Date	21/03/2018

P3 Business Analysis

P3 has over 30+ academic models spread across the following categories:

Strategic position

Establishing a position requires analysis and understanding of what's going on inside and outside an organisation.

- **Business environment**

  External environment
  Encompasses the macro-environment (host to externalities beyond the organisation's control), and the micro-environment (made up of the industry, the organisation's competitors, and markets). Organisations should analyse this environment for opportunities (to be exploited) and threats (to be mitigated).

  Internal environment
  The organisation and its internal stakeholders make up this environment. Internal factors relevant to the organisation include its strengths and weaknesses – which is best captured in the form of strategic capability, along with stakeholder expectations and culture.

- **Strategic capability**
  Strategic capability is comprised of two elements: the organisation's resources, and its competences.

- **Expectations and purposes**
  This section looks into the expectations of stakeholders – internal and external – and the roles played by the organisation in fulfilling stakeholder demands (or suffer from strategies blocked by powerful stakeholders), as well as organisational culture.

↓

Strategic choices

The process of making strategic choices requires management to generate options, evaluate the said options, and choose the most strategic of the options. Choices are made by both corporate- and business-level managers. Even with autonomous management, business choices exercised by business-level managers must be aligned (in terms of strategy and consistency) with corporate-level decisions.

- **Corporate**
  Corporate management is led by senior executives put in charge of managing the organisation / group as a whole (made up of more than one business entity), and if applicable, the group's international strategies.
- **Business**
  Business-level managers are responsible for the running of one business entity. These managers make use of business level strategies – looked upon as a collective of bases, as well as directions (products, markets etc.) and methods (which define how directions should be pursued) – to maintain the competitiveness of the entity.

↓

Strategic action

Action is about implementing chosen strategies, continuously monitoring these strategies and controlling them through corrective actions to ensure directional success.

- **Organising for success**
  This is meant by 'changing organisational configuration' for setting the groundwork for success.

- **Enabling success**
  Success becomes enabled through changing business processes, its supply chain, people, and financial structure for the better, through proper project management processes. One at a time, these actions will gradually make business activity better, faster, cheaper, and more effective.

- **Managing change**
  'Managing change' is interested in the management of human resources during the course of the 'change process' highlighted above.

Mission	Reason for the company's existence – i.e. its overall purpose, and not just about being profitable.
Vision	A long-term target (5-30 years into the future).
Goals	General targets.
Objectives	Precise and quantifiable targets which are: Specific, Measurable, Achievable/Attainable, Relevant, Timebound (*SMART*).
Strategic capability	The resources, activities and processes of a company. Strategic capabilities are essentially the company's competences, i.e. what it does.
Strategy	Long-term direction (5 years or more).
Business model	How participating parties interact.
Control	Concerns the monitoring of action steps for effectiveness. The changing of objectives is also a means of control.

Strategic Management Challenges

Preventing strategic drift

A strategic drift is said to occur when organisational strategy drifts from the environment. The main contributor of this challenge is the sluggishness of the organisation's strategic change. This can potentially happen to any company which refuses to change, or implements change too gradually – all the more if the organisation is operating in a tech-intensive industry that is dynamic and ever-changing.

Applying all strategy lenses

Johnson, Scholes and Whittington's 'lenses' are represented by the different approaches undertaken by organisations in forming their own strategies:

- Strategy as design
  A 'designed' strategy follows scientific conventions in the formation of business decisions – beginning from a position, to choices, to action taken. This 'logical', 'rational' approach to strategy based on empirical evidence, and is favoured by a large majority of managers. The often espoused view here is that organisational strategy is a hierarchical responsibility of top management, while lower-level managers are only required to dispense operational duties stemming from the strategies designed (top-down).

- Strategy as experience
  These 'experience-based' strategies are influenced by the assumptions and cultures of the organisation (heeled in past events). This lens is seen as a risk-averse method to decision-

making, and is more suited for entities operating within stable environments (e.g. public sector organisations) rather than those in dynamic industries (where prolonged periods of small, non-transformational change will cause strategic drift, e.g. private sector firms).

- Strategy as ideas
  Proponents of this approach believe that strategy is "emergent from within and around the organisation", meaning that strategic inspiration can be assimilated through all levels of the organisation as well as externally (characterizing a participative approach). Innovation-driven companies often rely on this method to encourage inventive strategies.

The challenge here is to persuade managers to integrate a wider angle of perspectives – as opposed to focusing on any one lens in particular, which results in a narrow and restricted view of strategy – by viewing business strategy through all three lenses in a complementary way (because no single lens is flawless):

Strategy as …

	Design	**Experience**	**Idea**
Advantages	Structured and logical	"Teaches valuable lessons"	Source of competitive advantage founded on participation
Disadvantages	Time-consuming, rigid, and non-participative	Could cause 'strategic drift' in dynamic-environment companies	Untried, first-of-kind methods can be risky and expensive

Date	23/03/2018

Frameworks for analysing the "Business Environment"
(*in order of importance*)

Macro-environment

PESTEL	To be used when asked to analyse/assess an organisation's macro-environment for the current period and its immediate future.
PORTER'S DIAMOND	To be used when asked to analyse/assess the reasons why a particular country/industry has an advantage over other countries/industries.
SCENARIO-BUILDING	For analysing/assessing an organisation's macro-environment in the distant future (at least 5-30 years from now).

Industry / Marketplace / Competition (Micro-environment)

PORTER'S 5 FORCES **INDUSTRY LIFE-CYCLE (ILC)**	To be used when asked to analyse/assess the organisation's industry / marketplace / competition. The industry life cycle model supports and complements the 5-Forces model. Should not be used as a stand-alone model for analysing the environment.
SCENARIO-BUILDING	For analysing/assessing an organisation's (industry / marketplace / competition) micro-environment in the distant future (at least 5-30 years from now).

Frameworks for analysing the "Business Environment"

<u>Macro-environment</u>

PESTEL

To be used when asked to analyse/assess an organisation's macro-environment for the current period and its immediate future.

<u>Questions to ask when applying PESTEL:</u>

- Look for the changes in macro-environment – which one of the following is it?
  Political? Economic? Socio-cultural? Technological? Environmental? Legal?
- Is it an opportunity or a threat? Why (does it impact the organisation positively/negatively)?
- What is the company's response? How might it be possible to exploit the opportunity or threat?
- Which factor is the key driver of change (i.e. the PESTEL element with the most significant impact on the organisation)?

Frameworks for analysing the "Business Environment"

Macro-environment

PORTER'S DIAMOND

To be used when asked to analyse/assess the reasons why a particular country/industry has an advantage over other countries/industries.

Points of consideration:

- **Factor conditions**
  Factor refers to production input resources, which are split between:

Basic factors	Needed for an initial advantage, e.g. easily obtainable and accessible resources.
Advanced factors	Factors which a country's economy can create for itself through political initiatives and socio-cultural changes for instance, but not always naturally inherited, e.g. quality of research, and liquidity of capital markets. Unlike basic factors, these factors are required for sustained competitiveness.

- **Demand conditions**
  Represented by the customer attitudes towards products and services. The more demanding and sophisticated its home customers are, the higher the quality expected of its industry.

- **Related and supporting industries**
  Are there compatible partners, suppliers upstream and downstream to assist the industry's growth?

- **Firm strategy, industry structure and rivalry**
  Are government policies favouring the industry? Are there rivals competing intensely within the industry? If it's a yes for both, domestic organisations will be forced to become more efficient and innovative.

Frameworks for analysing the "Business Environment"

Macro-environment / Micro-environment

SCENARIO-BUILDING

For analysing/assessing an organisation's (industry / marketplace / competition) macro- and micro-environment in the distant future (at least 5-30 years from now).

Methods

- **Subjective**

  A subjective scenario planning process (a group activity) involves 3-steps:

  i) Identify high-impact, high-uncertainty factors;

  ii) Identify extremes for above factors – from low to medium to high;

  iii) Create plausible scenarios of the future and debate potential strategies for each scenario – including worst case scenarios, best case scenarios, along with any possible combination to help the company prepare for anything.

- **Objective**

  Linear regression

  $y = ax + b$

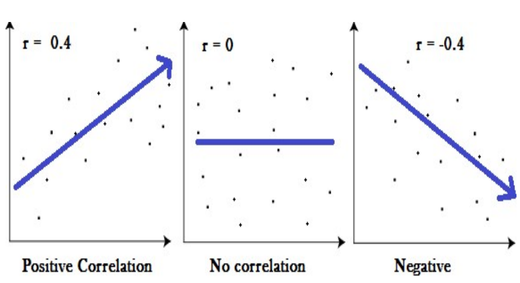
  This formula determines how much does "y" (dependent variable) change when "x" (the independent variable) increases/decreases. "b" is the fixed element. In the end, only two variables can be analysed, unlike *big data*.

  However, in the December 2011 sitting, $y = a + bx$ is preferred over the equation above (which was re-interpreted as a 'straight line equation').

  Coefficient of correlation and determination

  r

  Just like the above, the correlation coefficient (r) is a measure that determines the degree to which two variables' movements are associated, e.g. when "y" changes, how much will "x" change. The range of values for this is between -1 (perfectly negative) to 1 (perfectly positive) – nothing more or less. However, nonlinear

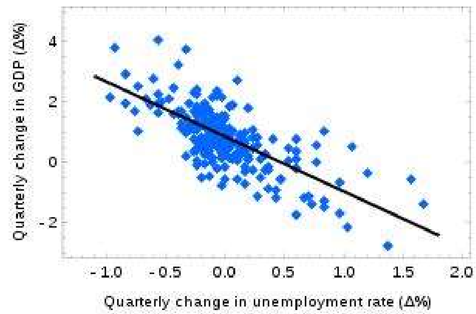


relationships cannot be captured here (only straight lines).

r^2

A coefficient of determination assesses how well a model predicts future outcomes – "1" being a perfect fit, and if it's a "0", it only indicates that the model fails to accurately model the data.

The examiner would have provided you with r, but not r^2. So calculation is necessary.



Time series analysis

A time series is an industry-accepted forecast technique that recognises trends (a continued direction – be it growth or decline), seasonal variations (consistent differences within the year), cyclical variations (consistent differences repeating over more than one year), random variations (unexpected changes).

This technique is more applicable in static conditions where environmental changes are minimal.

(*see P3 Pilot Paper Q3, "CoolFreeze"*)

Decision-trees

As we know, risk is an outcome which can be assigned a probability to determine its expected value (unlike uncertainty, which has no expected value).

A decision tree is a combination of expected values from decisions and their possible consequences drawn as a graph that branches outwards.

Frameworks for analysing the "Business Environment"

Industry / Marketplace / Competition (Micro-environment)

PORTER'S 5 FORCES

To be used when asked to analyse/assess the organisation's industry / marketplace / competition.

Porter's Five Forces framework (1979) measures the attractiveness of an industry / competitive environment – which can be viewed from the angle of a potential entrant (someone about to enter the market) or an incumbent (an existing industry player).

Steps to applying "5 FORCES"

- Identify the industry;
- Identify the new entrants[1], potential entrants, buyers, suppliers, rivals, and substitutes[2];
- Determine the intensity of the following: threat of new entry, buyer power, supplier power, competitive rivalry, and threat of substitution.
- Judging from the opportunities and/or threats posed by the five forces, decide if the overall picture is attractive for the business.

General assumptions in the "5 FORCES"

- Entering the industry requires scaling the barriers of entry, which could typically include factors which are potentially controlled by incumbents (e.g. exclusive supply/distribution channels, and retaliatory responses by existing firms), and industry-specific factors (e.g. capital requirements). The higher these barriers are, the lower the threat of new or potential entrants.
- Buyer power is likely to be high when supplier power is relatively weaker[3]. The company making the assessment can be playing the role of buyer, supplier, or both in any situation.
- Rivalry is most intense when: competitors are evenly matched, industry growth rates are low ('maturing', see "ILC" below), high financial / strategic / emotional barriers, and low differentiation.
- The threat of substitution is higher when there is a lack of favourable *complementors*[4], possible substitution of product / service / need, or when there are probable generic substitutes[5].

Alternatives to an organisation if threats revealed by the "5 FORCES" analysis are too high

- Exit
- Diversify
- Differentiate

INDUSTRY LIFE-CYCLE (ILC)

Supports and complements the 5-Forces model. Should not be used as a stand-alone model for analysing the environment.

The ILC model is made of five stages: development, growth, shakeout, maturity, and decline.

At 'development' stage, the product / service is first introduced.

↓

'Growth' is when the product / service is gaining popularity.

↓

The 'shakeout' is the period where there will be the most suppliers or providers of the product / service. As customers become picky, firms have resorted to unsustainable pricing strategies to continuously grow their market share.

↓

After growth rates slow down at the 'shakeout' phase, maturity is perhaps the most interesting period of the ILC. During this time when there is difficulty in growing the market or cultivating new consumers for their products / services, and businesses are signalled to fight to maintain their share of the increasingly saturated market.

(*See page 49 of the textbook for greater clarity.*)

---

[1] 'New entrants' are businesses which have already penetrated the market-entry barriers, but not yet joined the ranks of the incumbents because of their fairly recent arrival at the market.

[2] 'Substitutes' here refer to the valid replacements of the subjected goods / services of the industry being reviewed.

[3] Weaker supplier power can be due to a 'concentration' of buyers (small number with large order sizes, or large organisational capacity), aggressive buyers (especially when their purchases from a particular supplier take up a sizeable chunk of their cost of sales / yearly purchases etc.), cost of switching is low, and the presence of a backward integration threat (a situation where the buyer acquires its supplier). The opposite can be applied to reflect weaker buyer power.

[4] Something that matches well with your existing offerings / operations, and gives you (or your direct competition) an advantage.

[5] 'Generic' carries the meaning of the words non-specific, and indirect. Generic substitutes pose a threat to any product manufacturer / service provider from the manner it takes over the disposable income of the targeted consumers.

