction. They may be permanent groups, temporary task forces, or newly constituted groups (e.g. the group charged with the start-up of a new operation, or the group formed by an acquisition or merger). Examples are the top management team, a manager and his or her key subordinates, temporary or permanent committees, task force teams, the work force in an office, the teachers in a single school, etc.	The questions on culture, climate, attitudes, and feelings are relevant here, plus: What are the major problems of the team? How can team effectiveness be improved? What do people do that gets in the way of others? Are member/leader relations those that are desired? Do individuals know how their jobs relate to group and organisational goals? Are the group's working processes effective, i.e. the way they get things done as a group.	Typical methods include the following: individual interviews followed by a group meeting to review the interview data; questionnaires; observation of staff meetings and other day-to-day operations; and a formal group meeting for self-diagnosis.

Small, total organisations that are relatively simple and homogeneous	Example would be a local professional organisation or small company. Typical problems as seen by officers might be declining membership, low attendance, difficulty in manning special task forces, or poor quality and declining profits.	How the officers and the members see the organisation & its goals. What do they like and dislike about it? What do they want it to be like? What is the competition like? What significant external focus is impacting on the organisation?	Questionnaires or interviews are frequently used. Descriptive adjective questionnaires can be used to obtain a quick reading on the culture, "tone," & health of the organisation. Diagnostic group meetings can be useful. Organisational records can be examined.

DIAGNOSTIC FOCUS OR TARGET	EXPLANATION AND IDENTIFYING EXAMPLES	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Interface or inter group subsystems	This concept of subsets of the total system, such as a matrix organisational structure, requires an individual or a group to have two reporting lines. But more often this target consists of members of one subsystem having common problems and responsibilities with members of another subsystem. We mean to include subsystems with common problems & responsibilities such as production & maintenance overlaps, marketing and production overlaps.	How does each subsystem see the other? What problems do the two groups have in working together? In what ways do the subsystems get in each other's way? How can they collaborate to improve the performance of both groups? Are goals, subgoals, areas of authority & responsibility clear? What is the nature of the climate between the groups? What do the members want it to be?	Confrontation meetings between both groups are often the method for data gathering and planning corrective actions. Organisation mirroring meetings are used when three or more groups are involved. Interviews of each subsystem followed by a "sharing the data" meeting or observation of interactions can be used.

Dyads and / or triads	Superior/ Subordinate pairs, interdependent peers, linking pins - i.e. persons who have multiple group membership - all these are subsystems worthy of analysis.	What is the quality of the relationship? Do the parties have the necessary skills for task accomplishment? Are they effective as a subsystem? Does the addition of a third party facilitate or inhibit their progress? Are they supportive of each other?	Separate interviews followed by a meeting of the parties to view any discrepancies in the interview data are often used. Checking their perceptions of each other through confrontation situations may be useful. Observation is an important way to assess the dynamic quality of the interaction.

DIAGNOSTIC FOCUS OR TARGET	EXPLANATION AND IDENTIFYING EXAMPLES	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Individuals	Any individual within the organisation, such as president, division heads, key occupants of positions in a work flow process. e.g. quality control, R&D. In school systems, this would be students, teachers or administrators.	Do people perform according to the organisation's expectations? How do they view their place and performance? Do certain kinds of problems typically arise? Do people meet standards and norms of the organisation? Do they need particular knowledge, skills, or ability? What career development opportunities do they have/want/need? What pain are they experiencing?	Interviews, information derived from diagnostic work team meetings, or problems identified by the human resources department are sources of information. Self-assessment growing out of team or subsystem intervention is another source.

Roles	A role is a set of behaviours enacted by a person as a result of occupying a certain position within the organisation. All persons in the organisation have roles requiring certain behaviours, such as secretaries, production supervisors, accountants, scientists, custodians.	Should the role behaviours be added to, subtracted from, or changed? Is the role defined adequately? What is the "fit" between the person and the role? Should the role performer be given special skills and knowledge? Is this the right person for this role?	Usually information comes from observations, interviews, role analysis technique, a team approach to "management by objectives." Career planning activities yield this information as output.
Between organisation systems constituting a suprasystem - this is the area of trans-organisational O.D.	An example might be the system of law and order in a region, including local, county, state, federal police or investigative and enforcement agencies, courts, prisons, parole agencies, prosecuting officers and grand juries. Most such suprasystems are so complex that change efforts tend to focus on a pair or trio of subparts.	How do key people in one segment of the suprasystem view the whole and the subparts? Are there fractions or incongruities between subparts? Are there high-performing and low-performing sub-units? Why?	Organisational mirroring, or developing lists of how each group sees each other, is a common method of joint diagnosis. Questionnaires and interviews are useful in extensive long-term interventions

ORGANISATION PROCESS	IDENTIFYING REMARKS AND EXPLANATIONS	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Communication patterns, styles and flows	Who talks to whom, for how long, about what? Who initiates the interaction? Is it two-way or one-way? Is it top-down, or down-up or lateral?	Is communication directed upward, downward or both? Are communications filtered? Why? In what way? Do communications patterns "fit" the nature of the jobs to be accomplished? What is the "climate" of communications? What is the place of written communications vs. oral?	Observations, especially in meetings; questionnaires for large- sized samples; interviews and discussions with group members. All these methods may be used to collect the desired information. Analysis of videotaped sessions by all concerned is especially useful.
Goal setting	Setting task objectives and determining criteria to measure accomplishment of the objectives takes place at all organisational levels.	Do they set goals? How is this done? Who participates? Do they possess the necessary skills for effective goal setting? Are they able to set long-range and short-range objectives?	Questionnaires, interviews, & observation all afford ways of assessing the goal- setting ability of individuals and groups within the organisation.

Decision making, problem solving, and action planning	Evaluating alternatives and choosing a plan of action are integral and central functions for most organisation members. This includes getting the necessary information, establishing priorities, evaluating alternatives, and choosing one alternative over all others.	Who makes decisions? Are they effective? Are all available sources utilised? Are additional decision making skills needed? Are additional problem- solving skills needed? Are organisation members satisfied with the problem-solving and decision making processes?	Observation of problem-solving meetings at various organisational levels is particularly valuable in diagnosing this process. Analysis of videotaped sessions by all concerned is especially useful.
Conflict resolution and management	Conflict: interpersonal, intrapersonal, and intergroup frequently exists in organisations. Does the organisation have effective ways of dealing with conflict?	Where does conflict exist? Who are the involved parties? How is it being managed? What are the system norms for dealing with conflict? Does the reward system promote conflict?	Interviews, third-party observations, and observation meetings are common methods for diagnosing these processes.

ORGANISATION PROCESS	IDENTIFYING REMARKS AND EXPLANATIONS	TYPICAL INFORMATION SOUGHT	COMMON METHODS OF DIAGNOSIS
Managing interface relations	Interfaces represent those situations where two or more groups (subsystems) face common problems or overlapping responsibility. This is most often seen where members of two separate groups are interdependently related in achieving an objective but have separate accountability.	What is the nature of the relations between two groups? Are goals clear? Is responsibility clear? What major problems do the two groups face? What structural conditions promote/inhibit effective interface management?	Interviews, third-party observations, and observation of group meetings are common methods for diagnosing these processes.
Superior - subordinate relations	Formal hierarchical relations in organisations dictate that some people lead and others follow: these situations are often a source of many organisational problems.	What are the leadership styles? What problems arise between superiors and subordinates?	Questionnaires can show overall leadership climate and norms. Interviews and questionnaires reveal the desired leadership behaviours.

Technological and engineering systems	All organisations rely on multiple technologies - for production and operations, for information processing, for planning, for marketing, etc., to produce goods and services.	Are the technologies adequate for satisfactory performance? What is the state of the art and how does this organisation's technology compare with that? Should any changes in technology be planned and implemented?	Generally, this is not an area of expertise of the O.D. consultant. He or she must then seek help from "experts" either inside the organisation or outside. Interviews and group discussions focused on technology are among the best ways to determine the adequacy of technological systems. Sometimes outside experts conduct an audit and make recommendations,

Strategic management and long-range planning. Vision/Mission formulation	Monitoring the environment, adding and deleting "products," predicting future events, and making decisions that effect the long term viability of the organisation must occur for the organisation to remain competitive and effective. Vision and mission establish the framework for strategy.	Who is responsible for "looking ahead" and for making long-range decisions? Do they have adequate tools and support? Have recent long-range decisions been effective? What is the nature of current and future environmental demands? What are the unique strengths and competencies of the organisation? Is mission clear? Widely shared?	Interviews of key policy-makers, group discussions, and examination of historical records give insights into this dimension.

Organisational learning	Learning from the past successes and failures, from present “blind spots” and from all organisational members is essential to remain competitive, vital, and to develop new paradigms.	What are our strengths, problem areas? What observations, ideas, suggestions are available from all organisational members? Does our present behaviour square with what we espouse? What are the “learning disabilities” (Senge a) of this organisation? Are the present paradigms changing? What will the new paradigms be like? Are we recording our philosophy, our learning, our progress?	Interviews, questionnaires, group methods of diagnosis, examination of assumptions and culture (Schein b), games and exercises to create awareness of organisational learning disabilities, examination of defensive routines (Argyris c, Senge d), visioning, including environment analysis.

ACTIVITY

Discuss the key issues that a change agent looks for in an organisation during an organisational diagnosis.

10. CHANGE MANAGEMENT STRATEGIES

10.1 Learning Outcomes

- Differentiate the four basic strategies
- Evaluate the facts contributing to strategic selection
- Construct a model for change management

10.2 Introduction

The four strategies of change management are derived from the work of Bennis, Benne, and Chin (1969). These authors argue that strategies can be rational—empirical, normative-reductive or power-coercive. Nickols (2000) suggests the fourth strategy, environmental-adaptive.

10.3 The Four Basic Strategies of Change Management

Table 10.1: The four basic strategies of change management

STRATEGY	DESCRIPTION
Rational-Empirical	People are rational and will follow their self-interest once it is revealed to them. Change is based on the communication of information and the offering of incentives.
Normative-Reductive	People are social beings and will adhere to cultural norms and values. Change is based on redefining and reinterpreting existing norms and values, and developing commitments to new ones.
Power-Coercive	People are basically compliant and will generally do what they are told or can be made to do. Change is based on the exercise of authority and the imposition of sanctions.
Environmental-Adaptive	People oppose loss and disruption but they adapt readily to new circumstances. Change is based on building a new organisation and gradually transferring people from the old one to the new one.

Source: Bennis, Benne and Chin (1969)

The fourth and last strategy in Table 10.1 above is the product of Nickols' own experiences during some 30 years of making and adapting to changes into and on behalf of organisation. An example of this strategy in action, albeit on an accelerated basis, is provided by the way in which Rupert Murdoch handled the printers of Fleet Street. He quietly set about building an entirely new operation in Whapping, some distance away. When it was ready to be occupied and made operational, he informed the employees in the old operation that he had some bad news and some good news. The bad news was that the existing operation was being shut down. Everyone was being fired.

The good news was that the new operation had jobs for all of them -- but on very different terms. That there are also elements of the rational-empirical and power-coercive strategies at play here that serve to make the point that successful change efforts inevitably involve some mix of these basic change strategies. This point is elaborated in Section 5.2.