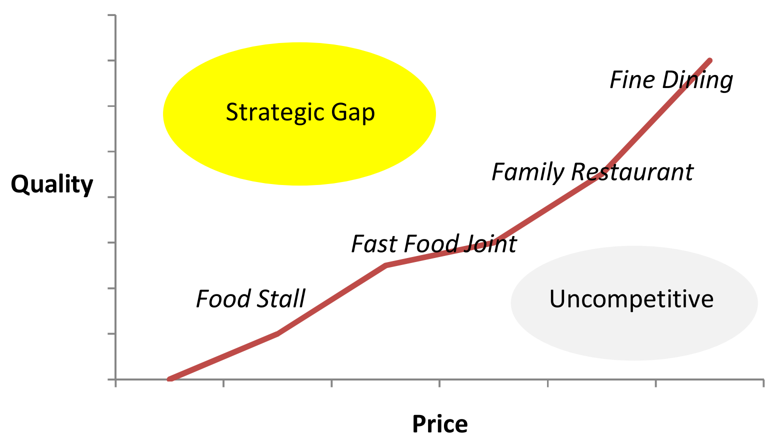
Date	26/03/2018

Strategic groups

A strategic group refers to a group of businesses – usually outside the organisation – which share the same scope of activities ("how is the diversity and coverage of its products and market presence?") and resource commitment ("are the organisations of the same size?"), i.e. similar size and capabilities. The more closely related these characteristics are, the more direct the businesses are in competition with one another.

As explored above in the "5 FORCES" framework, when an organisation is met with unpromising micro-environmental conditions, it has choice of exiting, diversifying away from the existing business, or to differentiate. 'Exiting' here could also refer to a change of strategic groups, meaning, that the business will still persevere in the industry, but competes for a different market segment.

The use of the 'strategic groups' framework can help a business detect its direct competition, and encourages it to see how it could possibly move from one strategic group to another ('mobility') – with changes in the macro-environment which create 'strategic spaces' (or 'strategic gaps', as illustrated in the example below).



Market segment

A market segment points to a 'group of customers'. To fully understand how to properly segment a market, the manager needs to identify customer needs through the analysis of buyer behaviour (behaviouristic), consumer income levels (demographic), consumer attitudes (psychographic), and geographical factors.

As a business normally forms its strategy with segmentation as one of its bases, the organisation can potentially identify its 'strategic customer', i.e. the most influential customer group for the business.

Critical Success Factor (CSF)

As the term implies, a CSF is a factor critical to the company's success (i.e. achievement of objectives).

Managers are particularly focused on fulfilling these critical factors, as a company must excel in its CSFs if it were to outperform its competitors.

An ideal number of CSFs to be defined is 4-5 (for a profit-centred business, this includes 'profitability').

The rationale is that any more factors will make **key performance indicators** ('**KPI**s', the measure for CSF performance) more difficult to monitor (and lead to a dilution of managerial capability).

Although measurable (just like CSFs), KPIs are not quantifiable (i.e. defined by numbers).

The subclass of CSF and KPI is 'objective', and this refers to "SMART" **performance objectives (POs)**, which are quantifiable.

Example
Mission: To maximise shareholder value
CSF: Profitability
KPI: Return on Capital Employed (or any relevant financial ratio)
PO: 23%

Balanced Scorecard (BSC)

Adopting a 'balanced scorecard' perspective forces an organisation to look inwards and out (identifying its internal and external capabilities) so as to determine its KPIs to be encompassing of financial and non-financial angles, e.g. via referencing the BSC's main criteria: customer satisfaction, financial, internal efficiency, learning and growth – ensuring that at least one CSF is being created for all four of these elements.

Exam Technique

The difference between:

- *Evaluate*
  List out Pros and Cons.
- *Critically Evaluate*
  Lay out Pros and Cons – with an emphasis on Cons.

How to evaluate CSFs, KPIs, and POs?

- Is the CSF aligned with the organisation's mission? Does the mission need adjusting to include the CSF?

- Is a particular KPI aligned with an organisation's CSF?
- Does KPI correctly measure CSF?

Strategic capabilities

While the macro- and micro- environment analysis reveals opportunities and threats, analysing the strategic capabilities of an organisation is about finding out "what's going on inside the organisation" – its strengths and weaknesses.

Strategic capabilities can be dissected as the following two elements:

- <u>Resources</u> – tangible and intangible
  "What do we have?"
  Framework to use: **6M**

- <u>Competences</u> – activities and processes
  "What do we do with our resources?"
  Framework to use: **Porter's Value Chain**

Of a company's resources and competences are **threshold capabilities**, and **capabilities for competitive advantage**:

- **Threshold capabilities** are resources and competences which meet the minimum requirements of its customers, thus enabling the organisation to only survive.

- **Strategic capabilities** – in the form of unique resources and core competences which are difficult to imitate – go beyond customer expectations, and allow the company to prosper and succeed.

As a rule of thumb, the more unique resources and core competences a company possesses, the more strength it is said to wield.

6M

Resource constraints	How to use
MONEY Deals with capital on hand, cost of capital, and financing opportunities.	Analyse financial data provided and apply relevant financial ratios, e.g. profitability (ROCE), liquidity (current ratio, CA/CL), gearing (debt-equity ratio), efficiency (asset turnover 'Revenue/Total Assets', or cost/employee). Having done so, we should then calculate its growth/decline rate, and identify the reasons for better/poorer performance, as well as their implications on the organisation ('impact').
MACHINERY Capital expenditure and state of plant and machinery.	Analyse revenue, production machinery, IT systems etc. for maintenance frequency ("how well was it maintained?") and technical upkeep ("is it still up-to-date?").
MANPOWER Considers cost, productivity, motivation, and loyalty of the organisation's human resources.	Analyse staff numbers (to determine if under/overstaffed), labour cost efficiency (cost-per-employee), productivity of staff (revenue-per-employee), labour turnover and absenteeism.
MARKETS Refers to products and services, not external markets.	Based on the scenario, determine if were there any new markets (specifically for the company's products and services), how strong is the company's brand, and the health of the market (is it growing, or maturing).
MATERIALS Production inputs, not supplier.	Assess the cost of materials, control factor ("is there immediate delivery?"), access favourability ("are we a priority customer?"), availability of materials ("are good quality materials available or depleting?"). Subsequently evaluate if there is a need to buy in bulk, introduce *just-in-time* production, redevelop the product (for optimal design) in order to reduce wastage and save on cost of production inputs, or look for substitutes if the supply of good materials is not sustainable.
MAKE-UP Organisational structure and culture.	An excellent 'make-up' is one that fares well in a dynamic environment. A 'rigid' organisation is said to be a weakness, because it restricts strategic agility. Based on the scenario, ask if the organisation's structures are flexible, and if the organisational culture is change-oriented.

Date	30/03/2018

Porter's Value Chain

First discussed in Michael Porter's 1985 book titled "*Competitive Advantage*", the 'value chain' is a set of activities or processes by which the company adds value to its products (before a profit margin is assigned).

The framework describes two forms of activities:

- <u>Primary activities</u>
  Activities related to the production and distribution of goods, or, in the case of a service provider, these are activities related to the creation and delivery of services.

INBOUND LOGISTICS	'Logistics' deals with the 'movement of goods'. 'Inbound' here refers to receiving inputs and subsequently distributing them to production. This primary activity involves contact with physical units of stock, not the supplier (which is under '*Procurement*'). For a manufacturer, raw materials such as steel and petroleum may be the inbound production inputs. For a service provider, such as a college, 'students' are the production inputs.

↓

OPERATIONS	Refers to the process of converting raw materials to finished goods. Includes testing and packaging.

↓

OUTBOUND LOGISTICS	Logistics activities here involve the storage and distribution of goods to customers. Installation counts as an outbound logistics activity for manufacturers… Whereas service providers would reckon 'bringing customers in' as an outbound logistics activity.

↓

MARKETING[1] & SALES	Marketing is about identifying the needs and wants of *a single* customer. Supposedly, the first step to the marketing process is market research – asking questions such as "what", "quantity", and "when". Sales is not the same as marketing – the former is a transactional activity.

↓

SERVICES	Refers to 'after-sales support'.

- <u>Secondary activities</u>
  Activities which support / complement primary activities.

PROCUREMENT	This 'purchasing' activity is interlinked with *Inbound Logistics* as above. Procurement is primarily an "interpersonal" operation, requiring personnel to deal with suppliers all the way thru requisitions, negotiations, planning orders, and managing the supplier-customer relationship.

+

TECHNOLOGY DEVELOPMENT	'Tech-dev' is about the organisation's research and development efforts. Research and development deals not only with product/service improvements, but seeks to also make the production/delivery process better.

+

HUMAN RESOURCE MANAGEMENT	The full HR management process entails: recruitment, induction training, managing employee welfare, training requirements, and planning long-term employee needs.

+

FIRM INFRASTRUCTURE	This layer deals mainly with the spectrum that covers a wide range of activities: from strategic functions, accounting and finance, to quality control etc.

---

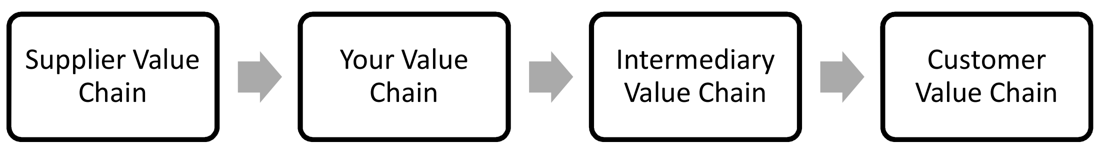
[1] Management guru Peter Drucker claims that good marketing is essential for creating the 'pull factor' that makes selling 'superfluous'. It was quite obvious that in the 'value chain', the importance of good market research has been underemphasised as it was not undertaken before the entire value-adding process. It is believed that Michael Porter had wrongly identified marketing to play more of an "advertising" role in the value chain.

Value Network
The ‘value network’ is merely an academic term for expressing the semblances of a ‘supply chain’.

The aim of the value network is to create a process that fully integrates suppliers with customers, making for a smooth, uninterrupted, seamless flow of goods and information from supplier, through your organisation’s value chain, to customers. To achieve a ‘seamless’ flow, it is important for managers to integrate the activities of the value chain by reducing dependence on the 2Ps: people (human factor) and paper. On top of that, it is wise to outsource (here we have a ‘make or buy’ decision to make) or strip away all insignificant and non-value-adding activities.

Any business in a value network ought to ensure that it treats its suppliers and dealers as though as they were business partners. Not just that, it helps that improvements in the organisation be shared across the value network (‘not confined’), as a well-integrated network makes it possible for *just-in-time* manufacturing (or other modes of high efficiency production).

Because such a relationship is expected, only the best suppliers and dealers must be chosen.



Profit Pool(s)
Profit pools are another way of saying ‘potential profits’. As *Corporate and International Strategies (Chapter 5)* will demonstrate, it isn’t always the case that a company should simply forward/backward integrate into any part of the value network purely because it seems like a profitable decision.

Capabilities are very important points to consider when diversifying.

Organisational Knowledge + Nanoka & Takeuchi

Put simply, organisational knowledge is the collective knowledge accumulated through organisational activities and routines.

According to Nanoka and Takeuchi, there are two distinct types of knowledge:

- <u>Explicit knowledge</u>
  Such knowledge is usually formalised, documented, and "available somewhere".

- <u>Tacit knowledge</u>
  Knowledge gained from experience which is not documented and resides in the mind. Of course, since it cannot be easily extracted, tacit knowledge presents itself as a better source of sustainable[1] competitive advantage.

---

[1] Sustainable here doesn't refer to 'permanence'. Rather, what constitutes a sustainable competitive advantage lends to the fact that it is something that cannot be 'competed away' via duplication by competitors, i.e. inimitable.

Benchmarking

In the business context, this is an exploratory activity that seeks to compare the resources and competences between organisations. This could take the form of the following:

- Historical benchmarking
  This rather 'inward-looking' method seeks to compare the business unit's current performance with its past results.

- Industry/sector benchmarking
  Making an industry benchmark implies performing comparisons against rivals – either within an organisation's own strategic group (direct competitors), or outside the strategic group (where the organisation is expected to pick up on applicable best practices, and also derive inspiration for moving into other market segments).

- Best-in-class benchmarking
  Such a comparison may involve placing the organisation side-by-side against any entity in any part of the world (usually involved in an industry that is seemingly unrelated), with the aim of appraising the performance of a particular process.
  In other words, the subject of comparison here is the 'process'. An example would be British Airways benchmarking its turnaround time to Formula 1 pit stop timings.

The 'values' of benchmarking

Benchmarking has its own flaws, and it is commonly assumed that there are two disadvantages to the benchmarking technique:

- Unfair comparisons (flawed basis of benchmarking, i.e. comparing the "wrong things") might set-off a 'reorientation' (flawed change of strategy), and subsequently, lead to the wrong strategies being implemented.

- Reasons for performance variances are not identified through benchmarking automatically. Essentially, what the numbers show do not reveal the whole story, and any favourable/adverse variance suggests that a certain matter warrants further investigation.

Variance analysis – "steps to answering a variance analysis question"

1. Flex budget – find out what the variance is
2. Why the difference? Who is responsible for the difference. (*see P3 Pilot Paper, Q3, "Cool Freeze"*)

The SWOT Method

The SWOT analysis matrix has been widely used to identify general strengths, weaknesses, opportunities, and threats from the perspective of the assessor.

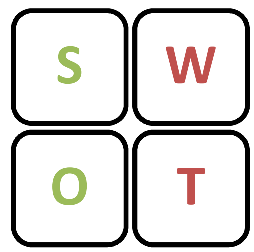
The simple logic holds that an organisation should exploit both strengths and opportunities, while mitigate its weaknesses and threats – bear in mind that the latter (Os and Ts) refer to the business environment while strengths and weaknesses are looked at from within.

<u>How do we apply SWOT?</u>

Before beginning, please ensure that the question asks specifically for the SWOT analysis to be used, or refrain from applying it at all.

1. Look 'outside' to identify the 'external' opportunities and threats… then proceed to observe the organisation from 'within' to single out its strengths and weaknesses;
2. For each point highlighted, it is crucial for the user to provide an apt justification;
3. Ensure that the answers are in a 'linear reading' format (i.e. in paragraphs);
4. FOCUS on the Key SWOTs which are important to strategic-level managers.

The above method is better than using a 'matrix' method (right) because it seems fairly obvious that the matrix method is restrictive ("four boxes… very few space for sufficient answers").



Stakeholders
A ‘stakeholder’ group is, as the formative words suggest, groups of individuals with vested interests in the actions of the organisation.

No organisation can meet ALL stakeholder expectations, so the least that could be done would be to ensure that the strategies they formulate are aligned with the expectations of their more ‘powerful’ stakeholders, i.e. those whom command enough influence to block corporate strategies.

An example, in the situation of a tech company, of its stakeholders can be construed as follows:

- <u>Market</u>
  Shareholders, suppliers, customers, competitors…

- <u>Technological*</u>
  Patent holders, standards agencies (e.g. ISO), key adopters (important first customers of tech products)

**Stakeholder group(s) hail from elements based on PESTEL factors*

5 "*Sources of Power*", French & Raven

According to French and Raven, an individual / group's sources of ability to persuade or induce or coerce others into certain courses of action can generally be classified into five:

- Referent power / Charisma
  'Charisma' refers to an inborn ability to influence people. No doubt a magnetic individual who possesses this will command a greater deal of power to persuade.

- Expert power
  Individuals or groups with specialist skills are often well-respected and held in high regard.

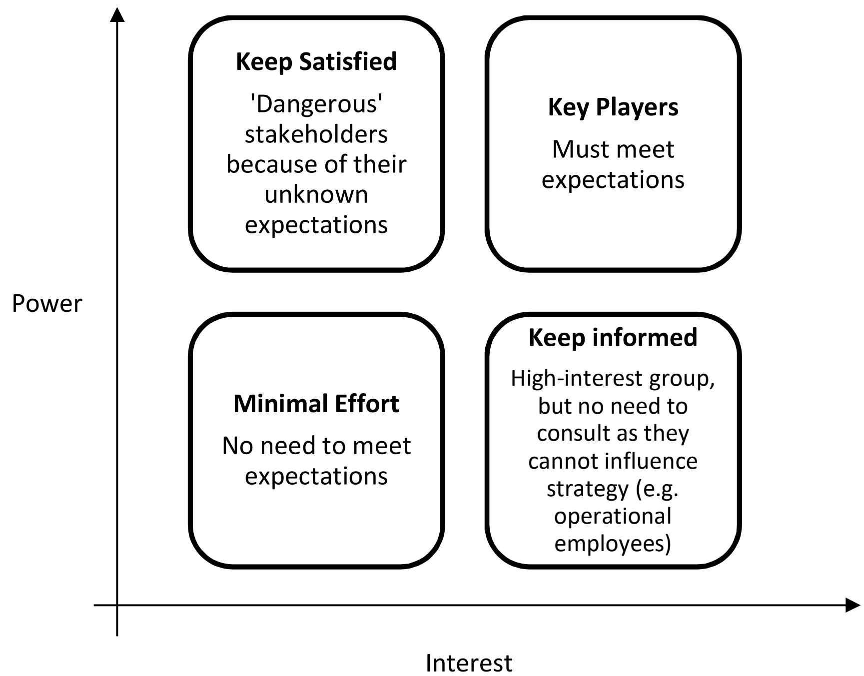
- Legitimate power
  'Legitimate' implies legal authority (also 'power') granted by virtue of an official position to an individual.

- Reward power
  Power to reward.

- Coercive power
  Power to punish.

Needless to say, possessing one or more of these powers makes an individual / group indefinitely more 'powerful'.

Mendelow's Power/Interest Matrix
Having assessed the power of the stakeholders using the French and Raven model, we can more reliably plug the relevant stakeholder groups into this matrix.



How to apply both French & Raven, and Mendelow's Matrix?

1. Determine position – *ref. previous topics*;
2. Determine power;
3. Determine expectation;
4. Determine how to manage the aforementioned expectation(s)?

Culture / Cultural Context

Organisational culture concerns the corporate strategist only when he/she is deciding if, before implementation, the culture is ready for / favourable to the strategy proposed. In describing this, we say that the perception of culture will ultimately influence strategy, either positively or negatively (see '*paradigm*').

Charles Handy's "Four Organisational Culture Models" (p. 109)

- Role culture
  Has many defined procedures and therefore, rigid. Such a bureaucratic culture is suitable for stable environments, characteristic of many public sector organisations.

- Task culture
  Result-oriented. Settings are more informal than the role culture.

- People culture
  Employee-centred.

- Power culture
  The owner / power figure is the centre of the organisation.

* **"*Cultural Web*" [Johnson, Scholes & Whittington]** (p. 112)

- Routines and…
  The way things are done on a day-to-day basis.

  Rituals
  Special events, occasions and way of doing things that are only sometimes carried out within the company.

  Routines generally represent the paradigm and are very difficult to change. Rituals, on the other hand, emphasis what is important to the organisation.

- Stories
  Device for telling people what's important in an organisation.

- Symbols
  Aspects of culture which can be seen, e.g. secretaries and big, lofty office layouts for executives can be seen as part of a symbol of power and hierarchy.

- Power structure

An undocumented, informal hierarchy of power. Because power structures are not formalised and closely related to core associations (which could change), they are mostly deemed transient (existing temporarily or for a short period of time only).
Unlike organisational structure though, individuals high up in an entity's power structure can exert significant influence regardless of officialties.

- Organisational structure
  This is depicted by a company's organisational chart, which may or may not reflect the actual power structure.

- Control systems
  Performance measures and rewards systems. Respectively, the role culture and task culture rewards its constituents based on effort, and merit, for the latter.

Paradigm
The amalgamation of all the above six will form the organisational 'paradigm', which is a set of assumptions likely to be held in common within the company. It has been said that culture drives strategy, and so for a strategy to be favourable, it has to be in sync with these underlying beliefs.

Graphic descriptor (p.114)
While a paradigm may be difficult to dissect, a 'graphic descriptor' is a straightforward telltale of the organisation's culture because reading these descriptors provides an instant understanding / impression of the culture as it is seen through the people describing it.

Where is this model often examined?

When the scenario contains a particularly dominant character / board of directors whom have led to dysfunction / poor adjustments within an organisation.

Communicating organisational purposes (p.117)

Corporations are able to explicitly communicate their ‘purpose’ through formal statements of corporate values, vision, mission, and objectives (meaning, it does not only have to be a mission a lá slogan, but a documented ‘mission statement’).

In a downward cascade, the components of these types of communications are usually as such:

Mission
- The mission statement formally documents the organisation's basic function and purpose of operating.
- Consistently influenced by corporate values.

Values
- Guiding beliefs aligned with mission.

KPI
- Key performance indicators (as a basis for measuring the achievement of CSFs and its symphony with company values).

Objectives
- Objectives should be prepared to be "SMART".
- Requires **MOST** analysis[1] (which explores mission, objectives, long-term strategy, and lower-level tactics).

---

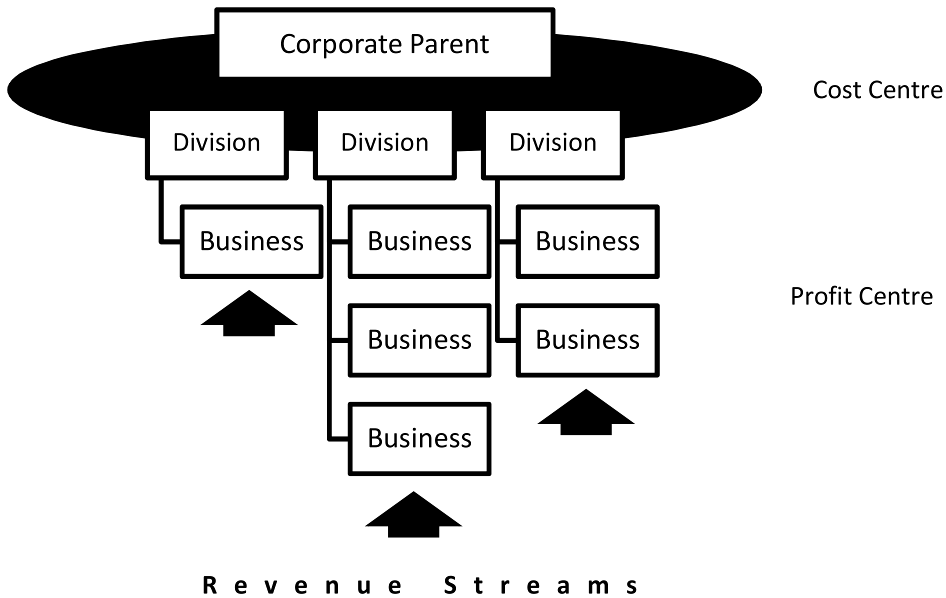
1 **MOST Analysis**

The MOST Analysis helps managers find out if / how good they were able to communicate the organisation’s Mission, Objectives, Strategy, and Tactics:

- Is everyone aware of the mission?
- Are values converted to objectives?
- Do the “MOST” elements exist within the organisation?
- Are the “MOST” elements aligned with one another?

Corporate-level strategy

Corporate managers must keep costs low (and add value) otherwise the organisation's overall profitability will be affected. The reason for this is because corporate parents are unlike the business units beneath them – the typical front end where managers deal with external parties to generate income for the entire corporation (effectively making them revenues and profit centres). In fact, corporate parent divisions are cost centres which purpose is to oversee the corporation's network of business units and responsible for the direction of corporate-level and international strategies as a whole. Hence, managers here need to show accountability by maximising the value for its shareholders, from the top.



As a general idea, strategies – whether it is about diversifying products / businesses / geographical coverage – will be concerned with constructing solid justifications for every move by the corporation ("generating options"), evaluation of these options, which eventually leads to choice.

PRODUCT / BUSINESS DIVERSITY	• What are the reasons for diversification of such nature – financial and non-financial? • What are types of diversification? Is it **horizontal**? Is it **vertical** – backward and forward?
INTERNATIONAL DIVERSITY	• What are the reasons for diversification of such nature? • Market selection and entry process: modes + pros and cons • Should the company pursue a **global or multi-domestic** strategy?
CORPORATE PARENTING	• What are the value-adding activities of the parent? • What are the value-destroying activities of the parent? • Profiling **parenting rationales** – portfolio? synergy? parental developer?
MANAGING CORPORATE PORTFOLIO	• Business-level analysis • **BCG Matrix** for 'managing balance' • **Ashridge portfolio display** (aka "parenting matrix") for 'management of fit'

Date	02/04/2018

Product/Market Diversity

Value creating reasons

- Mobilising underutilised resources and competences will help the corporation achieve economies of scope[1] – as more can be done – leading to possible synergies[2] if the new venture was naturally complementing.
- Prospective gains from applying underutilised managerial capabilities, i.e. corporate level managers can be relied on to exercise corporate parenting skills even in businesses which are operationally distinct.
- Becoming a larger corporation will reduce threats from the five forces (as highlighted by Michael Porter), and result also in an increase of market power[3].

Reasons which may or may not create value

- Diversification as a response to environmental (macro-, and micro-) changes, e.g. branching out into a competitor's new industry to pre-empt rival entry into your natural market.
- 'Diversifying out' of declining markets into growing markets[4].
- To spread risk[5].
- To meet selfish demands of powerful stakeholders, e.g. arising from top managers whom may have selfish motives to diversify, because of increased compensations or reduced employment risk for themselves.

---

1 Economies of scope are cost savings created within an organisation from transferral of capabilities developed in an existing business to a new business ("benefits obtained from using underutilised resources to diversify into another business"). Firms create value through economies of scope in two ways: 1) the sharing of primary and support activities (operational relatedness); 2) transferring of – usually inimitable – core competencies (corporate relatedness).

2 Synergy occurs when the sum of the whole is greater than its individual parts. The additional benefits could be summarised as when revenue is generated for both the new businesses and the business branching out concurrently.

3 The evidence of market power, e.g. market share, should not exceed anti-competition regulations (>25% by UK standards), else the company shall experience unfavourable government intervention which seeks to break this monopolistic position.

4 The two most prominent characteristics which turn value-adding intentions into value-destroying ones during any diversification are: 1) the target is not a growing market; 2) the organisation does not have the capabilities to compete in the ventured market. The reasoning

is that it can be more challenging for a business with, for instance, a tech-intensive business model horizontally integrating itself into an industry which is people-intensive.

[5] The ‘risk’ here refers to ‘unsystematic risk’, which is the uncertainty inherent in a specific company or industry (‘business risk’), as well as financial risk. An example of how “diversifying risk away” can be achieved is through adding uncorrelated holdings to the corporate portfolio.

Types of diversification

Related diversification

- <u>Vertical integration</u>
  A 'vertical' integration consists of backward (concerned with inputs, e.g. tyre manufacturer acquiring a rubber latex supplier) and forward (concerned with an organisation's outputs, e.g. tyre manufacturer acquires a tyre retailer) integration, within a value network ('supply chain').

- <u>Horizontal integration</u>
  Such integration refers to diversifying outside the value network, into a related industry – a different business, as opposed to electing to take on the role of its own supplier/customer in the supply chain.

  A related industry is one where the organisation's existing capabilities can be complemented by the resources and competences ("assets and skills") found in the target investment.

<u>Problems with related diversification</u>

Related diversification appertains to adding or expanding an existing line of production or markets, and therefore we say that there could be an overestimation of the expected benefits (e.g. operational and corporate relatedness of 'economies of scope') and profits from these activities which are projected initially to bring synergy to the organisation.

JSW argue that small businesses are more suited for related diversification, whereas a larger set may require unrelated diversification to mitigate the above described problems. The reason is because the difficulty to maintain a synergistic relationship between the business' strategic business units (SBUs) is exponentially increased following an increase in number of SBUs.

In the absence of a rewards system based on group performance (as is the norm because it encourages competition between SBUs), managers will be less likely to want to co-operate with other units to enhance their relative standing in the organisation, leading to a pervasion of selfish, 'empire-building' mindset. Because of this, more 'hands-on' managers are hired at the corporate level to ensure sharing or transfer of synergistic benefits – increasing cost to an unsupportable level.

Based on their findings, it appears that 'capabilities are more important, regardless of relevance between businesses', contrary to Porter's belief that unrelated diversification is generally harmful.

Unrelated diversification

Unrelated diversification ('conglomerate[1] strategy') concerns the development of products or services beyond the organisation's capabilities or supply chain. Business units which are unrelated will obviously not engage in sharing or benefit from economies of scope.