10.4 Factors in Selecting a Change Strategy

Generally' speaking, there is no single change strategy. You can adopt a general or what is called a "grand strategy" but, for any given initiative, you are best served by a mix of strategies. Which of the preceding strategies to use in your mix of strategies is a decision affected by a number of factors. Some of the more important ones are as follows:

Degree of Resistance:

Strong resistance argues for a coupling of power-coercive and environmental-adaptive strategies. Weak resistance or concurrence argues for a combination of rational-empirical and normative-reductive strategies.

Target Population:

Large populations argue for a mix of all four strategies, something for everyone so to speak.

The High Stakes:

High stakes argue for a mix of all four strategies. When the stakes are high, nothing can be left to chance.

Time Frame:

Short time frames argue for a power-coercive strategy. Longer time frames argue for a mix of rational-empirical. Normative- reductive, and environmental-adaptive strategies.

Expertise:

Having adequate expertise in making change argues for a mix of the strategies outlined in the table above. The absence of expertise results in reliance on the power-coercive strategy.

Dependency:

This is a classic double-edged sword. If the organisation is dependent on its people, management's ability to command or demand is limited. Conversely, if people are dependent upon the organisation, their ability to oppose or resist is limited (Mutual dependency almost always signals a requirement for some level of negotiation).

ACTIVITY

Reflect on a recent organisational change you have witnessed.

Explain the strategy that closely approximates this change management process. Support your answer.

10.5 Models of Organisational Change

Kanter et al (1992) identified the following themes as the basic assumptions of most change models and/or frameworks:

- **Awakening the organisation to a new** reality and **disengaging it from the** past.
- Recognising that **the old way of doing things is no longer acceptable.**
- **The need to create** and **embrace a new vision of the future by the** organisation.
- **The need to unite** behind **the steps necessary to achieve the stated** vision.
- **The need to solidify' or** 'refreeze' **the new attitudes, practices** and **policies.**

There are as many models of change as the attempts that have been undertaken to change organisations over the years. Some of the contemporary models of change are shown in the table below.

Table 10.2: Models of Change

Model	Process		
Lewin (1947)	Unfreezing	- Changing	- Refreezing
Beckhard & Harris (1977)	Present state	-Transition State	- Future State
Beer (1980)	Dissatisfaction	- X Process	- X Model
Kanter (1983)	Departures From Tradition and institutionalisation	- Strategic Decisions Prime Mover	Action Vehicle & Crises
Bullock & Batten (1985)	Exploration	-Planning	-Integration
Tichy & Devan (1986)	Act I Awakening	- Act II Mobilizing	- Act III (Epilogue) Reinforcing
Nadler & Tushman (1989)	Energising	-Envisioning	-Enabling

Source: Kanter, et al 1992: Contemporary Models of Change

For the purposes of our discussion, we are going to focus on two models of change that have been widely debated in the literature (e.g. Kanter, *et a* 1992; Burnes, 1992). These are:

- The 3-Step Model of Change by Lewin (1947, 1958).
- The Phases of Planned Change Model by Bullock and Batten *(1985).*

The 3-Step Model of Change Lewin (1947, 1958) conceptualised the implementation of change in terms of the following three sequential steps:

- Unfreezing the present level
- Moving/Changing to the new level
- Refreezing the new level.

The model presupposes the existence of a “felt-need,” that is the individual’s inner realisation that change is necessary (Lewin, 1958).

Step 1: Unfreezing the present level

This is the stage where the organisational members recognise the need for change. This is followed by a deliberate action involving discussions, meetings and presentations that seek to create awareness and commitment in order to ‘unfreeze’ existing attitudes and behaviour. The key outcomes relate to generating employee support and reduction of resistance to change.

Lewin (1958) proposed the force field analysis as a technique that amplifies two sets of forces operating within any social setting during the unfreezing phase. These are namely: “driving forces” that support change and “restraining forces” which attempt to maintain the status quo. Therefore, in order to bring about change, there is need for management to increase the strength of the driving forces while decreasing the power of resisting forces.

Step 2: Moving/Changing

Once the negative forces have been reduced, the next step is to move the organisation towards the desired state. This involves the actual implementation of the desired systems and operational mechanisms. After successfully achieving this stage, the next step is to stabilize the positive change programme and related behaviours.

Step 3: Refreezing

This involves positive reinforcement of desired outcomes that promote the internalisation of new attitudes and behaviours. At this stage, the effectiveness of the change process is appraised to ensure that the new ways of doing things are internalised by all stakeholders.

Summary of the 3-step Model

The 3-step model presents a simplistic approach for managers to consider when introducing change in organisations. Emphasis is placed on deliberate action in order to create awareness for change and to move to a new stage. After attaining the required changes, the model suggests the need to stabilise and inculcate the new behaviours.

However, the major criticism of the 3-step model is that it presents an unidirectional model of change and creates an image of the need to design-in stability (refreezing) as well as the tendency to solidify dynamic and complex processes (Dawson, 1994). Dawson goes on to argue that the model may be inappropriate for organisations operating in rapidly changing environments.

The Phases of Planned Change Model

Developed by Bullock and Batten *(1985),* the model applies the concept of planned in terms of two major dimensions. Firstly, change phases are viewed as distinct states that an organisation moves through as it undertakes planned change. Secondly, the change process is viewed in terms of methods used to move an organisation from one state to another.

The four distinct phases suggested are: Exploration, Planning, Action and Integration.

Exploration Phase

The key activities here concern the organisation exploring and deciding whether it wants to make specific changes in its operations thereby committing the requisite resources.

Key Change Management Processes:

- Creating an awareness of the need for change.
- Searching for outside assistance (consultants/facilitators) to assist with planning and implementation of the change programme.
- Establishing and defining terms of reference with the consultants/ facilitators.

Planning Phase

This involves the efforts to understand and tackle the organisation's problem(s). Some of the discussions will revolve around understanding competitive trends and reactions of the respective organisational units. This may also involve systematic information gathering through research, networking and perusing related industry publications and other literature.

Key Change Management Processes:

- Collecting information in order to establish a correct diagnosis of the problem.
- Establishing appropriate arrangements for managing the change processes.
- Gaining the support for the actions to be taken in order to achieve goals.
- Getting the key decision makers to approve and support the proposed changes.

Action Phase

This stage involves the implementation of the changes flowing from the Planning phase. The changes may involve alterations in the way things are done. This could result in the installation of computerised operational processes as well as changes in the organisational structure, among others.

Key Change Management Processes:

- Establishing appropriate arrangements to manage the change process.
- Gaining support for the actions to be taken.
- Evaluating the implementation activities and providing feedback for any necessary adjustments and refinements.

Integration Phase

This process follows the successful implementation of the intended changes. It focuses on consolidating and stabilising the adopted changes.

Key Change Management Process:

- Reinforcing new behaviours through positive feedback and reward systems.
- Reduction of reliance on consultants.
- Diffusion of the successful aspects of the change process throughout the organisation.
- Training managers and employees to constantly monitor the change and to improve upon it.

ACTIVITY

1. You have been asked to draw up a training programme for middle managers in your organisation on one of the models of change management. Briefly discuss the model you are going to use for the training programme. Support your answer.

2. Discuss some of the key problems that will be encountered in change management within the South African context. Support your answer with appropriate examples.

3. Which of the models discussed will yield the best results in the transformation of organisations in your country. Justify your reasons.

10.6 Managing the Change Process

This unit discusses the implementation of transformation within an organisational setting. The discussion in this unit focuses on transformational skills, roles and tasks, deciphering changes in the external environment, articulation of the urgency for change within the internal environment and managerial decisional processes regarding technical and human-related aspects.

10.6.1 Transformation Skills

Fombrun (1994) points out that managers responsible for spearheading the transformation process require the following skills:

- Ability to shape a viable future for the organisation.
- Ability to mobilise employees and key stakeholders behind the vision.
- Ability to guide the organisations different systems towards the achievement of the stated vision.

Successful "selling" of the transformation agenda and having people "buying-in" results in their active participation, coalition building and effective communication flows. However, the downside risks of mismanaging the process include isolating employees thereby creating resentment, emotional hostility, resistance and sabotage.

10.6.2 Roles and Tasks in the Change Process

Kanter *et al* (1992) identified the following three distinct players in the execution of transformation in organisations.

Transformation strategists: Top management is responsible for crafting the vision and laying the foundation for transformation. They manage and facilitate the interactions of the organisation and its key internal and external stakeholders such as trade unions, employees, shareholders, customers, relevant government bodies and financiers.

Transformation implementers: This group comprises middle management who will be responsible for developing and enacting the necessary vision. They manage the various sections of the organisation and apply interpersonal skills to build supportive relationships among the employees. They facilitate the establishment of a shared vision and culture. Their main role is to develop a new internal organisation that will deliver the desired strategic goals and vision.

Table 10.3: Three Key Change Makers (Agents)

Roles & Tasks	Role and Mind-set	Orientation To Change	Action Focus	Typical Organ Level	Dominant Stage of Involvement
Change Strategist	* Visionary * Instigator * Corporate View	External Environment	* Ends Corporate Values and Business Results	Top	Unfreezing
Change Implementer	* "Project Image" * Translator * Division or Department	Internal Coordination	* Means * Overcoming resistance *"Project image"	Middle	Changing
Change Recipient	* User and Adapt er *Institutionali-ser	Distribution of power and Proceeds (What's in it for me?)	*Means-end congruence *Personal benefits	Bottom	Refreezing

Source: Kanter et al (1992:391)

Transformation recipients: These are employees at the operational level ‘coal face’ who will adopt or resist the change plan. They are responsible for bringing about the desired change and its ultimate shape and sustainability (Kanter et al, 1992: 377).

Table 10.4: Reaction to Change

REACTION TO CHANGE						
Stage1	**Stage 2**	**Stage 3**		**Stage 4**	**Stage 5**	**Stage 6**
LOSS	DOUBT	DISCOMFORT	**DANGER ZONE**	DISCOVERY	UNDER-STANDING	INTEGRATION
Feelings of FEAR	Feelings of RESENTMENT	Feelings of ANXIETY		Feelings of ANTICIPATION	Feelings of CONFIDENCE	Feelings of SATISFACTION
Thoughts are CAUTIOUS	Thoughts are SKEPTICAL	Thoughts are CONFUSED		Thoughts are NEGATIVE	Thoughts are PRAGMATIC	Thoughts are FOCUSED
Behaviour is PARALYSED	Behaviour is RESISTANT	Behaviour is UNPRODUCTIVE		Behaviour is ENERGISED	Behaviour is PRODUCTIVE	Behaviour is GENEROUS

Source: Internal Training manual: Organisational Training and Development (1999)

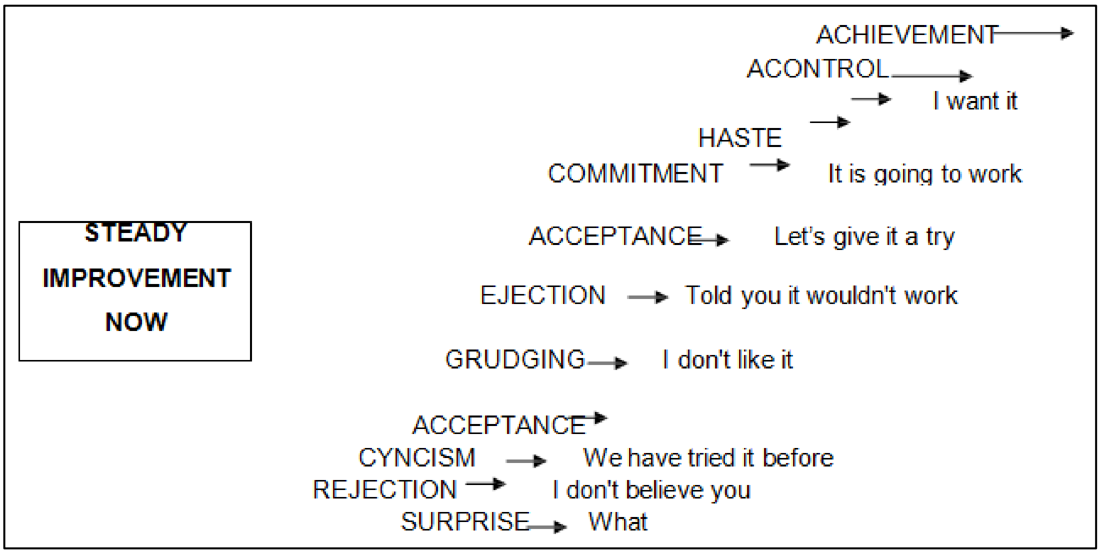


Figure: 10.5: Steady Improvement Now

Source: Internal Training Manual: Organisational Training and Development (1999).