<u>How unrelated diversification can be rewarding[2]</u>

- When a conglomerate exploits a particular 'dominant logic' (common sense in a sphere of understanding), it is likely that its diversifications will be more successful because its managers actually understand their acquisitions.
- Because they are able to mobilise a wealth of internal capabilities, conglomerates are less dependent on external markets for resources such as 'money' and 'manpower', allowing them to thrive in virgin territories, e.g. underdeveloped countries, often have underdeveloped capital and labour markets.

---

[1] A conglomerate is a large organisation, which usually has many unrelated businesses under its group umbrella. Share prices of such companies are prone to a 'conglomerate discount', i.e. a lowered valuation arising from the fact that the costs incurred at the corporate-level (e.g. remuneration packages of corporate executives, compliance costs, and the general limitations of corporate-level managers in adding value to the organisation) reduce the individual profitability of the SBUs.

It has been estimated that the conglomerate share price will be 'discounted' by as much as 10-15% compared to when its constituent business were individualised.

[2] Research proclaims that unrelated diversification, if undertaken extensively, will reduce organisational performance. Exceptionally, scholars have discovered that organisations with unrelated diversifications can perform well, and even gain efficiencies such as: better mobilisation of internal capacity, human resource development (especially managerial abilities) etc.

The reasons for international diversification

Market-based

- Going global may sometimes be an organisation's knee-jerk response to the globalisation of markets and competition – especially when the homogenisation[1] of offerings make native products or services marketable overseas.
- To follow major customers.
- To search for more promising markets, especially when the home market is saturated / mature.
- To exploit opportunities unique to certain geographical regions ('differences'[2]).

Strategic advantages ('to take advantage of strategic capabilities – exclusive to an organisation / country')

- To broaden market size.
- To develop resources and capabilities (which otherwise will not be possible in the home country) to achieve favourable objectives, e.g. cost efficiency.
- To enhance knowledge base (by entering markets renowned for their industry innovation).

Economic benefits

- Economies of scale.
- To stabilise earnings / spread risk across markets, i.e. using resources from profitable markets in an effort to reduce losses suffered at poorer-performing markets.

---

[1] It is generally thought that consumer expectations are skewed towards local tastes – i.e. differs by nationality and geography. However, there are markets which are homogenous, meaning that the firm producing and delivering goods and services will not need to modify its offerings.

[2] These beneficial 'differences' could be:

- Cultural
  When a certain market is particularly welcoming of home-based cultural specifics ('what you're selling from your country that's unique').
- Administrative
  E.g. favourable tax differentials available at tax havens.
- Geographic
  Strategically favourable locations where relative regional underdevelopment can provide firms with first-moving opportunities to dominate.
- Economic
  E.g. low labour costs.

How to select international markets?

Perform analysis of the macro- and micro-environment (using frameworks such as *PESTEL* and *Porter's Diamond*).

Relevant PESTEL factors

- Economic indicators – GDP, levels of disposable income, currency stability;
- Investment incentives of political antecedents – are there any trade barriers? is there a stimulus package for foreign investment?;
- Availability of basic factors – infrastructure appeal, skilled labours;
- Legal and political changes which may affect the profitability and security of your investment – industry law amendments? regime changes (which lead to increased sovereign risk[1])?;
- Effectiveness of regulation and enforcement / control – presence of intellectual property protection laws?

---

[1] Misuse of independence by governments (in times of economic or political uncertainty) to alter laws which cause adverse losses to investors.

How to enter international markets? (p.140)

Export Where goods are shipped to another country for future sale or trade – attributing a nation's gross output.	**Advantage** The host country will not require investment in operational facilities. Economies of scale can be exploited. Technology enables easier access to international markets. **Disadvantage** Although no additional investment is necessary, this also means that the firm cannot tap into the strategic advantages of the host country, as well as learning opportunities. The exporter is basically away from where the 'action' is, and this hinders its ability to respond to customer demands with agility. Exporting creates a dependence of the firm for the services of intermediaries, such as couriers and financiers. Also, exports are vulnerable to trade barriers (i.e. quotas, the levying of duties, competitor subsidies).

Strategic alliances (p.189) This is where two or more organisations share resources and activities to pursue a strategy. An example of a formal alliance is a JV, whereas networks and opportunistic alliances are less formal, and last ephemerally. Fun fact: 50 per cent of alliances by the world's top 500 companies normally fail. . **CONTRACTUAL AGREEMENTS**[1]	**Advantage** With a partner, investment risks and returns can be shared, along with resources and capabilities ('know-how') which may give rise to synergy. Aside from that, JVs may be the only vehicle of entry a corporation has to penetrate a market which has significant governmental restrictions. Contractually agreed income, and limited economic and financial exposure for licensor. At the same time, licensee receives finished product without having to undergo extensive research and development efforts.

FORMAL ALLIANCE(S) **Joint ventures (JV)** An arrangement where two or more businesses (normally involves a foreign and local partner) between start a new business (essentially three entities) for the purpose of accomplishing a specific project **SEMI-FORMAL ARRANGEMENTS** **Licensing** A legal contract in which the licensor grants the licensee rights (or quotas) to produce and sell goods, apply a brand name or trademark, use patented technology etc. **Franchising** Contractual provision of brand, an operational model, and required support in exchange for a fee.	Synergy can be achieved if the parties complement each other. **Disadvantage** Identifying the right partner for such a venture is difficult. Negotiations can be lengthy ('protracted'), and partners are not always trustworthy. Foreign partners may find it difficult to maintain relationships with their local partners due to cultural differences. Licensing often leads to a loss of competitive advantage by way of imitation. The locality of the arrangement also limits the benefits which can be enjoyed by the licensee. The business loses control in a sense that resources (such as manpower) are local and might be hard to mobilise. Relatively slow to arrange (especially Joint Ventures), and takes time.

Foreign direct investment (FDI) An investment made by a company in a foreign country, by either starting from scratch (greenfield investment), or acquiring business assets / an existing company (brownfield investment).	**Advantage** Unlike a JV, firms going in as FDIs will gain full control of their resources and capabilities which could be integrated across borders to benefit the organisation's other international operations. Greenfield investments are popular with host governments, and can help attract financial support. Brownfield investments allow rapid market entry and deployment of resources. **Disadvantage** Whether it is a brownfield or greenfield investment, FDI requires substantial resource outlays and exposes the firm to a wide array of economic and financial risks.	

	Greenfield investments are also time-consuming and have complicated long-term cost issues.	

Staged international expansion A process whereby firms gradually reach out internationally by increasing exposure / accumulating knowledge and increasing their capabilities.	**Advantage** The 'staged international expansion' strategy is a more cautious approach compared to other entry methods, as the firm has the opportunity to adapt and modify their operations in a new market / environment. **Disadvantage** The gradualness of this cautious approach means that firms adopting a staggered entry to new markets will be outpaced by rivals whom may establish their positions quickly to obtain a first-mover advantage.

---

[1] A 'contractual agreement' is a voluntary agreement between two or more foreign parties binding by law.

International strategies (p.144)

Global	Multi-domestic
Standardised products	Adapted products
Provides opportunities to exploit economies of scale, allowing the business to decrease its manufacturing cost per unit	Facilitates smooth access into markets where cultural heritages and traditions are strong (i.e. resistance towards accepting cross-border products)
Centralised production – value-adding activities are concentrated in a limited set of locations.	Decentralised production – all value-adding activities are located in individual national markets served by the business… which can be problematic to manage as home country loyalties will inevitably be replaced with a system of corporate values and loyalties that is globalised

Despite what we see above, organisations rarely are pure-global or pure-multi-domestic. Instead, a ‘balanced’ approach is usually pursued – where the weightages of global and multi-domestic elements are dependent on locational characteristics (demographics, laws etc.)

Diversity and performance of going global (p.146)

By expanding internationally, businesses are able to benefit from scale and scope, but at the same time, would need to juggle the inherent complexities of its diversified operations. It requires constant management of cost and benefits.

Even so, studies have shown that the performance advantages of service-based firms are restricted, by factors such as: regulations, learning costs (for adaptation), littler opportunities for creating economies of scale. The best way to overcome this, strangely, is by diversifying internationally on a more ‘extensive’ level.

How does the corporate parent create value? (p.147)

- Envisioning
  By establishing an overall role and expectation (Hamel and Prahalad call this creating 'strategic intent'), the corporate parent will be more aware in prioritising value-adding activities ('focus'), SBU managers and stakeholders are more conscious of parent's role ('clarity').

- Intervening (not 'interfering', which instead destroys value)
  The parent has to monitor its subsidiaries and challenge its strategies ('motivate') to ensure that the businesses are performing optimally. In addition, a sensible corporate parent should be able to take action in response to the performance of the businesses.
  This differs between parenting styles:
    - a portfolio manager usually replaces managers, sell / turn-around poor-performing businesses;
    - synergy managers will want to enhance synergies by aiding its SBUs to develop its capabilities and provide sufficient coaching and training – through a separate SBU;
    - parental developers may extend its own resources to help an ailing subsidiary, or elect for outsourcing non-value-adding activities (i.e. processes in which the subsidiary is not efficient at).

- Centralise service and resources
  A parental corporation that oversees the operations of the organisation is able to centralise certain administrative functions ('overhead items'), support services and infrastructure etc. and encourage sharing between SBUs, thus preventing duplication of resources.
  The parent is also a source of investment funding for the SBUs, which can help catalyse its ability to commence operations at an effective pace.
  Managerial capabilities are also more fluid and readily transferable within a conglomerate. Business managers, especially those of a parental developer, may be transferred from country to country to be exposed to international experiences and challenges for improving their acumen and to globalise the perspectives of local SBUs.

- Provide expertise
  A conglomerate with a synergy management style is able to extend its non-core activities (such as administrative functions and R&D), broker and negotiate, as well as merge the group's purchasing power with its subsidiaries. These areas of expertise will then allow for better economies of scale, thus adding value to the entire organisation.

Conglomerate discount

Diversified companies' share prices are often marked down, because shareholders prefer the 'pure plays' of stand-alone units, where weak performance cannot be hidden.

Value-destroying activities

Adding management costs

Businesses may underperform because the revenues generated have to be contributed towards paying for the corporate centre's staff and facilities. When these costs are greater than the value created, then it can be said that the corporate centre's managers are causing net value destruction.

Bureaucratic fog

Corporate parents tend to add control systems to better manage their SBUs which are often complex (e.g. additional layer of management, mechanisms which force coordination with sister businesses). Placing such systems in place will create administrative burden for business managers and cause them to not be able fully concentrate on the business, thereby slowing down their responses to issues.

Financial safety net

By cross-subsidising weaker businesses with the funds generated by stronger-performing businesses, the executives of the inferior SBUs will not be completely answerable for the performance of their business units. Also, because of this, shareholders and financial analysts cannot easily judge the performance of individual units within the corporate whole.

Over-diversification

It is possible for business unit executives to understand the overall vision of an overly diverse and large organisation. Likewise, when a portfolio manager, for instance, undertakes extensive diversification, he/she is likely to overlook on the fit of its capabilities to the target acquisition – leading to confusion on the part of the parent's aims.

Focus on managerial ambition

When a corporate-level executive prioritises his/her career ambitions over corporate interests when making strategic decisions, the corporation could for example, end up making risky takeovers (marked by poor due diligence and inadequate integration planning) which would destroy shareholder value.

Corporate parenting rationales (p.150)

PM Portfolio manager

A portfolio manager sees itself as a corporate parent acting as an ‘agent’ making investment decisions on behalf of its shareholders, investors, and the markets.

The portfolio manager’s core competence is in corporate turnarounds – i.e. acquiring and improving “undervalued” businesses. To this corporate parent, only profits matter. Henceforth, such corporate parents will set strict quarterly targets for its businesses, exercising what is known as ‘hands-off’ / ‘light touch’ management style – monitoring and motivating, but infrequently intervening.

A portfolio manager often partakes in unrelated business diversification (which can be extensive), and expects its individual holdings to compete with one another.

Once the objective of ‘turning around’ the company has been achieved / the business has achieved good results, they will either be sold off by the parent for a premium, or be held – and its managers consequently rewarded for their performance (and not for group performance as a whole).

Conversely, managers of unprofitable businesses might face the fate of being replaced, and their business could be unsympathetically sold off if turnaround efforts are deduced to be too difficult / troublesome.

The problem with portfolio managers is that their roles and functions tend to be substituted by financial analysts, or hedge funds.

SM
Synergy manager

To a synergy manager, only synergies (and sharing) matter. In the style of this parenting rationale, businesses will be rewarded based on group performance.

A synergy manager prefers related, collaborative diversification, where 'sharing' and 'complementary' activities can take place for reifying / generating economies of scale and scope.

To enforce the principle of 'sharing', the parent often has to take a hands-on approach and facilitate cooperation across sibling businesses.

On the downside, there are a few problems with this approach to corporate parenting:

- Requires more managers to be under the corporation's payroll, which incurs a high cost to maintain synergy;
- Overcoming the self-interest of business-level managers can be quite challenging, and requires constant reinforcement / reminding by corporate parents;
- Synergies can be 'illusive', arising from the fact that synergistic benefits can be hard to measure, and are as variable as local conditions permit;
- There can be 'compatibility issues', i.e. it would be difficult to integrate businesses of different culture – especially when a party to the acquisition was part of a portfolio-style management in the past;
- Strong-willed enforcement by corporate managers could leave business-level managers feeling demoralised.

PD
Parental developer

In contrast to the above parenting styles (such as the portfolio manager's "take care of yourself" idealism, the synergy manager's "sharing culture"), the parental developer takes the extra step to help businesses with its own capabilities – to add value using its own capabilities, such as what Unilever does with its bankable brand.

While there is more or less a "parental development" support, sharing is not emphasised, and rewards are based on the individual performance of the SBUs.

The parental developer can be rather discerning in its choice of business acquisitions, choosing only those businesses with requirements matching its capabilities. Only with such combinations can we expect a 'parenting opportunity' to present itself.