10.6.3 Executing Transformation: Tactics and Methods of Intervention

The execution of transformation can be approached in a number of ways depending on the circumstances. The concepts and ideas are drawn from a wide range of literature that seeks to inform on how managers actually execute transformation in organisations. The following sequential steps are suggested:

1. Analyse the Organisation and its Need for Transformation/ Strategic Change

This process requires managers to fully understand:

- The organisation's operations,
- How the organisation functions in its environment,
- Strengths and weaknesses of the organisation, and
- How the organisation will be affected by the proposed changes in order to craft an effective implementation plan (Nadler and Tushman, 1989).

One of the main activities during this process relates to deciphering the external environment. This enables change strategists to make sense of the key environmental trends and assess their likely impact on the organisation's strategic posture. In practical terms, this involves environmental scanning, that is the active searching for information in the turbulent environments and interpretation of the emerging patterns. In turn, possible scenarios are created as well as what needs to be done in order to align the organisation with the anticipated environment.

Revolutionary changes are increasingly forcing organisations to restructure, reposition and redefine their boundaries. In many instances, organisations are shifting abruptly and discontinuously, thereby altering the viability of existing relationships and creating potential for new ones. World-wide transformation is driven, among others, by the increasing pace of globalisation of markets and competition, deregulation and privatisation thrusts as well as the need to serve emerging customer needs and demands.

Managers, therefore, need to evaluate the strategic posture of organisations in view of the dynamic changes in the external environment. The organisation will be required to deploy resources in order to create a new configuration that seeks to exploit the emerging opportunities.

2. Create a Shared Vision and Common Direction

The main objectives in this phase include:

- Articulating what the desired future state of the organisation should be.
- Creating an "organisational dream that stretches the imagination and motivates people to rethink what is possible" (Belgard, Fisher and Rayner, 1988 cited in *Kanter et al,* 1992:383).
- Creating an ambitious vision (or intent scenario) of where the organisation wishes to be in the long term. The vision becomes the beacon that shines from a faraway mountain at night and guides travellers to their destination.

The aim is to develop a consensus of views about the implications of the desired changes and to mobilise all key stakeholders around the core values and vision. Some of the visions that have been created to galvanise organisational transformation include the following:

- British Airways' vision to become the "**World's Favourite Airline"**
- Coca-Cola International's vision **to "Make a coke available to all people of the world at arm's length"**
- South African President Thabo Mbeki's vision of an African Renaissance echoes the same thrust noted here.

3. Create a Sense of Urgency

The challenge is to generate a sense of urgency when the need for action is less obvious to internal and external stakeholders. Convincing an organisation that change is necessary is not difficult when an organisation is teetering on the edge of bankruptcy or floundering in the market place (Kanter *et* at, 1992). There is need, therefore, to create a 'felt need for change' (Tichy and Sherman, 1993) in order to rally the organisation behind the transformation.

4. Create the Conditions for Successful Transformation

Organisational transformation has been defined as the fundamental changes in the mission or purpose of an organisation. The transition generates a number of challenges and anxieties on the part of organisational members. Organisational change involves moving from the known to the unknown, with the possibilities of loss as well as gain (Burnes, 1992). This quantum leap requires people in the organisation to do new things in new ways within new structures. Burnes (1992) proposes the adoption of the following steps during this stage:

- Make people aware of the pressures for change. This can be achieved through regular meetings so as to exchange the key information such as competitive market pressures and the performance of key competitors.
- Develop enabling structures that facilitate and reinforce the transformation process. This is achieved through scheduled workshops, training programs and creation of new structures and reward systems as well as the symbolic changes in the organisation's name and logo.
- Give regular feedback on the performance of individual functions and areas within the organisation. This enables the organisation to point out any discrepancy between actual performance and desired present and future performance.
- Publicise successful change. This fosters positive attitudes towards change. There is need to examine, explain and draw lessons from failures and mistakes.
- Understand people's fears and concerns. Attend to, and address, real and legitimate fears of employees. There is need to understand that change creates uncertainty and people and groups may resist, or may not fully co-operate if they are afraid of the consequences. There is need therefore to involve people in the transformation process in order to promote understanding and overcome potential resistance.
- Communicate, involve people and be honest. This involves establishing regular and effective communication processes that provide the context for, and details and consequences of, the transformation programme.

5. Craft an Implementation Plan

The implementation plan focuses on what needs to be done, when and how it is to be done. This provides a “road map” for the transformation process and specifies the details and the action plan. Some of the activities that can be considered include establishing a change management team, activity planning, transition management structures, post-audits and training.

6. Reinforce and Institutionalise the Transformation

There is need to sustain the transformation momentum otherwise the initial enthusiasm slows down. A number of tactics that include the following can be adopted:

- Provide (financial and human) resources for change.
- Give support to change agents.
- Develop new competencies and skills— offer more training and coaching.
- Reinforce desired behaviour- link rewards such as bonuses to particular types of activity or progress. Recognise top performers.
- Shape and reinforce a new culture that fits with the revitalised organisation.

10.6.4 Checklist for Managing Change

Any manager of change must realise that change itself is often turbulent and messy. It needs to be managed. Nickols (2000) argues that managing change is more a matter of leadership ability than management skills. He suggests the following actions to be taken when dealing with change:

- The first thing to do is to jump in. You cannot do anything about it from the outside.
- A clear sense of mission or purpose is essential. The simpler the mission statement, the better.
- Build a team. “Lone wolves” have their uses, but managing change is not one of them. On the other hand, the right kind of a lone wolf makes an excellent temporary team leader.
- Maintain a flat organisational team structure and rely on minimal and informal reporting requirements. Pick people with relevant skills and high energy levels. You will need both.

- Toss out the rulebook. Change, by definition, calls for a configured response, not adherence to prefigured routines.
- Shift to an action-feedback model. Plan and act in short intervals.
- Set flexible priorities. You must have the ability to drop what you are doing and attend to something more important.
- Treat everything as a temporary measure. Do not "lock in" until the last minute. Insist on the right to change your mind.
- Ask for volunteers. You will be surprised at who shows up. You will be pleasantly surprised by what they can do.
- Find a good *"straw* boss" or team leader and stay out of his or her way.
- Give the team members whatever they ask for except authority. They will generally ask only for what they really need in the way of resources. If they start asking for authority that is a signal they are headed toward some kind of power-based confrontation and that spells trouble. Nip them in the bud!
- Concentrate dispersed knowledge. Start and maintain an issues logbook. Let anyone go anywhere and talk to anyone about anything. Keep the communication barriers low, widely spaced, and easily hurdled. Initially, if things look chaotic, relax — they are.
- Remember, the task of change management is to bring order to a messy situation and not to pretend that it is already well-organised and disciplined.
- Nickols' suggested approach to change management appears more like "rule of thumb" that comes from a practitioner. However, it must be noted that he reduces the planning stage's importance by recommending many short-term successive and progressive plans.

10.6.5 Critical Success Factors for Change

While Nickols deals with management of change in a very practical way, typical of a consultant, Carney (2001) suggests a model which should ensure the success of any change undertaken. Carney (2001) suggests that change can only be successful if the following factors are taken into account:

- Critical success factors
- Communications issues
- Change dynamics — resistance to accept change
- Variables related to the management of the implementation process
- Evaluation stages of the change process.
- These five factors need to be managed if a change process is to be successful.

The Success Factors

These must be in place prior to success being guaranteed. They include:

- Commitment of all levels (managers and staff)
- Level of motivation
- Use of professional judgment throughout the process
- Level of understanding for the need for change demonstrated by staff
- Identifiable communication skills
- Recognition of the need for a high quality outcome to change.

Communication Process

Key variables include:

- Consultation
- Education
- Participation during the process
- Needs of staff and clients are recognised
- Negotiation with the decision makers
- An understanding of the change dynamics that exist
- Democratic decision making in order to reduce resistance.

Acceptance and Management of Resistance to Change

Key variables include:

- Level of acceptance of the change
- Involvement and understanding of the need for change
- Likely impact of the proposed change on the social and cultural lives of the individuals concerned
- A clear understanding of the need for a project team
- Resistance to change should be managed.

Change Implementation Process

Key variables include:

- Need for prior research
- Project team interacting and working well together
- Use of process tools. e.g. strategic development and planning with clear inputs and outputs identified
- Recognition and management of the transition state (with provision of the required education programme for staff to facilitate successful implementation).

Evaluation Process

Key variables include:

- Recognition of the need to evaluate the process at various stages
- Taking necessary action
- Provision for feedback
- Recognition and acknowledgement of the contribution of staff

Carney's model is still new and it remains to be seen whether it will be popular with change agents both internal and external to the organisation. One thing that stands out in this model is the requirement for properly planned change management processes.

ACTIVITY

1. Reflect on recent changes in your organisation. Discuss any “fit” that is identifiable with any of the models discussed above.

2. Which model of change would you recommend for your organisation? Justify your answer.

11. RESISTANCE TO CHANGE

11.1 Learning Outcomes

By the end of this section you should be able to:

- Demonstrate knowledge of the importance of being able to manage the resistance to change
- Critically discuss the life-cycle of resistance to change
- Expound on the different strategies to counter resistance at each phase & their implications
- Analyse the term process consultation and how it differs from other approaches
- Apply the specific phases of a selected resistance to change model, viz.:
  * denial
  * resistance
  * exploration
  * commitment

READING

Brown, D. R. (2011). An Experiential Approach to Organisational Development, 8^{th} Edition. Pearson: New Jersey

Chapter 6 and 8

11.2 Introduction

The most serious challenges to improving programmes all have the same focus: people. Managers developing and implementing programmes to keep today's organisations competitive in a tough, constantly changing environment must deal with resistance to change (Harvey & Brown, 2006:156). However, the question to be answered is, "what is resistance to change?" Resistance is a fact of human nature. Robbins and Finley (1998:102) describe it as an ancient pattern which broadly models the following steps:

1. A good idea creates an aura of hope.
2. Hope inspires some people but causes others anxiety.
3. Anxiety prompts resistance.
4. Resistance wrecks the good idea.