The parental developer nevertheless has its challenges:

- Internal capabilities can be difficult to identify – in some cases, possibly risk being wrongly identified as well;
- Maintaining focus can be tough, and that means that if the corporate parent identifies that it has value-adding capabilities in particular and limited ways, it should not provide services in other ways (or if it does, they should be provided at minimal cost).
- The emotional attachment towards crown jewels[1] which should rightfully be divested;
- A corporate parent may be unsure of its parenting style (e.g. confusion in 'mixing' up synergy and parental development styles), and this can have the effect of baffling business managers as well.
- Understanding any particular business (to acquire what's known as 'feel') is complex – the parent is expected to understand a myriad of factors: from nature, products, markets, to strategies, critical success factors, key performance indicators etc. Wrong interventions (due to the lack of 'feel') could ultimately destroy value.

---

[1] A 'crown jewel' is a business which is performing well but has limited areas for the parent to add any value. In other words, the 'crown jewel' is a very profitable business without help from the parent because the latter does not have the required capabilities to inject further growth in this SBU.
By strict logic, parental developers should divest businesses they do not add value to, even profitable ones. The funds raised by selling a profitable business can be reinvested in businesses where the parent can add value.

[*] "Effective structural and control linkages" has been cited as a requirement of upholding solid company-to-company (horizontal formal communication and reporting channels) and parent-subsidiary relations (vertical formal communication and reporting channels).

Date	04/04/2018

Managing the corporate portfolio (p.155)

To better understand the corporation’s diverse business units or businesses, managers need to pay attention to two areas:

- Balance
  To assess the ‘balance’ of the corporate portfolio (and strategies on how to deal with different classes of businesses based on different parenting styles), we use the Growth Share matrix (or otherwise known as the ‘Boston Consulting Group’ matrix / ‘Boston Box).

- Fit
  The ‘Ashridge Portfolio Display’ (otherwise known as the ‘parenting matrix’) is used to determine the fit between a parent and its SBU – vertical relationship.

BCG MATRIX

The matrix as we see below represents different businesses within a corporate portfolio, it is flanked by two planes:

- Market growth
  External, beyond the organisation's control. Represents opportunity. A decent market growth rate is around 5% or more.

- Market share
  Defined as the company's strength / weakness. A dominant market share is determined as >25%.

We can assume from the graph below that market growth equates to revenue (the higher the market growth, the easier it is to increase revenue), and that cost is a necessary factor to continuously compete in such an environment, therefore directly proportionate.

QUESTION MARKS
"Problem child"
Low revenue,
high cost

Loss-making

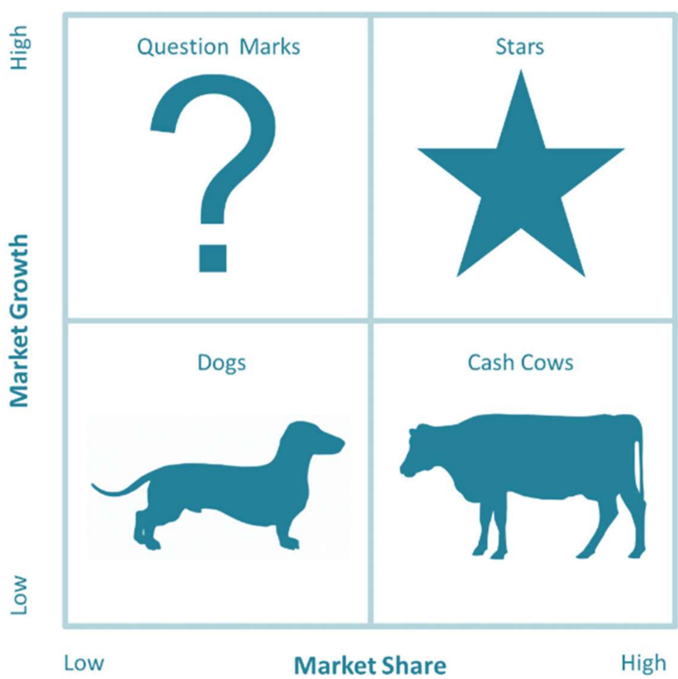
- **PM:** Divest
- **SM:** Continually invest using funds from Star & Cash Cow.

DOGS
Low revenue,
low cost

Low profits / losses

- Divest
- **SM:** Disinvest

A 'dog' could nevertheless be a strategic business that provides synergy, so **SM** may not divest just yet.



STARS
High revenue,
high cost

Moderately high profits

- **PM:** Sell / Hold
- **SM:** Hold, and use 'Stars' to fund poorer businesses.

CASH COWS
High revenue,
low cost

High profits

- Hold
- **SM:** Hold, and use 'Cash Cows' to fund poorer businesses.

A 'dog' could nevertheless be a strategic business that provides synergy, so **SM** may not divest just yet.

NOTE: A balanced portfolio is not one that contains all four classes of businesses; instead it must fulfil two conditions: achieve overall profitability, and have at least one business in a high-growth / potentially high-growth market.

Relevant to the BCG Matrix:

Hold Hold, but continually invest.

Invest	Provide continued support.
Divest	Sell off.
Disinvest	Hold, but make no further investments.

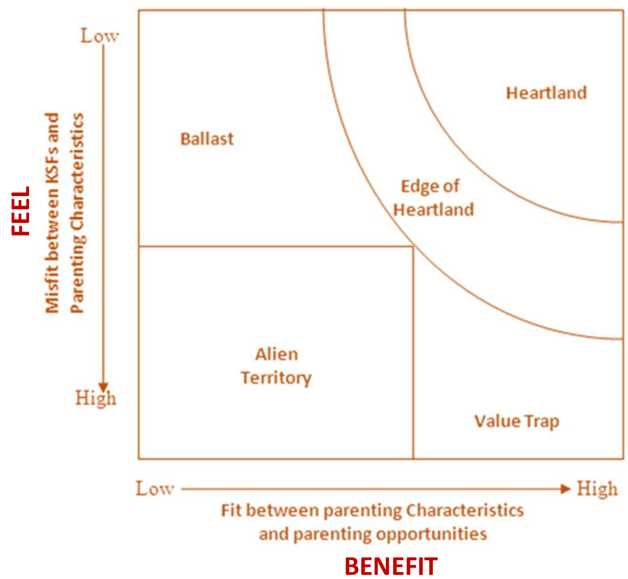
BCG must be applied if the scenario provides: a portfolio of businesses, and data for ascertaining market growth / market share (e.g. market revenue, business revenue). To answer, please make sure that you have performed a PESTEL analysis, reviewed the financial performance… prior to using the BCG to infer the business' contributions and significance to the organisation (whether to existing or future business growth), and making any recommendations.

ASHRIDGE PORTFOLIO DISPLAY (‘PARENTING MATRIX’)

The Ashridge parenting matrix assesses the ‘fit’ between parent and subsidiary using two axes:

- <u>Feel</u>
  How well does the parent understand the business? How goes its ability to support the SBUs' critical success factors by using its resources and capabilities?
  This is commonly reflected through SBU performance – financially and non-financially, quantitatively (e.g. profits) and qualitatively (e.g. motivation).

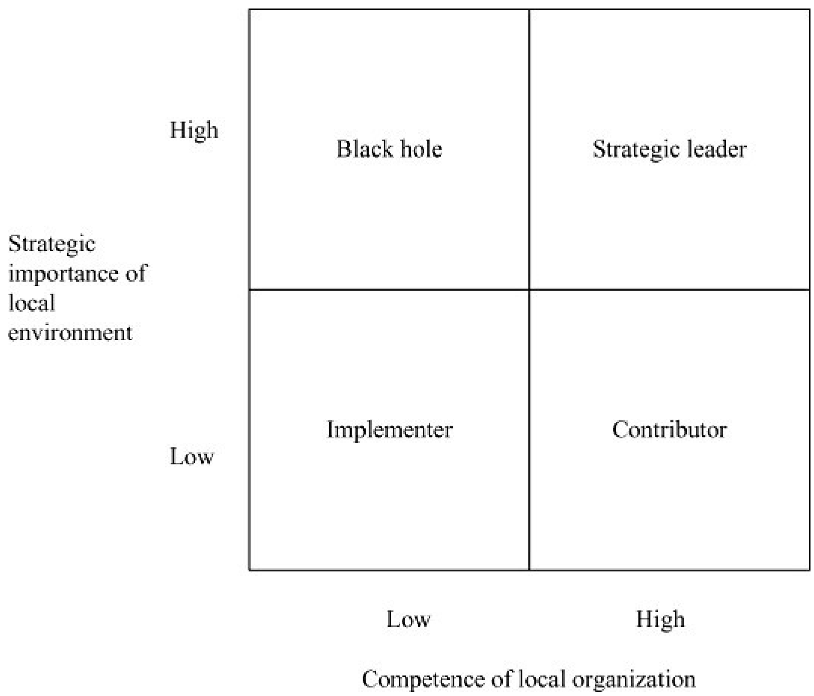
- <u>Benefit</u>
  How well do the parent’s capabilities match the business’ needs? Is there opportunity to help SBUs add value?
  Refers to ‘parenting opportunities’.



Ballast	A ‘ballast’ business can either be: • Loss-making business – choose either to divest / de-merge, or outsource for capabilities. • A profitable business unit (‘crown jewel’) – in which case it is probably best to divest / de-merge, or retain but manage with a ‘hands-off’ approach.
Value Trap	These are the businesses outside the corporate parent’s domain of dominance. A business that could only probably be a ‘Heartland’ unit if it is possible for the corporate parent to understand improve ‘feel’ towards the business, before intervening.
Heartland	These businesses operate within the corporate parent’s industry and there are opportunities for the parent to add value by helping it develop the skills necessary for success.
Alien Territory	This is a business of which the corporate parent has no knowledge of – ranging from internal and external factors affecting the business operating in that industry, to what resources and capabilities are needed to make it successful. (Low-Feel) There are no opportunities for the parent to add value by helping it because potential business has the skills necessary for its success. (Low-Benefit) This is a misfit business which must be divested.

Rule of Thumb: Don’t apply this matrix unless the business has been acquired.

Subsidiaries' roles in multinational companies



Strategic leaders
Subsidiaries with valuable capabilities located in countries critical for competitive success – due to market size, or accessibility to key tech.

Contributors
Have valuable capabilities, but not located in the best environment for the industry.

Implementers
'Cash cows' which do not contribute to the multinational's competitive success. Could devolve into 'dogs'.

Black Holes
'Question marks' with low capabilities. May transform through strategic alliances.

Date	06/04/2018

Business-level strategies (p.165-)

Options at the business level can typically be generated by following through the elements below:

- Basis
  The two principal bases of competition are price and differentiation.

Frameworks available:	Porter's Generic Strategies
	Bowman's Strategy Clock

It should be noted that an organisation, by being unclear about its fundamental generic strategy, will often fail because it might be pursuing more than one basis – but that is not to say that a company's business strategy cannot have multiple directions or methods.

- Direction
  Provides answers in selecting products, markets… "where (whether geographically, or demographically speaking) is the company going to compete, and how?"

Frameworks available:	TOWS Matrix
	Ansoff's Matrix

- Method
  The means of how the organisation is able to pursue the chosen directions.

Framework to use:	IAS

▼

SAF

Once the models have generated the strategic options, the SAF model (a combination of "success criteria") is used to evaluate the proposals and by doing this, managers can make informed decisions on the appropriateness and likelihood of success of these options.

The SAF model is a popular model used before the implementation of both corporate and business strategy.

(p.167)

Porter's Generic Strategies	This model generates and evaluates strategic choices and their bases

Michael Porter (1985) has described two main fundamentals with which a business is able to adopt and compete:

COST-BASED	DIFFERENTIATION-BASED
The competitive advantage of this approach lies in the fact that the company isn't blindly axing the selling price of its goods/services to attract higher sales, but instead, focuses on lowering costs which come as a result of improved production methods and redesign efforts. That way, the company is able to improve margins without changing prices.	A differentiation-based strategy requires something about the product / services offered by the company that is different from its rivals – it can be packaging, delivery, or a subtle distinction in product specifications.

TOYOTA	General Motors
C O S T L E A D E R S H I P	B R O A D D I F F E R E N T I A T I O N
Thinking from the perspective of cost leadership involves positioning to be the market's lowest-cost producer (broad targeting). With skilled execution, rivals may not be able initiate such a strategy without compromising on quality.	A company competing from this angle will seek to improve the quality and variety of its products / services. Such quality and variety spoken of may not be easily imitable by rivals, and hence, becomes a competitive advantage for the business.

It is believed that by producing goods / delivering services which have better value-for-money can attract a wider customer base – comprised of new users, existing users of now increased frequency, and most importantly, 'converted' customers whom have defected/switched from your rivals and now choose to come to you.

Large markets and advanced product potentials may be unlocked for the business adopting a broad market approach.

COST **FOCUS**	DIFFERENTIATION **FOCUS**
Essentially, this strategy is about becoming the lowest-cost producer in a niche market.	This option requires developing unique features through continuous improvement within a narrow market with specific demands.

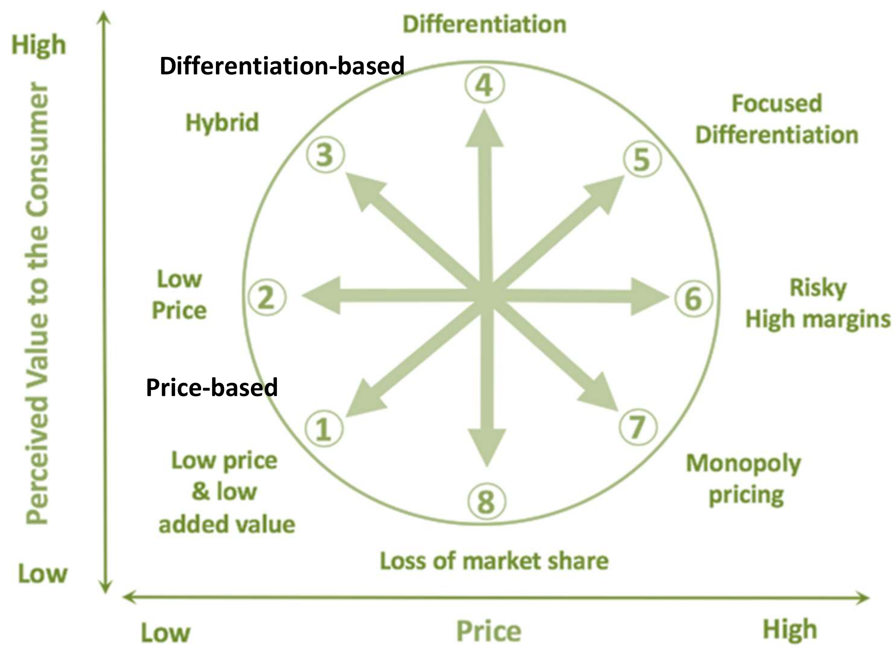
Differentiation focus has been attempted in many industries, but it can be argued that cost-focus is hard to achieve, for the most part due to the inherent difficulties in obtaining any significant economies of scale in a small market.

It is generally easier to concentrate on servicing a narrow sales channel than it is to try and lower costs within the same environment.

(p.168)

Bowman's (Strategy) Clock	This model generates and evaluates strategic choices and their bases

Just like Porter's *Generic Strategies*, Bowman's Strategy Clock (1997) is a model that explores the options for strategic positioning – i.e. how a product should be positioned to give it the most competitive position in the market.



1	'No Frills'	Here, the business pursues a strategy of offering low value at low prices. While mostly applicable to commoditised products (with lower levels of differentiation), business models such as Ryanair and AirAsia have increasingly done the same with the airline industry by providing basic services at low costs to price-sensitive market segments, while offering add-ons to customers at a premium. Having said that, not any organisation can simply transition into a 'no frills' approach[1].
2	Low Price	Most hypermarkets (such as Giant, Mydin, AEON BIG) offer products of equal value at relatively lower prices. Often they are able to do so because of economies of scale and their high bargaining power. Nevertheless, this strategy could leave the business vulnerable to an industry-wide price war, when instead of contending on costs, industry players are lowering prices regardless of cost, resulting in low margins and even losses.

<table>
<tr><td>3</td><td>Hybrid</td><td>By far the most difficult strategy to pursue. Companies adopting this strategic option have often got to relentlessly lower their cost base, while improving product / service value by reinvesting[2].
IKEA, Toyota, and Malindo have shown that it is possible to both compete as cost and differentiation-centred leaders.</td></tr>
<tr><td>4</td><td>Broad Differentiation</td><td>This class refers to the same strategy as described by Porter, except that when Bowman described broad differentiation, he basically split the term into two categories:
• High value, low premium: refers to the approach taken by companies like BMW;
• Another option, like the one observed by Audi, bases its differentiation on price premium + added value that’s identifiable by the consumer.
Making the jump from narrow to broad differentiation precludes an expansion of markets and products.</td></tr>
<tr><td>5</td><td>Focused Differentiation</td><td>This narrow form of differentiation seeks to deliver high value at high prices, to a segment of customers that is quality-sensitive or healthy.
Trademarks which fall under this category include like Louis Vuitton, and OMEGA.
If the strategic customer is in sight, companies should pursue focused differentiation.</td></tr>
<tr><td colspan="3">Uncompetitive, ‘destined for failure’ strategies</td></tr>
<tr><td>6</td><td>High Price – Standard Quality</td><td rowspan="3">Unless the business operates in a monopolistic environment, it is very likely that, by adopting strategies such as these, the products / services sold will be destined for failure.</td></tr>
<tr><td>7</td><td>High Price – Low Quality</td></tr>
<tr><td>8</td><td>Standard Price – Low Quality</td></tr>
</table>

[1] Factors which discourage adoption of ‘no-frills’ strategy:

- High cost base – salaries, employee benefits, finance costs, maintenance costs
- Branding
- Redundancy negotiations
- Strategic customers
- Disintermediation implications

(see DECEMBER 2007, Q1)

[2] Reinvestment means funnelling profits / margins back into business for research and development that meaningfully reduces process and product costs, while maintaining or enhancing the quality of their offerings.

(p.181)

TOWS Matrix

This model is used to evaluate the current position of an organisation, and helps identify directions and methods.

	Opportunity (O)	Threat (T)
Strength (S)	Use strength to exploit opportunity.	Use strength to mitigate threat.
Weakness (W)	Overcome weaknesses first, before exploiting opportunity.	Minimise weakness to mitigate threat.

When to use? When scenario contains SWOT analysis.

How to use? Identify TOWS, and justify.

(p.184)

Ansoff's Matrix

This product/market matrix is an alternate model used to generate and evaluate strategic options in terms of direction.

Markets \ Products	Existing	New
Existing	**Protect/Build** • Consolidation (Defensive) • Market penetration (Offensive) – backward / forward integration	**Product development** • Modification (existing) • New (new capabilities) • Revolutionary (beyond current expectations)
New	**Market development** • New market segments (seeking out new demographics) • New territories (geographical expansion) • New uses for existing products	**Diversification** • Related (existing capabilities) • Unrelated (new capabilities) • International diversification (beyond current expectations) • New products and markets (transformational, see *B&H*)

Consolidation

Defensive strategy aimed at maintaining the business' competitive position, and to protect existing markets – especially when the market has matured.

A consolidation strategy allows for strategic moves such as below:

- concentrate on retaining customers;
- downsizing, e.g. closing down non-core businesses (divestment);
- buying up rivals before being acquired (the motive here is defensive).

Market penetration

Offensive strategy in which the business builds further by attacking rivals (such as entering adjacent industries) and gaining their market share. It's generally easier to do so when any combination of the following are the situations present:

- market growth rates are high / market is rapidly expanding;
- capabilities such as 'manpower' and 'money' (see *6M*) are available;
- market leaders are complacent;

- legal constraints are relaxed and dominant positions can be formed without government intervention (the opposite of stringent 'competition laws' prohibiting explicit market share of 25% and above).

Prod. development

The strategy takes on the following approaches in generating new products:

- through existing capabilities – timely when the organisation (preferably one which boasts strong core competence which can be exploited) is in an industry in which customer needs change, resulting in short product lifecycles;
- with new capabilities – when customer emphasis (and critical success factors with it), resources and competences may become insufficient in the near term, and so the company will have to develop new capabilities (e.g. developing website capabilities to supply info) to fulfil the requirements of the marketplace;
- by taking the initiative to exceed stakeholder expectations – while at the same time, balance shareholder and customer expectations.

The potential problems we foresee in such a strategy is that the research and development efforts which contribute towards product development can be a huge commitment. Also, this option may not be entirely available to weaker firms in the same boat (where customers demand new products).

Especially important for tech-intensive companies.

Mkt. development

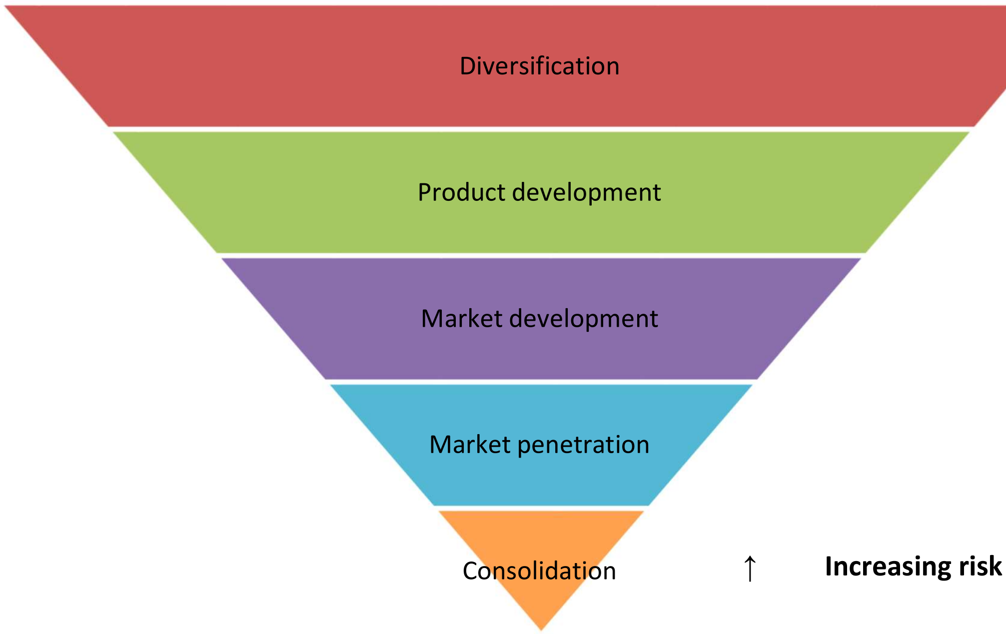
A firm opting for market development can consider the following directions to choose from:

- new market segments (e.g. a firm accustomed to selling to public customers can reposition themselves as a firm that serves both public and private customers);
- new territories;
- new uses for existing products (e.g. Coke and steel);
- new capabilities – i.e. never done with existing capabilities, as new markets may carry different requirements.

Diversification

(*see Chapter 5*)

Risk rating of directions in Ansoff product/market matrix



(p.186)

IAS

This model provides the methods of strategy development by which directions can be pursued.

Internal Development

- Development pursued using own capabilities.
- *Organic* – progressive, incremental building of capabilities.

Most organisations adopt this as their ‘primary’ method because it does the following:

- Helps retain trade secrets, as other methods require sharing of unique resources and core competences;
- Enhances capability and knowledge, because capabilities (such as ‘manpower’) are under your control and will provide direct benefits;
- Spreads costs over time (e.g. ‘greenfield’ foreign direct investment) even though it’s eventually higher than mergers and acquisitions;
- Provides cash flow relief as opposed to ‘brownfield’ investments;
- Promotes better ease of doing business – other methods involve disruptive changes (there may be poor reception or strong resistance by staff), and rarity of locating suitable companies to merge or form strategic alliances.

Acquisition

- Taking ownership of another organisation.
- Risky, disruptive, and distractive.

What are the motives for acquisitions and mergers?

- Dynamic changing environmental factors may necessitate fast entry to seize business opportunities (“rapid expansion”);
- To enhance market dominance in response to deregulation – i.e. privatisation of markets;
- To inject surge of excitement in financial markets by providing an overnight increase in market share – of course, market share could be of a strategic concern as well;
- To maintain equilibrium of supply – especially when there is excess capacity (‘oversupply’) in the market;
- Reduces potential for competitive reaction (‘retaliation’);
- Consolidate a fragmented industry by shutting down acquired companies;
- Acquisition of underperforming businesses for turnaround opportunities (primarily the interest of portfolio managers).

It should be noted that most acquisitions are failures, which is why this form of strategy development is the riskiest, by far.

Strategic Alliance

- Two or more organisations share resources and activities to pursue strategy.

What are the motives for strategic alliances (forming formal, semi-formal, informal alliances with third-party organisations)? Why are they increasingly popular to-date?

- Achieving *critical mass* – allows optimal use of resources for both businesses – by pairing companies which are concurrently under- and over-performed in certain aspects;
- Promotes '*co-specialisation*' through sharing of core competences and complementary activities – companies, in doing so, get to focus / specialise in activities that best meet their capabilities;
- Strategic alliances can potentially add value by enhancing learning and experimentation (through providing more options).
- Promotes learning;
- Provides more options for experimentation (which is often said to be a 'transitory' activity that matches the timescale of a strategic alliance);
- Provides convenience, e.g. in the airline industry, codesharing – agreements between two or more airlines to list certain flights in a reservation system under each other's names – is used to instantly increase flight frequency and provide seamless travel for the flying customer.

Types of strategic alliances

Formal alliances involving joint ownership of a new organisation (business/project-based)
• Joint venture (JV) Involves the creation of a new business, jointly owned by two or more parties. • Consortia Involves the joint set-up of an impermanent business entity to focus on a venture/project.

No joint ownership; no legally-binding contracts – only mutual, verbal agreements
• Business networks • Opportunistic alliances

Semi-formal alliances; no joint ownership, but will include legally-binding contracts
Formal relationship
• Franchising • Licensing • Codesharing
Less formal relationship

- Outsourcing / Subcontracting
  An alliance which typically requires a legal document known as the *Service Level Agreement*.
- Co-production
  Production activities are transferred to customers.

Factors for a successful alliance (Johnson, Scholes & Whittington) (p.191-192)

It has been estimated that almost 50% of all strategic alliances would normally fail – as forming alliances is easier than maintaining them.

Like in any organisation, the parties to a strategic alliance must establish compatibility, and define performance expectations which could then be subsequently met.

The key ingredient, as according to the academicians, is trust, which can be broken down into two types:

- *Competence-based* – confidence about capabilities
- *Character* – of the whole organisation's integrity and ethics

(p.193)

SAF

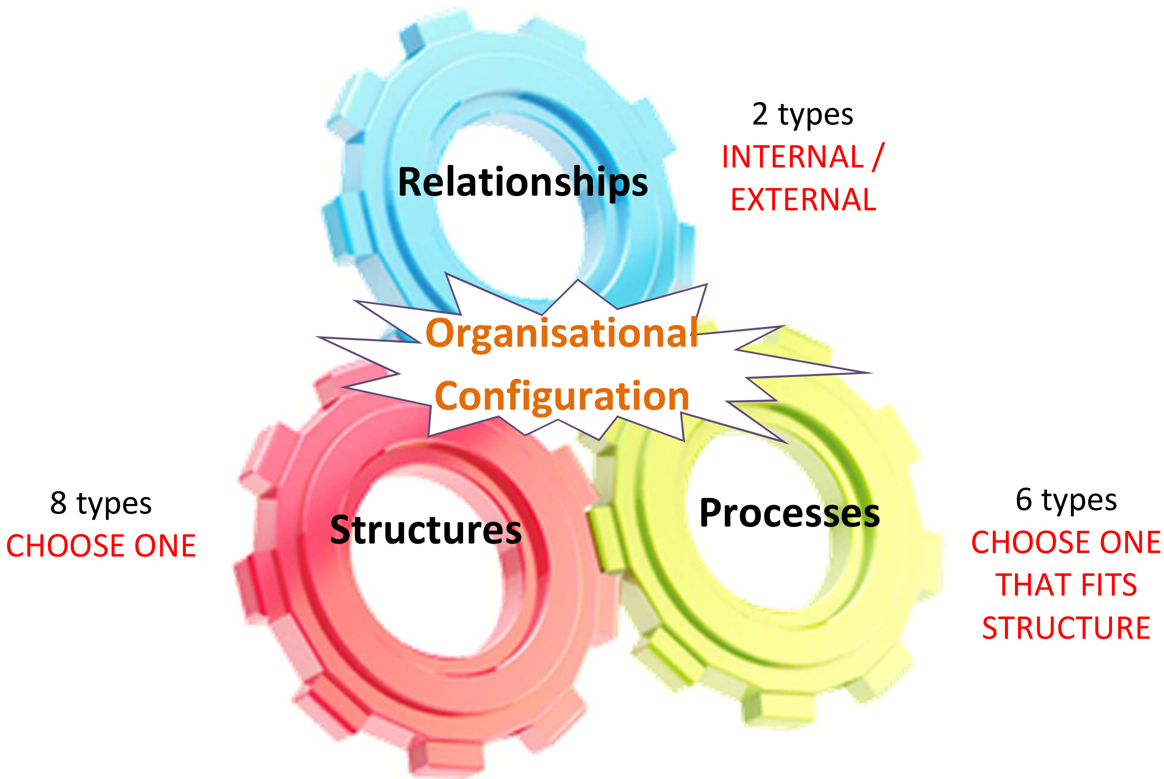
This framework is used to assess / evaluate the likely success of proposed strategic options (its bases, directions, and methods) – at the corporate/business level – for establishing the basis of choice. SAF should not be mistaken for a framework used for evaluating past and current strategies.