It does not necessarily always happen this way. The raffle winner of a R500 000 car, for instance, is not likely to decline his prize because he cannot handle the anxiety that his car will bring. Similarly, an increase in salary or a promotion is more likely to generate a positive reaction in most workers. It is when a negative consequence to the change, or the continued uncertainty surrounding a change, is perceived that resistance is encountered.

11.3 Causes of Resistance

Resistance has a number of possible causes. Eccles (1994: 67) has summarised the following and stressed that any management contemplating change could prudently spend some time up front, researching the most likely causes and identifying strategies to tackle and deflate them.

Table 11.1: Sources of Resistance to Change

Resistance	Implications/ Causes
Ignorance	Failure to understand the problem
Comparison	Solution is disliked, alternative is thought to be better
Disbelief	Feel that solution will not work
Loss	Has unacceptable personal costs
Inadequacy	Insufficient rewards from change
Anxiety	Afraid of coping in the new situation/fear of being “found out”
Demolition	Risk of destroying social network
Power cut	Erosion of influence or control
Contamination	Distaste for new values and practices
Inhibition	Low willingness to change
Mistrust	Disquiet about motives for change
Alienation	Low shared values or high alternative interest
Frustration	Reduces political power and career opportunities

Source: Eccles (1994)

11.4 The Life Cycle of Resistance to Change

Several authors have adopted the approach set out by Harvey and Brown (2006:157-158) which looks at resistance to change as going through some sort of life cycle: from outright resistance, through partial resistance, to partial acceptance, and, finally, to complete acceptance.

Scott and Jaffe (1989: 24-30) take the view that change involves elements of both danger and opportunity. When people approach a change, their first response is usually to see it as a threat or danger.

Once the change occurs it is not unusual for those affected to start getting used to it and to begin to see new opportunities and possibilities. These two broad stages of danger and opportunity can be subdivided into the phases shown below:

- Danger can be subdivided into:
  Denial and
  Resistance
- Opportunity can be subdivided into:
  Exploration and
  Commitment

Most people move through these four phases in every major transition. Some may go through quite quickly while others may get bogged down in one or more phases. Effective leadership is required to get people to move smoothly through the various phases from denial to commitment.

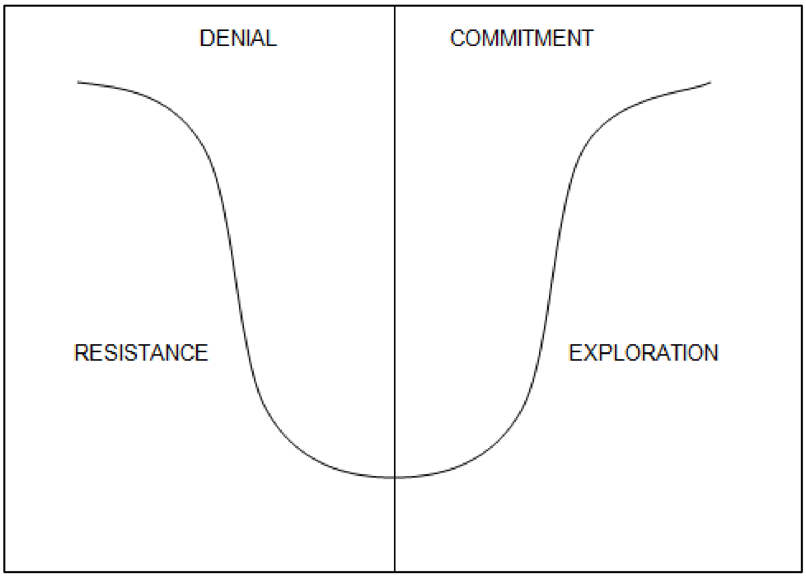


Figure 11.1: Phases of Transition through Change

Change in an organisation will transport the team through the four phases illustrated in Figure 11.1. Think of the process as descending into a valley and then climbing back out again on the other side. The transition leads away from the familiar ways of doing things to the unfamiliar and new ways. During this process people will focus on the past and deny the change. Next they will all go through a period of preoccupation and wonder how it will affect them and where they stand. This is when resistance usually occurs. As they enter the exploration stage, they start to look toward the future and, finally, the opportunities that may be available, before finally moving into the commitment stage.

? THINK POINT

Resistance is based on people's *perceptions*, which are coloured by their experience and knowledge, insight and emotional maturity, and, finally, the extent of their flexibility or obduracy. The link with organisation climate should, therefore, be immediately apparent to you.

So people's resistance is more the result of their perceptions of the psychological and social *consequences* of change. It is important to distinguish between rationalisations and misinterpretations and the possible deeper levels of reasons for resistance.

11.5 Strategies for Recognising and Managing Resistance

Managing the different stages of change will call for different strategies. During any particular period of the change process, different people may well be working their individual ways through different phases. This means that different people may be in different phases at any one time, and management will then need to employ a situational approach to guiding organisation members through the total change process.

Recognising and diagnosing each phase then assumes critical importance so that the necessary management strategy can be applied (Scott & Jaffe, 1989:24-30).

Denial

Observed behaviour:

Withdrawal, “business as usual”, dwelling on the past, lots of activity but not much gets done.

Checklist:

- it will be over real soon
- apathy
- numbness

Management Strategy:

Confront individuals with information and let them know that the change will happen. Explain what to expect and suggest actions they can take to adjust to the change. Give them time to let the impact sink in and then conduct regular planning sessions to involve all levels.

Resistance

Observed behaviour:

Anger, blame, anxiety, depression, and drastic productivity drop “what’s the difference, this company doesn’t care anymore.”

Checklist:

- cannot sleep at night
- anger and fights
- withdrawal from the team
- gave my all and look what it got me

Management Strategy:

Listen, acknowledge feelings, and respond with empathy and support.

Don’t try to talk people out of their feelings, or tell them to pull themselves together. Accept their response and they will continue to tell you how they are feeling, which will help you address their concerns.

Exploration

Observed behaviour:

Over preparation, confusion, chaos, energy. “Let’s try this and what about this . . .” Lots of energy and new ideas but a lack of focus.

Checklist:

- over-preparation
- frustration
- too many new ideas
- have too much to do
- cannot focus

Management Strategy:

Focus on priorities and provide any needed training. Follow up on projects underway. Set short term goals. Conduct brainstorming, visioning and planning sessions.

Commitment

Observed behaviour:

Employees begin to work together. There is co-operation, and a better focus. “How can we work on this?” Those who are committed are looking for the next challenge.

Checklist:

- teamwork
- satisfaction
- clear focus and plan

Management Strategy:

Set long term goals. Concentrate on team building. Create a mission statement. Validate and reward those responding to the change. Look ahead.

11.6 The Importance of Processes

The importance of understanding processes and their contribution to the performance of successful businesses is often overlooked as management concentrates on the product and people aspects of the business. Legendary business leader Jack Welch of General Electric is one who has long realised that an organisation needs to be process-based in order to have the flexibility to cope with its increasingly complex global and competitive environments and markets. In 1988 the Business Development research unit at G.E. undertook a yearlong ‘best practices’ study of the world’s leading companies. Their findings were that the most productive companies in the world relied on six common success traits (Tichy & Sherman, 1993):

1. They managed processes rather than people. Instead of emphasising how *much* they produced, they focused on *how* they produced.
2. They used process mapping to spot opportunities for improvement. (Process mapping is a matter of writing down every single step, no matter how tiny, in a particular task).
3. They emphasised continuous improvement, and lauded incremental gains.
4. They relied on customer satisfaction, and not internal objectives, as the main gauge of performance.
5. They stimulated productivity by introducing a constant flow of high-quality products designed for efficient and easy manufacturing.
6. They treated their suppliers as partners, not adversaries.

The top two success traits dealt directly with processes and the other four all had strong process connotations. These findings underscore the importance of sound processes and indicate that internal business processes are a fertile area for the attention of the change management consultant.

11.7 Process Consulting

Process consultation is, according to Schein (1998:11), ". . . a set of activities on the part of the consultant that helps the client to perceive, understand, and act upon the process events that occur in the client's environment in order to improve the situation as defined by the client".

Schein (1988: 1) said process consultation lies at the foundation of meaningful consultancy and is ". . . the key philosophical underpinning to organisation development in that most of what the consultant does in helping organisations is based on the assumptions of process consultation. Understanding such assumptions is therefore critical to understand the broader concept of organisation development".

The Underlying Assumptions of Process Consultation

The seven main assumptions that underlie process consultation were identified by Schein (1988: 10-11) as the following:

1. Clients often do not know what is wrong and need special help in diagnosing what their problems actually are.
2. Clients often do not know what kinds of help consultants can give to them. They need to be helped to know what kinds of help to seek.
3. Most have a constructive intent to improve things, but they need help in identifying what to improve and how to improve it.
4. Most organisations can be more effective than they are if they learn to diagnose and manage their own strengths and weaknesses. No organisational form is perfect, hence every form of organisation will have some weaknesses for which compensatory mechanisms must be found.
5. A consultant probably cannot, without exhaustive and time-consuming study or actual participation in the client organisation, learn enough about the culture of the organisation, to suggest reliable new courses of action. Therefore, unless remedies are worked out jointly with members of the organisation who do know what will and will not work in their culture, such remedies are likely either to be wrong or to be resisted because they come from an outsider.

6. Unless the client learns to see the problem for himself and thinks through the remedy, he will not be willing or be able to implement the solution and, more importantly, will not learn how to fix such problems should they recur. The process consultant can provide alternatives, but decision-making about such alternatives must remain in the hands of the client.
7. The essential function of the process consultant is to pass on the skills of how to diagnose and fix organisational problems so that the client is more able to continue on his own to improve the organisation.

So process-based skills not only assist work groups or teams to become more effective, they also consist of activities that aid the client to perceive, understand and act upon process events. They help the work group or team to become more aware of their own processes and their own problem-solving abilities as well. Effective process management skills, then, are not only important in managing change more effectively, but they also make up core managerial and leadership skills and, even more than that, they are skills that are of material worth in everyday interpersonal relationships.

Process Interventions and Group Processes

Harvey and Brown (2006) outline the various interventions that are often employed by consultants in a process consulting situation. The effectiveness of these techniques is always contingent upon the quality of the relationship that the consultant has been able to build with the client. There are a number of specific relationship building techniques that the process consultant may want to consider at the inception and during the process of the consulting procedure. These may include:

Person-consultant Balance

Consulting effectiveness is a matter of balance. It is maximal when the consultant can relate to clients in a warm and understanding way on the one hand, and can display technical competence in interpretation, information giving, and application of sound methods, on the other.

Spontaneity

Consulting is not a rigid mechanical application of methods and techniques for producing behaviour changes. The consultant must be free to move naturally, quickly, and easily in his thinking and activity to adapt to nuances of the client's behaviour and needs.

Acceptance

Acceptance manifests itself in a non-judgemental attitude which recognises the client's right to make his or her own decisions and which believes in the client's capacity to choose wisely and responsibly. Conversely, acceptance is *not* blanket approval or agreement; neither is it neutrality, sympathy, or tolerance.

Understanding and Empathy

There are two aspects to the concept of understanding: understanding diagnostically refers to the intellectualised description of the client's behaviour and processes, while understanding therapeutically is the ability of the consultant to enable the client to feel understood, accepted, and empathised with. Empathy is the ability of the consultant to think with, rather than for or about the client. In other words, it is the ability of the consultant to assume the client's internal frame of reference.