Suitability	Determines whether the strategy is relevant to the strategic position of the company. • Are any of the identified TOWS combinations possible? • Is it in line with the organisation's culture? (see JSW's *Cultural Web*) • Is it aligned with stakeholder expectations? (see *Mendelow's Matrix*) If the answer for all the above questions is YES, that means the strategy is <u>Suitable</u>. Should the strategy be not so appropriate, it is suggested that recommendations are provided in order to make right the strategy.
Acceptability	Acceptability ("will it be accepted by stakeholders?") is considered/compared from three vantage points: • Returns – profitability ratios; • Risks – gearing and liquidity ratios; • Reactions – what will the likely responses of stakeholders (shareholders and others) be?
Feasibility	To assess feasibility requires asking the question: "Do we have the required capabilities to <u>pursue (implement)</u> and <u>follow-through (manage)</u> the proposed strategies?" The resources and competences obviously differ between the two aims: • Survival – threshold capabilities will suffice; • Further success / sustained competitive advantage – unique resources and core competences are needed.

SAF's use ties-in with corporate best practices for due diligence – and performing an SAF analysis is a must for all proposals of strategic nature, one at a time. The strategy has to survive the analysis' three success criteria if it has any hope of being implemented.

Date	09/04/2018

Organising for Success (p.204)



The choice of structures should be based on external (environmental) factors and internal factors.

Next, only processes of the right fit (to structures) should be selected – or else, organisational performance will deteriorate.

Relationships are broadly rounded up under the headers: 'internal' and 'external'.

As a result of having combined all three elements: structures, processes, and relationships – we should arrive at the organisational configuration. To determine the wellness of "the fit", we use *Mintzberg's 6 Organisational Configurations and Situations*.

Structures (p. 205-)

Structures are essentially another way of saying 'lines of reporting'.

The case about structures is that, in small organisations, these communication links are usually flexible and informal – features which are normally lost to rigidity as the organisation expands.

Entrepreneurial **(*'CEO' structure*)**	• Owner-managed • Organisation contains no more than 2-3 levels • Decision-making is autocratic • Ability to quickly respond to situations makes this a suitable structure in dynamic and hostile environment • Narrow product/service scope
Functional / Departmental	• Next stage of evolution of a growing CEO structure • Managers have narrow span of control (because there is a smaller number of employees) • Encourages specialisation and accountability (clearly documented and defined) • Tall, rigid structure (unsuitable for dynamic environment)
Multidivisional Related "internal markets" Unrelated "performance targeting" (see *Processes*)	• Diversification into multiple products (product-based) and locations (geography) • Each division has a **functional** structure (individually centralised) • Relationship between headquarters and divisional office is preferably decentralised • Trains business managers to corporate-level managers • Prone to vertical and horizontal duplication (which prevents ability to add value • Overly autonomous business units may be misaligned with corporate aims
Holding company	• Multidivisional, but much more decentralised • Corporate managers prefer a hands-off, portfolio management-style approach • Limited opportunities for synergy
Multinational **Matrix structure**	• More complex than a multidivisional structure, as it is a combination of geographical (country) and product classifications – combination of at least two structures • Most trading companies operate using a matrix structure • Balance is an important objective here. Concentration on 'country' aspect means that trading company managers will likely think local (i.e. 'customer focus' in coming up with goods and services which specifically meet local demands); whereas product managers prefer thinking 'global' (i.e. homogenous goods produced in large quantities, leading to economies of scale and cost reduction. (*"Dual-dimensionality"*)

	• Following the above stated points, this approach best integrates management's knowledge from the perspective of markets and cost. • Promotes communication on all levels. • May incur a protracted decision time, leading to expensive communication and collaborative costs • Higher degree of conflict arising from indiscernible reporting channel (employees are often confused on who to report to), managers will have clashing strategic opinions at times (e.g. over customer and product focus – which balance has to be struck) • Responsibilities concerning costs (as above, communication costs can be difficult to assign), profits, and tasks are often unclear
Transnational	• A hybrid structure that combines the responsiveness of individual national units and the comprehensive product networks of a multinational organisation • Diversified regional presence induces better local responsiveness, organisation-wide innovation and learning • Centralised manufacturing enables scale economies
Team-based	• Small team formed by 6-8 members (as recommended by Belbin, effectiveness is tied to these numbers) • Usually a permanent team consisted of specialist members • Cross-functional – members adeptly work across many levels, taking on numerous roles • Environment creates continuous knowledge-sharing, and boundless synergy • Its weakness is its inability for scale. The effectiveness of a team could be lost if the number of members goes beyond the optimal figure. However, an increase in the number of teams will not hamper performance as much.
Project-based	• Size of the organisation depends on the scale of the project • May be formed by specialists or not (unlike team-based, where specialisation is a must) • Temporary – a team is usually dissolved after a project is completed, meaning knowledge sharing is less permanent than a 'team-based' structure • Project objectives are clearly defined • Formed with diverse, multi-skilled members trained to complement each other's roles • Arises from a functional structure

Processes (p.216-)

'Processes' refers to the way employee behaviour is influenced/controlled.

The types of 'controls' are as follows:

	Input Resources	**Output** Assigned targets and rewards
Direct Hands-on, close supervision	<u>Direct supervision</u> • Employee behaviour is influenced/controlled by one or few individuals (usually the owners themselves) • Allows for quick decisions to be made • Effective in 'crisis' periods or corporate 'turnaround' situations • Owners/monitors must have adequate understanding and be physically present • Rigid/formal – functional structure • Flexible/informal/impromptuous – CEO structure <u>Planning processes</u> • Employee behaviour is controlled by plans/procedures[1] (e.g. budgets and standard operating procedures) • Characteristic of a 'role culture' • Routines and work processes are standardised	<u>Performance targeting</u> • Employee behaviour is controlled/influenced by formally-defined KPIs • Prevalent in 'task culture' environments • See *Balanced Scorecard* (p. 222) • Practiced by holding companies and multidivisional structures with many unrelated businesses • Recommended if managers are unsure of the nature of the work performed by employees
Indirect Hands-off, as conditions for achieving desired behaviour are set-up	<u>Cultural processes</u> • Employee behaviour is influenced/controlled by the paradigm/underlying assumptions of an organisation • Typically embodied by a large organisation, for norms are vital in influencing the behaviour of shirkers and mavericks[2] • Informal, trust-based, e.g. mutual cooperation with supplier or partners in a large project <u>Self-control</u> • Employee behaviour is governed by one's own self (self-regulation) • Requires motivation, leadership, and inspiration	<u>Internal markets</u> • Process is used to control 'internal supplier(s)' for ensuring that 'internal customers' are not disadvantaged by them (i.e. "not paying for supplier(s)' inefficiency") • Competitive bidding is highly encouraged

	• Effective when managing a relatively small group of professionals • Leader must have "minding" (showing genuine concern), "grinding" (ability to do the job on one's own, autonomously), and "finding" (ability to find resources) skills • Usually found in small projects, or small groups of professionals (e.g. law/accounting firm)	

---

[1] Types of functional structures operating under 'planning processes'

- Top-down
  Detailed budgets are set and produced by senior management ("everything from the top").
- Bottom-up
  Usually chosen by large organisations with tremendous diversity. Central guidelines are assigned to each SBUs to help them prepare budgets for consideration and approval. This is both a flexible, and resource-consuming method where biasness can happen.

[2] Types of employees within an organisation

- Worker
  These employees are responsible and hardworking individuals. However, sometimes this mindset tends to limit their personal and professional development.
- Shirker / Freeloaders
  These are those looking for a source of income; not for a job. Freeloaders are only interested in getting the money they need, and are willing to work for it only if they have to. When feeling completely fed up with their jobs, they will be openly careless, irresponsible and defiant.
- Mavericks / Entrepreneurs
  Employees who are creative and like to think out of the box. They can nevertheless, be uncooperative if they feel management is unappreciative of their inputs concerning processes within the organisation which could be augmented for the better. Ultimately, an organisation should leverage on the strength on these individuals to progress.

Relationships (p.224)

- Internal

  Relationships between senior and lower managers (vertical in nature), and between departments (horizontal).

Internal	
Centre*	Strategy
Centralised	Strategic planning[1]
Decentralised / Devolution	Financial control[2]
	Strategic control[3]

* *The organisation must never only pick a single form of decision-making hierarchy, but must strive for a balance between the two.*

- External

External	
Outsourcing (see *Chapters 9 & 13 – Business Process, Finance and Strategy*)	
Strategic alliance	
Networks	→ Hollow[4] → Modular[5] → Virtual[6]

---

1 Strategic planning is a centralised relationship (often a formal one as well), in which the parent "masterplans". This is the preferred relationship of bureaucracies and 'role culture' organisations.

2 Financial control is the most decentralised/devolved strategy style. This form of dividing responsibilities and decision-making is popular with portfolio managers.

3 Strategic control is a balanced style, which is said to be 'bottom-up' since it allows more discretion at the business level – making it suitable for the synergy manager and parental developer.

4 An organisation is said to be 'hollow' when it outsources its non-core activities (usually, to 'specialist suppliers'), thereby retaining only its core activities (activities which are in direct relation to your main business).
The 'specialist suppliers' are parties whose core activities are those which are considered 'non-core' by the terms of its customers. Tasking them with running your organisation's 'non-core' activity can lead to cost savings (from economies of scale), technological benefits,

and minimizes quality/cost concerns (as the customer can take advantage of market forces for the best in choice and price, simultaneously disciplining non-competitive suppliers).
As the downside suggests, a hollow organisation can develop certain dependencies on specialist suppliers. This could lead to a loss of control and in-house innovation. Besides which, outsourcing agreements are practically challenging to draft and require much deliberation from both parties.
See *Harmon's Matrix* (Chapter 9) for more details.

Advantages	Disadvantages
Cost savings from economies of scale	Creates dependency
Customer benefits from outsourced suppliers' latest technological equipment	Challenging to write contracts
Take advantage of 'market forces' (competing suppliers, variety of quality/price points)	Loss of control and innovation

5 A principal organisation which specializes in the final assembly and manufacturing of products (from parts generated internally, or externally – especially if the components are non-key accessories) is considered as a 'modular organisation'.
Albeit a fast and efficient production strategy, the modular organisation is vulnerable to 'product commoditisation' (marked by rapidly eroding differentiation, which leads to a commoditised, price-based market-wide competition).
It should be reminded that not all products can be modularised (with ease) – i.e. divided into modules, or 'parts' for production separately.

Advantages	Disadvantages
Fast and efficient	Danger of commoditisation
Exploit competencies of specialist suppliers	Delays and bottlenecks may arise
Take advantage of 'market forces'	Production using wrong specifications is potentially catastrophic

6 A 'virtual organisation' thrives on (digital) cooperation between multiple firms, but exist normally for as long as a project last. Think of this as a 'virtual consortia' (not a physical company per se), membered by personnel of presently operational firms assigned to exploit a temporary market opportunity using 'extreme outsourcing' means.
While virtual organisations can 'stretch their capabilities' (without acquiring them) to provide 'extended products/services' which they cannot otherwise accomplish on their individual own, a virtual design can break down because of: lack of mutual trust, intensive communication and overwhelming workload (employees may be working on other projects simultaneously).

Advantages	Disadvantages
Quick response to market opportunities	Reduces organisational learning, and potentially devoids organisation of core competences

Stretched capabilities	Demotivating, intensive communication (largely those without face-to-face meetings)

Boundary-less organisation

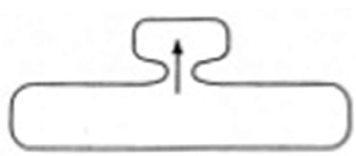
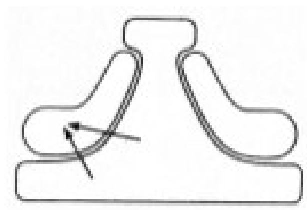
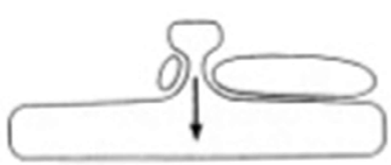
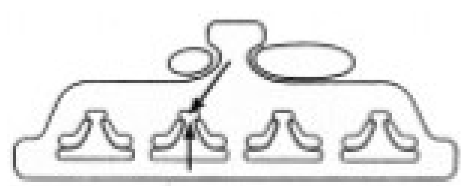
Date	13/04/2018

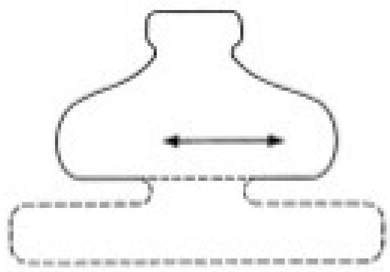
Henry Mintzberg's Configurations p.236

According to Mintzberg, structures may not be completely representative of any organisation. Similarities of any kind are merely "inclinations".