Warmth and Consideration

Warmth encompasses the sensitive, friendly, considerate and responsive elements of the consultant's personality. "Relating easily to people" is a term often used to describe this ability. Consideration for the client is rooted in respect for him as a person so that he feels important and worthwhile.

Freedom

A corollary to acceptance and non-judgemental attitudes is the consultant who says in effect, "You may discuss anything you wish here without fear of judgement."

Flexibility

The consultant must be skilled and able to move easily and quickly from one role to another and to move along the dimensions of the various techniques and methods that are defined by Harvey and Brown (2006).

Transparency

In order to elicit open and honest self-diagnosis on the part of the client, the consultant must himself manifest these qualities. In much social communication, both parties keep up a front and so conversation is often a game of mild deceit. Once the client experiences a relationship where the deceit is not present, he realises he can drop the facade and speak frankly.

ACTIVITY

1. What are the differences between process and content? How do these differences relate to process consultation?

2. Process consultation skills also make up core managerial and leadership skills, and they are skills that are of material worth in everyday interpersonal relationships.

Do you agree with this statement? Explain.

12. ORGANISATIONAL CULTURE

12.1 Learning Outcomes

By the end of this section you should be able to:

- Evaluate the concepts of organisation climate and organisation culture
- Indicate the importance of organisation culture to an organisation's effectiveness and success
- Ascertain the important role organisation climate plays in organisational behaviour
- Relate the cultural and climate factors to an organisation's effectiveness
- Critically evaluate key factors used to evaluate an organisation's culture and climate
- Determine how an organisation's culture and climate can be changed

READING

Brown, D. R. (2011). An Experiential Approach to Organisational Development, 8th Edition. Pearson: New Jersey

Chapter 3.

12.2 Introduction

The subject of Corporate Culture is generally alluded to, or skirted around, in the literature of organisation theory and change management. It has only become a subject of in-depth study, with a view to establishing the utility of the concept, in the past two or three decades. This is probably partly due to the runaway success of a new genre of management books, beginning with *In Search of Excellence* by Peters and Waterman in 1982 and then followed by a plethora of publications in the 1980s and 1990s on the subject of excellence. This period also saw the emergence of Japanese industry as potential world leaders - inviting the inevitable comparisons between Western, mainly American, and Japanese cultures.

In some instances, the subject of corporate culture has assumed faddish proportions in management literature and it is occasionally put forward as the answer to all change management and organisational development woes.

12.3 Definition of Organisational Culture

Schein (1990:111) provides one of the most widely quoted definitions of organisation culture as “(a) a pattern of basic assumptions, (b) invented, discovered, or developed by a given group, (c) as it learns to cope with its problems of external adaptation and internal integration, (d) that has worked well enough to be considered valid and, therefore (e) is to be taught to new members as the (f) correct way to perceive, think, and feel in relation to those problems.”

Another useful definition has been that of Lundberg, who is quoted by Coetsee (2000:41).

Lundberg has painstakingly constructed a combination of the major themes that are contained in numerous definitions and has put forward a possible consensus reflection of Organisational Culture:

- "It is a shared, common frame of reference, i.e., it is largely taken for granted and is shared by a significant portion of organisation members
- it is acquired and governs, i.e., it is socially learned and transmitted by members and provides them with rules for their organisational behaviour
- it endures over time, i.e., it can be found in any fairly stable social unit of any size, as long as it has a reasonable history
- it is symbolic, i.e., it is manifested in observable things such as language, behaviour, and things to which we attribute meanings
- it is at its core typically invisible and determinant, i.e., it is ultimately comprised of a configuration of deeply buried values and assumptions
- it is modifiable, but not easily so."

Other definitions of corporate culture are listed below:

- Observed behavioural regularities when people interact
- The norms that evolve in working groups
- The dominant values espoused by an organisation
- The philosophy that guides an organisation's policies
- The rules of the game for getting along in the organisation
- A system of shared values in an organisation
- A system of shared meaning in an organisation
- The way we do things around here

12.4 Manifestations of Culture

Schein 1990) identified three fundamental levels at which the culture manifests itself:

1. the ***observable artefacts*: including the physical layout, dress code, manner of address, the smell and feel of the place, its emotional intensity, company records, products, statements of philosophy, and annual reports;
2. the ***values***: including norms, ideologies, charters, philosophies, why certain observed phenomena happen the way they do;
3. the unconscious ***assumptions***: the taken-for-granted, underlying, and usually unconscious assumptions that determine perceptions, thought processes, feelings, and behaviour.

Like Schein, Lundberg also subscribes to the idea of analysing culture on interrelated levels of meanings, ranging from observable to mostly invisible levels. Figure 14.1 on the following page represents an amalgam of the levels of Organisation Culture as seen by both Schein and Lundberg (Coetsee, 2000: 42).

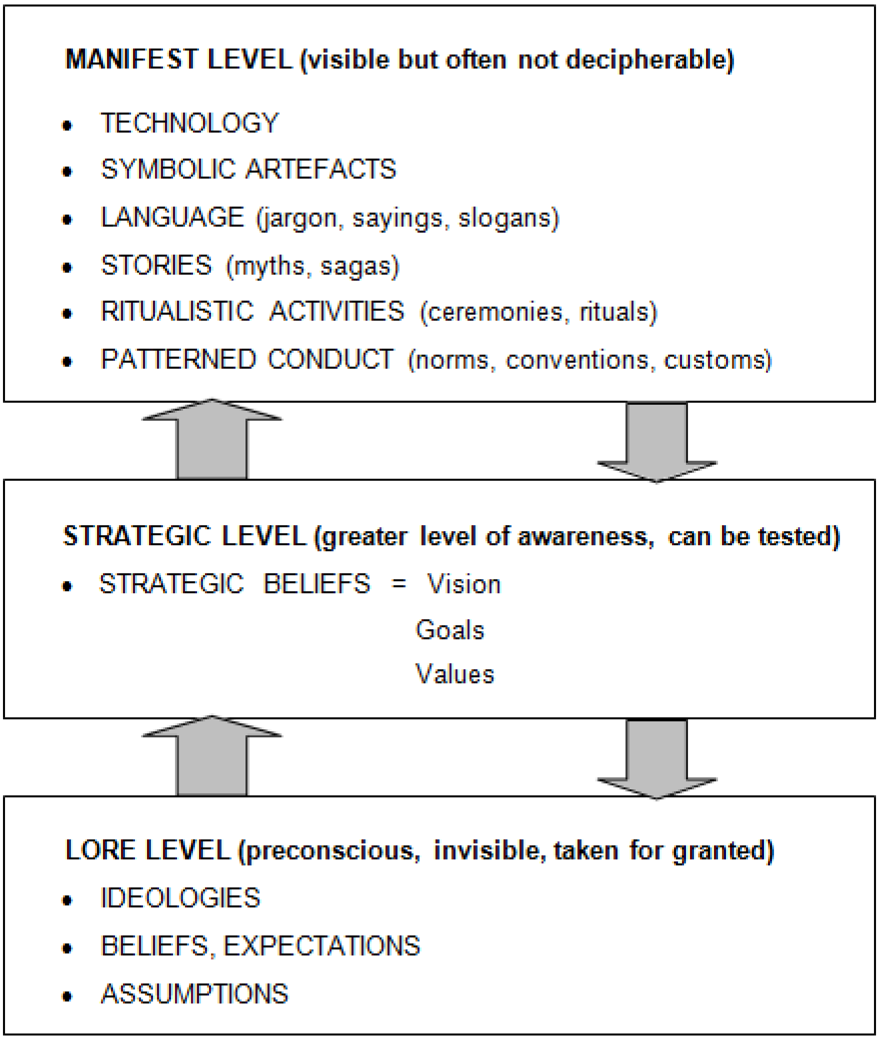


Figure 12.1: Levels of Organisation Culture

Source: (Based on Schein, 1985 and Lundberg, in Coetsee, 2000:42)

12.5 How a Culture Begins and is Sustained

An organisation's culture does not just appear out of nowhere and, once established, it rarely fades away. So what forces influence the creation of a culture? What sustains it when it is in place? And how is it transmitted to new employees? An organisation's current customs and general way of doing things are normally a result of what it has done before and the degree of success it had in these efforts.

The founding fathers of an organisation have a major influence in establishing its early culture. The initial culture, then, is a by-product of the founders' philosophy, values, expectations and methods. As time goes by, the culture is strengthened and modified according to the demands of situations that the organisation experiences and the organisation's growth needs.

Schein (1990) is still regarded as a leading savant of organisation culture and he has identified a number of agents that are instrumental in generating organisation cultures. Comparison of Schein's work with that of other writers leads one to the conclusion that the following elements are important in creating and sustaining an organisation's culture (Coetsee, 2000: 56):

Primary Mechanisms:

1. What leaders pay attention to, measure and control.
2. How leaders react to critical incidents and organisational crises.
3. Deliberate role modelling and coaching.
4. Operational criteria for allocating rewards and status.
5. Operational criteria for recruitment, selection, promotion, retirement and excommunication.

Secondary Articulation and Reinforcement Mechanisms:

1. The organisation's design and structure.
2. Organisational systems and procedures.
3. Design of physical spaces, facades and symbols.
4. Formal statements of organisation philosophy, convictions, strategies (i.e. vision, mission and values).

? **THINK POINT**

Consider your own work experience as it relates to Schein's (1990) determinants of culture. How many of his mechanisms have you experienced in your own situation?

12.6 Corporate Culture and Corporate Effectiveness

To understand how culture affects an organisation's effectiveness, one must first differentiate between a strong culture and a weak culture. A strong culture is marked by the organisation's essential values being powerfully stated, clearly organised, and broadly shared. Corporate Culture, in a very profound sense, provides the organisation with answers to issues such as survival in its external environment, while effectively managing and regulating its internal affairs. This embodies handling crises, inducting new members, defining and measuring satisfactory performance, and motivating members of staff while maintaining morale. In a broader sense, the culture assists in making decisions to do with the growth or decline of the organisation and adding or removing products and services. The culture assists members in their individual decision making by incorporating that which has been found to work consistently over time and which can be effectively expressed and maintained through symbolic and patterned behaviours and devices that serve as a guide for future actions.

The stronger the culture, the clearer it is to members what the organisation stands for. This makes it easier to identify with the organisation, makes work seem more meaningful, and increases the employees' commitment to the organisation. You should, therefore, expect a strong culture to increase an employee's satisfaction and decrease the likelihood that they will leave the organisation. Situated at the core of the organisation's key objectives, culture provides the sustaining reasons and rationale for its vision, mission, strategy and philosophies - and provides the *raison d'être* for all of its activities and commitments. Corporate culture, then, is the foundation of an organisation's identity and also the basis for order, direction and cohesion in setting and understanding its goals ("where we want to be"), its activities ("how are we going to get there") and its behaviour ("how we do things"), and how they are related to each other.

Changing Corporate Culture

Changing an organisation's culture and climate is often related to the implementation of a new strategic direction that the organisation wishes to follow. Changing the climate cannot be done directly since climate represents an amalgam of perceptions, attitudes and expectations. In other words, climate should be seen as a *result* or *output;* so efforts to influence climate must be directed 'upstream' at areas such as the organisation's processes and structures, including communication, decision-making, co-ordination of goals and objectives, the motivating climate and the quality of the physical work environment and, finally, top management's interest in the wellbeing of employees and organisation members.

In so far as changing an organisation's culture is concerned, Miller (1998: 375) says that achieving real and enduring cultural change is a difficult task which "costs a fortune and takes forever". The results can, however, be worth the effort. Although each situation is unique and should be treated as such, there are a number of general guidelines for bringing about significant changes to an organisation's culture (Miller, 1998: 376-377):

1. Understand the current culture so you know where you stand. If necessary, perform an extensive cultural audit.
2. Avoid head-on confrontation with the old guard if at all possible.
3. Change the management leadership. A gradual shift may be appropriate, or top executives may have to "clean house" and bring in all new managers.
4. While vision statements can be important, don't count on them alone to bring about cultural change. Words become empty and hypocritical if those using them neglect to change their own behaviour. Leaders must "live the new culture".
5. Create new organisation folklore. The definition of myth is "a fictional tale that offers insight into a deeper truth." Organisations help themselves understand who they are by the stories they tell one another about themselves.
6. Use symbols to instil new thinking. Symbols often become the subject of new organisational folklore and myths.

The more fundamental and transformational the change that an organisation undergoes, the more imperative it becomes that its culture also changes. Paradoxically, though, it is an organisation's culture that protects it against wholesale changes and misadventures. Many organisation renewal programmes that have collapsed, then, probably did so because the cultural forces to preserve the *status quo* were ignored. So unless there is a cultural change, large scale organisational transformations will generally be resisted, while, on the other hand, large-scale changes or transformation will not succeed without cultural changes. The consensus among most change management theorists is that cultural change is the most difficult intervention to implement, as well as being the most perilous to attempt, and the one whose success is least guaranteed.

Ultimately, the success of cultural change efforts depends heavily on the extent to which the ten keys to successful change management (discussed in section 1 of this study guide) are effectively applied. Particularly important are the participative, emotive and power issues which determine employee commitment and ownership of both the change process and its results.

? THINK POINT

Discuss the steps necessary in changing an organisation's culture.

12.7 Organisation Climate

Organisation Climate is less encompassing than culture and is also more readily measured. It is closely related to culture in that it is a measure of people's expectations of what it *should* be like to work for an organisation, and the degree to which these expectations are met. What it really measures is the fit between the prevailing culture and the individual values of the employee. If the employees have adopted values of the prevailing culture, the fit is good. If not, the fit is poor and motivation and performance will suffer (Hax & Majluf, 1984: 99).

French, Kast and Rosenweig (1985: 532) define organisational climate as ". . . the relatively persistent set of perceptions held by organisation members concerning the characteristics and quality of the organisational culture." Climate, then, is another means of gauging culture down to the level of Schein's preconscious values.

French et al. (1985) draw heavily on the work of Likert and Likert in describing the concept of organisational climate. Likert and Likert identified four basic types of organisations which they dubbed Authoritative, Benevolent- Authoritative, Consultative, and, finally, Participative-Group. Because of the emotive connotations evoked by these labels, they later changed them simply to be System One, System Two, System Three and System Four.

Figure 12.2 reproduces the short form questionnaire designed to tap employee perceptions of climate. A fuller description of the four types would be redundant as students only have to cast their eyes down each of the four columns in order to get a good idea of the main features of each system. Note that each system is described along six key dimensions: (i) Leadership, (ii) Motivation, (iii) Communication, (iv) Decisions, (v) Goals and, finally, (vi) Controls.

Compare these six dimensions of climate to the twelve that were isolated by Pariek in 1989 (Coetsee, 2000 : 47-48) :

The Twelve Dimensions of Climate

1. **Orientation**: Member's principal concerns (control, excellence, etc.).
2. **Interpersonal relations**: Examples of dependency and cliques.
3. **Supervision**: Supervisors' influence on employee motivation.
4. **Problem management**: Leaders' attitudes towards errors of subordinates.
5. **Management mistakes**: Leaders' attitudes towards errors of peers.
6. **Conflict management**: Processes used to resolve conflict.
7. **Communication**: Prevalent styles and characteristics of communications.
8. **Decision-making**: How decisions are made and by whom; how the decision-making process affects relationships.
9. **Trust**: Who trusts whom for what?
10. **Management of rewards**: What types of behaviour are reinforced?
11. **Risk-taking**: The organisations' way of handling risky situations.
12. **Innovation and change**: Who is responsible for instigating change, by what methods, and to what effect?

Figure 12.1 Survey: Organisational Climate

Please take a few minutes to think about your organisation and then indicate your perceptions on each of the organisation variables. Next to each of the organisation variables are four five-point scales below a statement indicating how you feel about the organisation variable. Place a single mark on one of the five point scales below the statement which best describes how you feel about that particular variable. For example, the first variable is, "How much confidence and trust is shown in subordinates?"

Now examine the statements next to the variable, ie.

1. Virtually none
2. Some
3. Substantial amount, and
4. A great deal

Decide which statement best describes how you feel about the variable. Place a mark on the five-point scale indicating *how strongly* you feel this statement indicates your feelings about the variable. So if you feel the statement "Some" best describes how you feel about the variable of confidence and trust, you would place your mark somewhere on the "Some" five point scale, exactly where would depend on how strongly you feel it reflects your feelings. If you strongly agree that "Some" reflects how you feel about this variable, you would place your mark as follows:

Figure 12.2: Likert & Likert short form Climate Survey

Organisation Variable					
How much trust and confidence is shown in subordinates?	**Virtually none**	**Some** √	**Substantial**	**A great deal**	**ITEM**

It is not compulsory to insert your name on the form. Please return this form once completed.

Organisational Variable					ITEM
How much trust and confidence is shown in subordinates?	Virtually None	Some	Substantial	A Great Deal	1
How free are they to talk to their superiors about their job?	Not Very Free	Somewhat Free	Quite Free	Very Free	2
How often are subordinate's ideas sought and used constructively?	Seldom	Sometimes	Often	Very Frequently	3
Is predominant use made of	1,2,3, Some 4	4 Some 3	4 Some 3 & 5	5,4 Goal-setting	4
1. Fear, 2. Threats, 3. Punishment, 4. Rewards, 5. Involvement					
Where is responsibility felt for achieving the organisation's goals	Mostly at the Top	Top & Middle	Fairly General	At all Levels	5
How much co-operative teamwork exists ?	Very Little	Relatively Little	Moderate Amount	Great Deal	6
What is the usual direction of information flow?	Downward	Most Downward	Down & Up	All Directions	7

How is downward communication accepted?	With Suspicion	Possibly Suspicion	With caution	Receptive mind	8
How accurate is upward communication?	Usually Inaccurate	Open Inaccurate	Often Accurate	Usually Accurate	9
Organisational Variable					ITEM
How well do superiors know problems faced by subordinates?	Not very well	Rather well	Quite well	Very well	10
At what level are decisions made?	Mostly at the Top	Some delegation	More delegation	Throughout	11
Are subordinates involved in decisions related to their work?	Almost never	Occasionally	Generally	Fully involved	12
What does the decision – making process contribute to motivation?	Not very much	Relatively little	Some contribution	Substantial contribution	13
How are the organisation's goals established?	Orders issued	Some comments	Some discussion	Group action	14
How much covert resistance to goals is present?	Strong	Moderate	Some at times	Little or none	15
How concentrated are review and control functions?	Very highly	Quite highly	Some delegation	Widely spread	16
Is there an informal organisation resisting the formal one?	Yes	Usually	Sometimes	All congruent	17
What are cost, productivity and other control data used for?	Police and punish	Reward and punish	Reward and guide	Problem solving	18

12.8 Practical Application of Organisation Climate Models

The dimensions of climate and their sub-factors are commonly used in instruments and surveys of organisational climate to gauge an organisation's climate, either as an independent exercise or as part of a larger OD intervention.

There are a number of ways that managers and change consultants can apply organisational climate models and measurement techniques.

These may include:

- Putting together a system to gather and keep reliable historical data on a regular basis, to supplement other measures of effectiveness
- Creating a diagnostic tool to measure the so-called "soft issues" of effective organisational functioning including before and after measures of organisational change programmes
- Broadening the diagnostic applications to include the results and effects of planned changes on the organisation's vision, mission, strategies, technologies, methods, and practices
- Highlighting the differences among sub-units and sections of the organisation including the subcultures that have evolved in terms of the specific management styles and practices, remuneration policies and procedures, and finally, the communication and decision- making techniques that differentiate them finally, organisational climate complements and expands Systems Theory by providing a means for managers or consultants to broaden their focus from individuals to groups and other organisational systems. The concept of organisational climate provides an orderly, theoretical framework for examining and for planning and attempting to influence the behaviour of work groups within the ambit of an open systems environment.

12.9 Organisation Climate and Organisational Effectiveness

Climate is closely related to Culture in that it is a measure of people's expectations of what it should be like to work for an organisation, and the degree to which these expectations are met. We can therefore assume that the strength of the culture will also reflect directly on the relationship between climate and organisational effectiveness.

It must be remembered that an organisation's climate is made up of the perceptions**,** feelings and attitudes of the organisation's members towards the organisation. Perceptions, feelings and attitudes can be incorrect and incomplete. Nevertheless, for the individuals concerned, their perceptions represent *the truth*. It is, therefore, immaterial whether perceptions are correct and complete. If perceptions exist, they constitute reality in the mind of the individual and irrespective whether it is the truth or not, they should be addressed as if it was the complete truth.

It is against this backdrop of *perceived* reality, therefore, that the effective application of the popular motivational models must be applied in an organisational context, whether the motivational model is Maslow, Herzberg, Alderfer, McClelland, McGregor, MBO, Theory Y, Theory Z, Job Enlargement, Job Enrichment, or whatever. Ultimately, the motivational climate that the organisation is able to establish will also be the perceived reality of its members. It is in the interest of the organisation and all its members that a positive and constructive climate exists. Therefore, it is necessary to audit and measure an organisation's climate often, and to take the necessary actions to improve it on a regular basis.

? **THINK POINT**

Discuss the climate of your organisation in terms of the following five dimensions:

* Conflict management
* Communication
* Decision-making
* Trust
* Supervision

12.10 A Case Study

Coetsee (2000: 60 - 61) sets out a practical example of a change intervention in a South African banking situation.

The vehicle financing arm of a large banking concern (let's call it Apex) decided that "first class customer service" will give them a competitive advantage. Top management introduced an intervention (in workshop format) that all employees at head office and from branch offices had to attend. Two- way discussions were encouraged to obtain employee understanding of the concepts "customer care" and "first class customer service".

This was followed by more workshops (facilitated by an outside consultant) with management and employee groups, during which the values underlying customer care and service excellence were identified. The specific principles or values identified were:

- Genuine interest in the customer
- Respect for the customer and his/her needs
- Effectively addressing realistic customer needs
- Service orientation (quick and correct response)
- Doing the right things right the first time

During subsequent workshops all managers and employees defined each of the above principles in operational and practical terms, for example:

- "I show genuine interest to my customer when I ....."
- "I respect my customer's needs when I ..."
- "I am effective in addressing my customer's realistic needs when I ..."

Every employee then had to formulate an action plan in which he/she set out: How, when and where he/she was going to live out these values or principles. An addition was also made to Apex's Performance Rating System, in that managers and supervisors now rated each employee's real life commitment to these values. All existing practices which were not in line with these values were also identified and changed or eliminated.

The extent to which each manager and employee "lived" these principles, were accordingly measured on a quarterly basis. This measurement became an integral, and the most important, part of the performance appraisal system at Apex. A bonus system and other kinds of recognition were linked to effective performance (living the values) to reward and give recognition to individuals, departments and branches who delivered effective customer service and showed excellent customer care.

ACTIVITY

1. What was the cause of the change initiative at Apex's subsidiary?
2. Discuss the principles of this company in relation to its customers.
3. Why do you think the company opted for an external change agent?
4. Describe: (a) the culture and (b) the climate of two contrasting organisations that are well known to you.
5. How does culture contribute to overall organisational effectiveness and what makes one organisation's culture and climate more effective than that of other organisations?
6. What do you regard as the key success factors in organisational culture change?
7. How does an organisation's culture affect its ability to change?

13. STRATEGIC LEADERSHIP AND STRATEGIC MANAGEMENT

13.1 Learning Outcomes

- Interrogate the definition of leadership
- Critically differentiate between leadership and management
- Evaluate the various leadership models

13.2 Introduction

This century, society has enjoyed technological advances of epic proportions, which have rocked the foundation of mankind. This explosion of technology has disrupted entire industries, bankrupted companies that seemed invincible and changed the world in ways that we could never have imagined. “The dawn of the planet of the smartphones came in January 2007, when Steve Jobs, Apple’s chief executive, in front of a rapt audience of Apple acolytes, brandished a slab of plastic, metal and silicon not much bigger than a Kit Kat. *This will change everything*, he promised. For once there was no hyperbole. Just eight years later, Apple’s iPhone exemplifies the early 21st century’s defining technology” (The Economist, 2015). Mobile technology put communication capabilities in the hands of people all over the globe. And the power of these hand-held computers has enabled individuals to change the world. In recent years, governments have been overthrown, individuals have created wealth, and people from the far-reaching corners of the earth have been exposed to information, new ideas and a plethora of modern day miracles that have changed their lives forever.

13.3 Leadership Defined

"Leadership is an influence relationship among leaders and followers who intend real changes and outcomes that reflect their shared purposes" (Daft, 2015: 8). Leadership involves influence, change, shared purpose, intentions, followers, and personal responsibility and integrity (Daft, 2015: 5).

Managers Today Must Also Be Leaders

Managers are responsible for the output of their followers. To accomplish the 'what and by when', managers must provide team members with the wherewithal and resources necessary to satisfactorily accomplish their jobs. According to Tom Foster, "Hierarchy has nothing to do with reporting to each other. It has everything to do with creating a value stream, where managers bring value to problem-solving and decision-making of their teams" (Foster, 2015: 92). Managers' success depends on their capacity to lead, support, and provide resources so subordinates are able to accomplish their goals.

13.4 Organisational Structures, Technology and Leadership

Organisations of today are often virtual, more horizontal in nature and very different from traditional organisations of the last century. Technology of all kinds, aided by information systems, automated processes, and procedures control today's work-flow, and have enabled companies to communicate more effectively, and efficiently than ever before. More can be accomplished with less people, virtually wiping out business models of the past. This requires people to be more technologically savvy, continually updating their skill-sets, which includes the soft-skills necessary for managers to be great leaders. Today's new horizontal organisational structures make Jaques' time-span theory of hierarchy more important than ever before.

13.5 Emotional Intelligence and Leadership

Relationship building, effective communications, critical thinking and solid decision-making are at the core of being an effective leader, all requiring a high level of emotional intelligence. “Emotional intelligence refers to a person’s abilities to perceive, identify, understand and successfully manage emotions in self and others” (Daft, 2015: 146). If leaders do not understand their own emotions, they will have a difficult time understanding how their emotions are impacting others and how best to manage their relationships. Components of Emotional Intelligence include self-awareness, self-management, social awareness and relationship management. Going back to the definition of leadership, it would be difficult to effectively influence relationships, and sway people for the betterment of a shared purpose without possessing a high level of emotional intelligence**.**

13.6 Leadership and Management

2008 *Gallup* poll on honesty and ethics among workers in 21 different professions :
only 12% felt business executives had high/very high integrity – an all-time low.
37% rate executives low/very low on integrity.
2009 survey by *Management Today:*
31% of respondents stated they had low or no trust in their management team.
2007/8 *Global Workforce survey* of Tower Perrin polled 90 000 workers in 18 countries:
Only 21% were truly engaged in their work in the sense that they would “go the extra mile” for their employer
The 2013 Edelman Trust Barometer that was just released highlights a crisis in leadership. *Only 15% of people in the U.S. believe business leaders will tell the truth when confronted with a difficult issue.* Low trust causes toxic teams, and toxic teams kill employee engagement!
This pattern is continuously confirmed by MBA students during class discussions.
Everybody is interested in leadership, but how do we break the patterns from the past?
How do we restore confidence in leaders and their practice?

Leadership challenge # 1 – To learn

To accept that the paradigms, mental models and business approaches of the past is not going to be the route to future success.

To practice a wider spectrum of leadership styles, given the complexity of our context.

13.7 An abundance perspective on leadership

Leadership does not only reside in a “super-club” of specially gifted individuals or the executive floor.

- Organisational success is the result of many collaborators each doing their part to fulfil shared ideals and aspirations of the enterprise.
- In thriving organisations, leaders and leadership behaviour is an ubiquitous, widely distributed capability.
- The reality is that there are people who swim in front.
- Leadership cannot exist without followers. Followers always “swim” behind a leader/s, but in front of others.
- This implies that, paradoxically, we are ALL leaders and followers at the same time.

To be a leader is however a conscious choice. We are all confronted with this challenge choice. To lead from anywhere requires a systematic on-going skills building approach.

We can all choose to be great leaders!

Greatness comes with recognising that your potential is limited only by:

- how you choose,
- how you use your freedom,
- how resolute you are,
- how persistent you are –
- in short, by your attitude.
- And we are all free to choose our attitude.’

How do we see leadership?

Leadership is viewed from an outcome perspective.

- Leadership is not about our intent, but all about our effect on others. We know leaders are judged by their results as well as how it was achieved and not their intent only.
- Leadership is a capability to influence positively and impact on situations and people in order to make a difference in the circle of influence of the leader and her or his followers.
- Leaders exert their influence and power in such a way that they impact the status quo and others in a positive way.
- Leadership is a team activity where mutual influencing between leaders and followers creates outcomes that no individual could have achieved on her or his own.
- The core activity that leaders perform is to use their voice, presence and power ethically and within moral boundaries to energise themselves and others.

Developing my leadership influence and impact through:

Finding my own unique, authentic voice

- Making a difference through my presence
- Using my power wisely, presence makes my leadership an experience for others.

Leadership involves using my Voice and Power with moral responsibility and moral boundaries

Leaders have the power to:

- Convene people for new conversations – Enrol others
- Listen for understanding and intent
- Interpret context as basis for action

13.8 Authentic leadership in the context of leadership models

Virtues as our moral compass

“Seven social sins:

- Politics without principles,
- Wealth without work,
- Pleasure without conscience,
- Knowledge without character,
- Commerce without morality,
- Science without humanity, and
- Worship without sacrifice."

On Faith and Humanity:

“You must not lose faith in humanity. Humanity is an ocean; if a few drops of the ocean are dirty, the ocean does not become dirty."

Mahatma Gandhi

The currency

- ***Personal relationships*** as part of a connected web
- Trust is the basis of personal relationships. It is fragile and needs to be maintained through consistent behaviour.
- *"The moment there is suspicion about a person's motives, everything he does becomes tainted." –* Mahatma Gandhi

The scarce resource

- ***Personal energy*** to strive continuously to achieve BHAGs

The gift

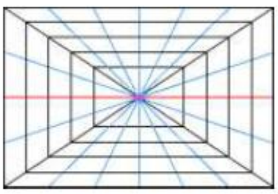
- ***Abundance thinking***, where everybody achieves more through collaborative efforts
- Co-operation and co-opetition

The attitude

- Positive deviance in order to seek **possibilities**
- ***Love and respect*** for others who are different from me

The intent

- Organisations that are ***fit and friendly*** for human beings
- Unleashing the ***collective genius*** through a community of learners



The perspective

- Integration of "me-we-work-world"

Figure 13.1: Leading in the 21^{st} Century

The Myths about leadership

- Long live the hero leader
- Leadership power is all about me
- Leadership is about a position
- Leadership is only about results
- Leadership is just another additional task
- Leadership deals only with the positive things in life

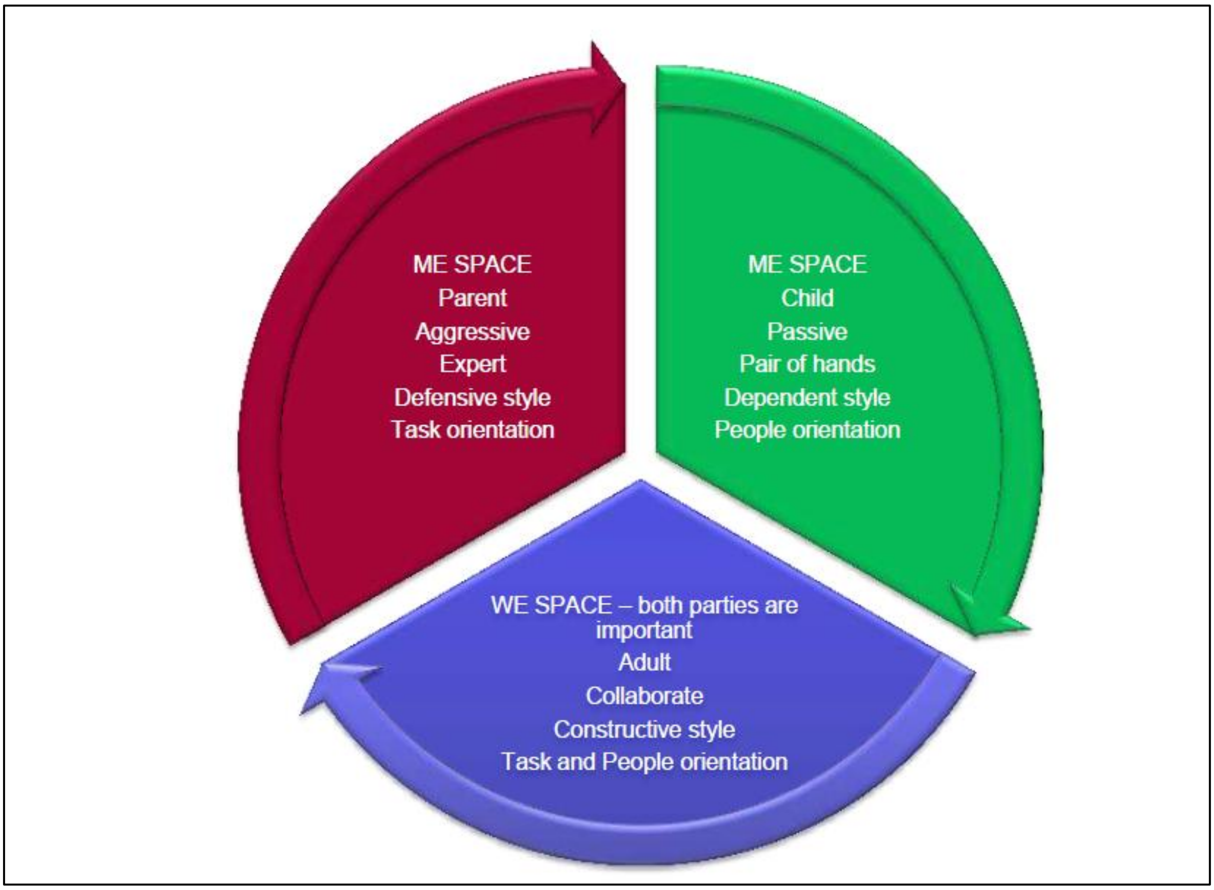


Figure: 13.2 : To operate in WE SPACE is liberating for all

13.9 Conclusion

It is clear that technology is moving fast and entire industries and business models are dissolving, making room for organisations that are giving customers exactly what they want, and when they want it for less money than ever before.

Leaders, not just CEOs, but leaders scattered throughout organisations must work very hard at building strong relationships with followers—driving towards a common cause in an ethical manner. It is also clear that organisations must be strategically structured based on the work, the output and the time-horizon levels required, so people can do their jobs effectively in an environment that is both fulfilling and rewarding.

Today’s leaders must create a corporate culture that is forward-thinking—encouraging their followers to constantly learn, and stay abreast of the changing times. This is a 21st century leadership imperative. An empowered team with tremendous group knowledge will drive organisations towards prosperous futures.

14. ANNEXURE

ORGANISATIONAL ANALYSIS

- TEMPLATE
- IN PRACTICE

Organisational analysis aims to generate an understanding of the organisational structure and culture of the system the project looks at. This can help in understanding the ease or difficulty with which new strategies can be adopted.

Resource Analysis

A resource audit should be carried out to identify the quantity and quality of resources available to the organisations that will be involved with the implementation of the new strategy. The key areas to assess include:

- Availability of and sources of finance
- Skills: organisational, leadership, technical expertise
- Availability of physical resources e.g. buildings offices etc
- IT capacity
- HR capacity.

There are also some intangible organisational assets which should be assessed such as:

- goodwill
- branding
- contacts
- image etc.

The audit should be comprehensive, but should concentrate on identifying resources that are critical to the organisation's capabilities.

It can also be helpful to conduct historical analysis, looking at the deployment of resources of the organisation by comparison with previous years. This can help identify any significant changes and reveal trends which might not otherwise be apparent. Benchmarking to other similar organisations and other countries can also help put the organisation into perspective.

Finally, it may be beneficial to undertake analysis as to the extent to which the organisation's resources are balanced as a whole. The three key aspects of resource balance analysis are:

- the extent to which various activities and resources of the organisation complement each other
- the degree of balance of the people within the organisation in terms of individual skills and personality types
- whether the degree of flexibility in the organisation's resources is appropriate for the level of uncertainty in the environment and the degree of risk the organisation is likely to take.

Cultural Mapping

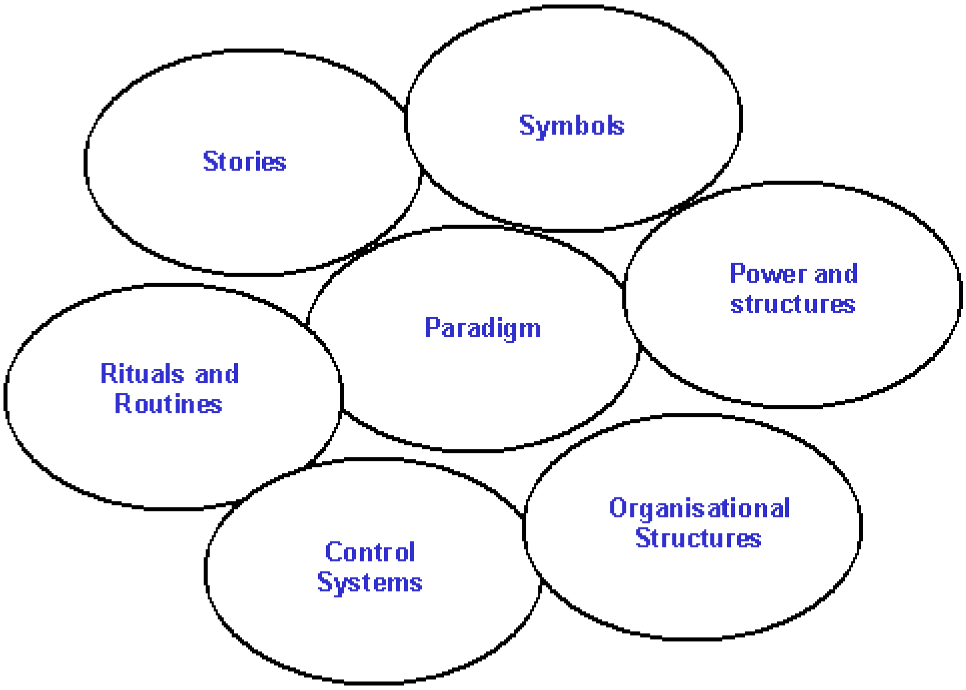
The aim of cultural mapping is to understand how an organisation's culture will affect its ability to change and adapt to new policies or environments.

Faced with similar environments, organisations respond differently. The collective behaviour of managers and employees is determined by frames of reference (the paradigm) which are created by the culture of the organisation (deeper level of basic assumptions and beliefs).

The purpose of a cultural audit is to:

- understand that culture;
- understand how the culture contributes to the problem; and
- work out how it needs to change in order for the organisation to deliver the strategy effectively.

The cultural audit analyses different aspects of the organisation's cultural web:



A cultural audit can be conducted through:

- Listening to people talk about their organisation
- Observing the organisation's day to day operation
- Asking managers to undertake the audit themselves using a checklist

In addition, in order to identify the dominant culture of the organisation as a whole, it would be helpful to analyse the way its strategies have developed historically.

Checklist

Stories

- What core beliefs do stories reflect?
- How pervasive are these beliefs?
- Do stories relate to strengths or weaknesses, success or failures, conformity or mavericks
- Who are the heroes and villains?
- What norms do the mavericks deviate from?

Routines and rituals

- Which routines are emphasised?
- Which would look odd if changed?
- What behaviour do routines encourage?
- What are the key rituals?
- What core beliefs do they reflect?
- What do training programmes emphasise?
- How easy are rituals/routines to change?

Symbols

- What language and jargon is used?
- How internal or accessible is it?
- What aspects of strategy are highlighted in publicity?
- What status symbols are there?
- Are there particular symbols which denote the organisation?

Organisational structure

- How mechanistic/organic are the structures?
- How flat/hierarchical are the structures?
- How formal/informal are the structures?
- Do structures encourage collaboration or competition?
- What type of power structures do they support?

Control Systems

- What is most closely monitored/controlled?
- Is emphasis on reward or punishment?
- Are controls related to history or current strategies?
- Are there many/few controls?

Power Structures

- What are the core beliefs of the leadership?
- How strongly held are these beliefs?
- How is power distributed in the organisation ?
- Where are the main blockages to change?

Overall

- What is the dominant culture?
- How easy is this to change?
- Are there any linking threads through the separate elements of the web? (Source: Exploring Corporate Strategy - Gerry Johnson, Kevan Scholes)

Strengths

- Organisational analysis allows you to understand the ease or difficulty with which new strategies can be adopted.
- Will help identify whether the organisation has the resources/competencies to deliver the new strategic direction, once identified.
- Will identify key areas of relevant expertise/knowledge within the organisation. Policies can then be developed to capitalise on this expertise.
- Feeds into change management and implementation planning
- Comprehensive assessment of organisational culture.

Weaknesses

- Time consuming and often neglected during the knowledge gathering phase.
- Assessment may not be objective if conducted by the managers of the organisation

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Exploring Corporate Strategy, Gerry Johnson & Kevan Scholes, Prentice Hall, 1993.

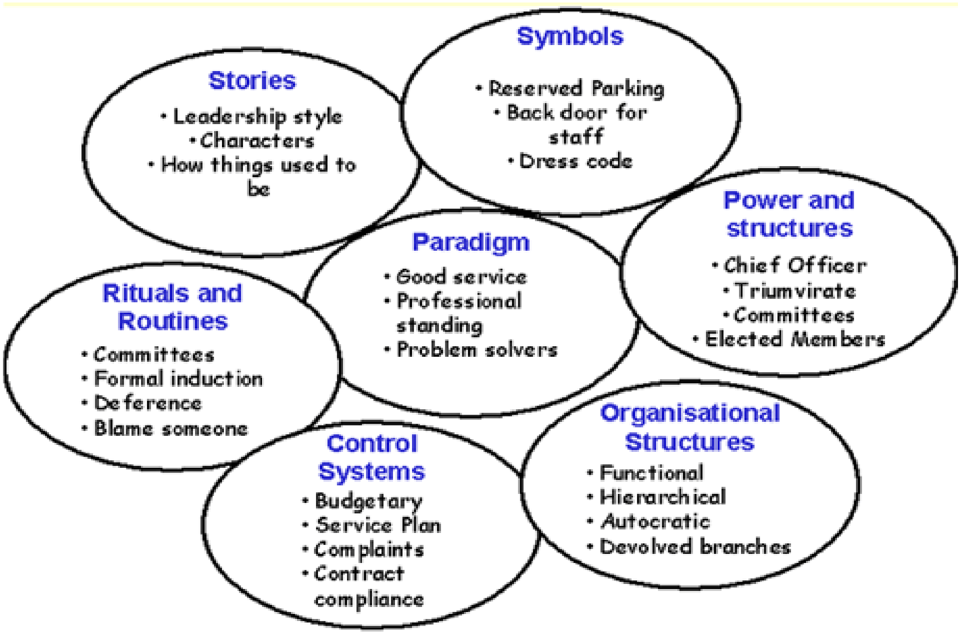
Analysing data - Organisational analysis

In Practice: A Local Authority

A workshop was held for three departments of a local authority to explore the cultural barriers to introducing a new strategy that was focused on the needs of local users. Each department was represented by 4-5 managers. The managers were divided into groups and given a blank cultural web diagram and asked to fill it in.

The cultural web produced by those from the Technical Services Departments, showed that:

- There was a strong commitment to producing a high quality service but that this was due to a focus on professional standards rather than satisfy users of the service.
- Departments tended to be silos headed by chief officers who worked closely with the elected members of the local government.
- There was a hierarchical and mechanistic approach to management with a strong emphasis on structuring and budgeting
- The service was reactive rather than proactive
- There was a blame culture. If something went wrong, blame someone else.



The workshop concluded that the "culture was managing the strategy". It was therefore very difficult to develop a strategy that focused on local issues that crossed departments. The Group then identified barriers to change, these included: fire fighting, departmental barons, the formality of management, stories of the good old days and the blame culture. The group then re-mapped the cultural web with behaviours that would be needed to support a new strategy. The team then compared the two cultural webs, identified the changes that would be required, assessed how difficult it would be to manage those changes and identified those changes that would have a high impact.

15. ADDITIONAL MATERIAL USED FOR THIS COURSE

- BSG –Business Strategy Game
- Link – www.bsg-online.com
- Videos\Porter's Five Forces.mp4
- Videos\The Balanced Scorecard.mp4

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