Technically speaking, the larger the organisation, the more 'designed' its structures would be – thus necessitating the presence of a 'techno-structure' (i.e. a layer comprised of professionals who are put in charge of conceptualising internal control systems, among other 'bureaucratic' processes.

While the basic elements of configurations are more or less the same, some configurations are made up of more/less dominant components.

<table>
<tr><th colspan="2">Types of configurations</th></tr>
<tr>
<td>
Simple
CEO-controlled
Direct supervision
'Centralised' relationship
Usually lacks 'strategic' component
Dominant: Strategic Apex</td>
<td>
Machine bureaucracy
Functional
Top-down planning processes
'Centralised', strategic planning
Tall, bureaucratic
Pervaded by formal standardisation of work processes and technologies
Dominant: Techno-structure</td>
</tr>
<tr>
<td>
Professional bureaucracy
Functional
Cultural processes (if organisation is large) / self-control (if small)
'Decentralised' / external
Flat structure
Features standardisation of norms and knowledge/resources
Dominant: Operating core</td>
<td>
Divisionalised
Multidivisional
Performance targets / internal markets
'Decentralised', financial/strategic control
Operating core is made up of units of 'machine bureaucracies'
Dominant: Middle-line</td>
</tr>
</table>

<table>
<tr>
<td>


Adhocracy

- Project-based structure
- Cultural processes (if project is large) / self-control (if small)
- ‘Decentralised’, networks and alliances
- Flexible configuration, easy to expand/contract
- No one-dominant aspect
</td>
<td>


Missionary

- Team-based structure
- Cultural processes
- Networks (for funding)
- Has a degree of permanence
- No structure exists as missionary-type organisations are typically charitable in nature and are governed by shared ideologies
</td>
</tr>
</table>

Business processes (p. 240)

'Business processes' can be defined as "a series of related activities".

The chapter concentrates on the following:

- Making processes better (through re-engineering, re-design, and improvement);
- Information technology – i.e. how to choose and implement bespoke/ready-made software, and hardware.

Business process re-engineering (BPR) (p. 242-)

BPR is a disruptive process where the organisation starts changing its initiatives from scratch ("clean slate"). According to *Hammer*, BPR is the "fundamental rethinking and radical redesign" of business processes.

BPR almost always uses the latest technology ("technology-intensive"), and thus possibly manages to produce a quantum leap in organisational performance ("dramatic improvements" of up to 1000% or more).

<u>How BPR achieves its objectives ('principles of BPR')</u>

- Processes are designed with customer-focus ("market driven")
- Parallel activities are linked – so different aspects of a process can be covered
- Delegates greater autonomy
- Resources must be managed centrally, while maintaining flexibility and responsiveness
- Information is captured at source

<u>Disadvantages</u>

BPR is disruptive. When new processes replace the present processes, it could make as many as 70% of its existing employees redundant. It is because of this neglect of the social factors (not technical) that many BPR projects tend to fail (up to 70%).

Besides the strong resistance BPR has seen over the span of its introduction in the world of business from stakeholder groups (such as employees, trade unions, and governments), BPR also suffers from:

- Lack of operational and/or financial feasibility
- Negligence of 'effectiveness' (the organisation's objectives), while placing a lot of emphasis on minimizing resources to achieve its targets ('efficiency')
- Reduces innovative/creative/tacit knowledge capabilities of the organisation ("hollowing out")

Business process changes according to *Harmon*

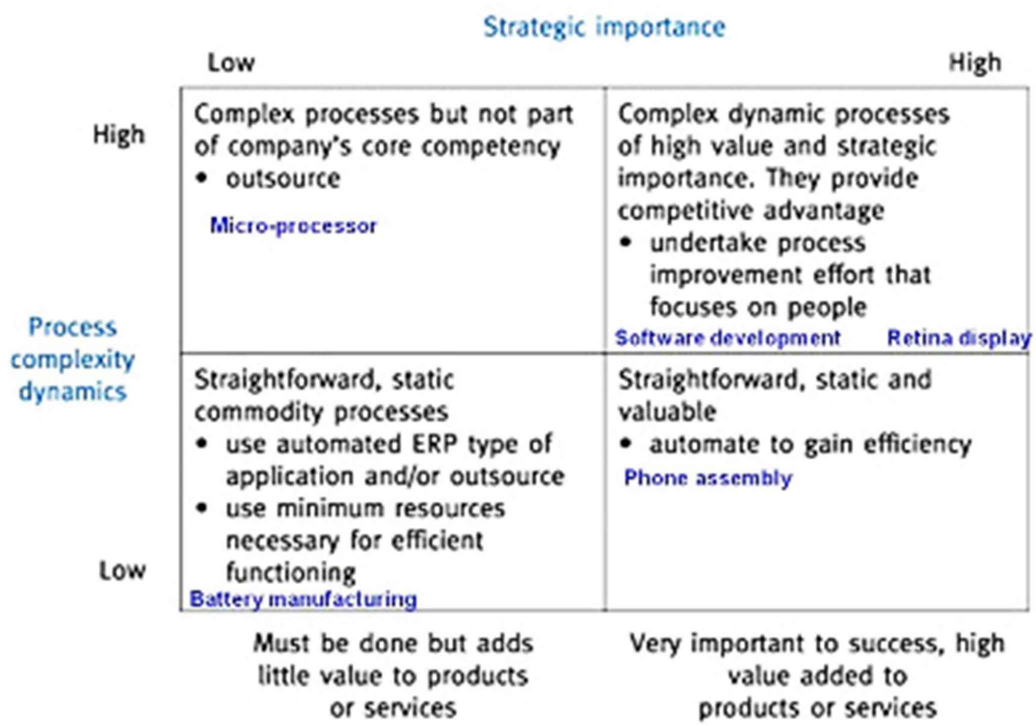
Due to BPR's relative infamy, businesses nowadays are more in favour of 'process improvement' and 'process re-design'.

- <u>Process improvement</u>
  Tactical-level activity which incrementally improves a business' existing processes.
- <u>Process re-design</u>
  Intermediate-scale change of existing medium-sized processes.
- <u>Process re-engineering</u>
  Comprehensive reconceptualization of a business process using the latest technology (similar to *BPR*)

Harmon's Process-Strategy Matrix (p. 247)

<u>Purpose of this matrix:</u>

- Helps managers decide whether to retain or outsource a process;
- Helps decide if a process must be automated / cannot be automated;
- Advises managers on the use of readymade, or development of bespoke software;
- Helps decide whether a process requires implementation of any improvement / re-design / re-engineering.

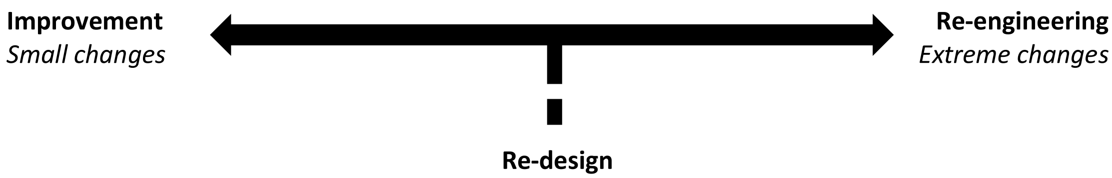


The above graph depicts the Harmon's process-strategy from the angle of a phone manufacturer. Following the logic of making phones, we are able to come to an understanding of the following:

Quadrant	Characteristics of such a process
Low complexity, low strategic importance Battery manufacturing	• Simple • Routine, non-core process (i.e. has a 'commoditised' feature) • Programmable (hence, can automate – and must, with packaged software, if retained in-house) • Stable process • Must be improved from time to time • May outsource
High complexity, low strategic importance	• Complex process, dynamic • Non-routine, non-core process

Micro-processor – *more specifically, the research and development of micro-processing technology*	• Non-programmable • Requires human judgment, intuition, and experience
Low complexity, high strategic importance Phone assembly	• Simple and routine • Core process • Must be retained in-house, and cannot be outsourced • Must automate if possible – choice of ready-made packages or bespoke system • Re-design, if necessary
High complexity, high strategic importance Software development, retina display	• Complex process • Valuable part of company's core competence (core process) • Must retain in-house • Investment in technology/systems (either readymade or bespoke) needed to support individuals undertaking this process • Re-design or re-engineer if the need arises

Date	16/04/2018



<u>Stages in re-designing a process</u>

1. Planning
2. Analysing – e.g. includes picturing the entire process and observing it from a bird's eye view (the best method to go about this is by using 'swimlane diagrams')
3. Re-designing the process (on paper)
4. Resource development (making arrangements to acquire resources)
5. Transition / Implement (the phase where change is actually made)

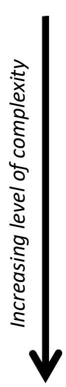
Like any project, the costs of a re-design must at least be covered ("someone must be willing to pay") – regardless of whether an organisation is a for-profit (focus: margins) or non-profit (focus: cost recovery).

That's why organisations require feasibility studies[1], to assess if the scope of the re-design matches the capabilities of the firm. In this assessments, the following are usually considered: technical feasibility, economic/financial feasibility, operational/social feasibility.

Process re-design patterns (p. 255)

EXAM INFO: Do not apply unless asked for specifically. Even if it is requested, do know that most re-design questions are common sense. You will be told to "analyse" and "suggest solutions" for the weaknesses.

The different ways by which a process can be re-designed (for improvement):



- <u>Re-engineering</u>
  An extreme, drastic form of re-design. Requires fundamental rethinking and radical design of business processes.
- <u>Simplification</u>
  Assuming there are duplicity in long-standing activities, remove bottlenecks… ("duplicated and unnecessary activities")
- <u>Value-added analysis</u>
  - Retain value-adding activities[2];
  - Remove non-value-adding activities[3];
  - Simplify value-enabling activities[4].

According to Paul Harmon, *20% of all organizational activities are typically value-adding… 20% non-value-adding… and 60% are value-enabling.*

Increasing level of complexity

- <u>Gaps and disconnects</u>
  The aim of this method is to close and narrow gaps, remove “swimlanes” (“disconnects”) while using technology to automate and reduce paper. The end result would be a process that’s seamless and fully-integrated.
- <u>Re-engineering</u>
  (see *Business process changes according to Harmon*)

1

Technical feasibility	*Is the technology required available?*
Economic/financial feasibility	*Will the benefits of the new process outweigh the cost of designing, developing, and managing the process?* This can be difficult to assess when benefits are largely in an intangible form. Again, an organisation may not scrap a re-design/project based on the fact that its benefits are intangible – e.g. for strategic reasons etc.
Operational/social feasibility	*Will stakeholders (particularly employees) accept the process?* In view of this, the highly disruptive re-design approach (e.g. re-engineering) will most likely be met with high resistance by staff.

2 Value-adding activities are activities which change the output, must be correctly performed the first time, and are paid willingly for by the customer.

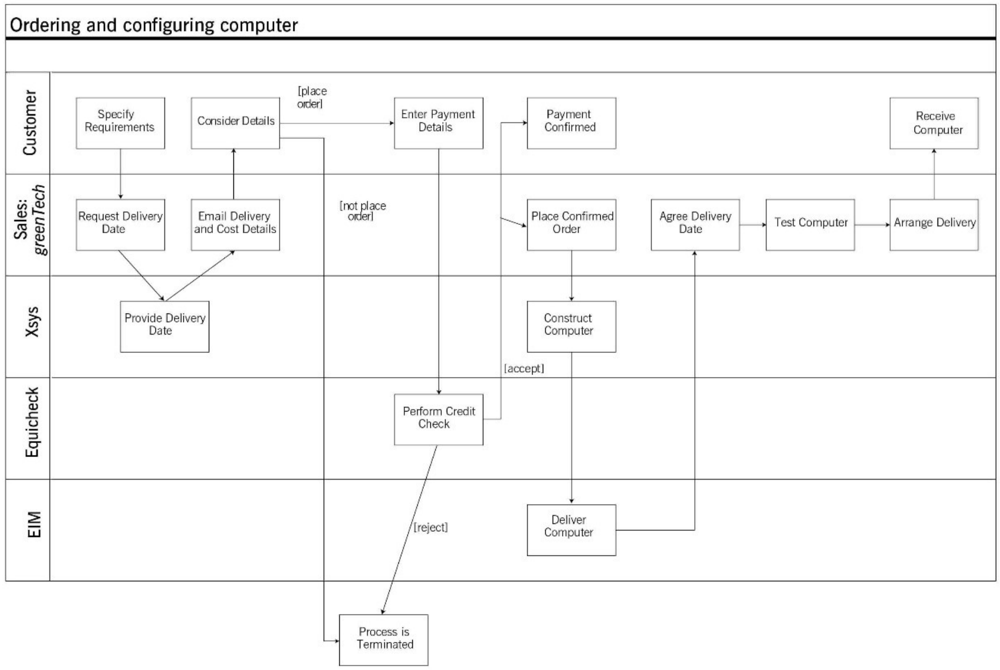
3 Non-value-adding activities are those which result in delay/failure of manufacture/service delivery.

4 Value-enabling activities are essentially non-value-adding activities in nature. **But**, they enable value-adding activities to take place more efficiently. Examples include set-up, quality checks and inspections – prevents unnecessary wastage of productivity and materials.

In simplifying value-enablement, the Japanese have found a way to shift error detection activities to quality assurance (error prevention).

Answering a ‘swimlane diagram’ question
Based on the swimlane diagram and its textual case, the candidate is tasked with:

- Identifying the problems
- Suggest new processes
- Describe pros and cons of the new processes



*(*The examples below are based on *P3 June 2009, Q1, Figure 4)*

- <u>Identifying the problems</u>
  The delivery date was later than required.

- <u>Suggest new processes</u>
  The problem of delivery time could be addressed by using EIM (or a similar courier company) to deliver directly to the end customer. This would remove two further processes from the greenTech swim lane – 'agree delivery date' and 'arrange delivery to customer'.

- <u>Describe pros and cons of the new processes</u>
  Although showing the delivery date on the screen alongside cost details will improve user experience, this might not be commercially sensible.

Outsourcing (p. 262)

According to *Harmon*, you may need to outsource especially when an activity is non-core, and complex. In addition to this, the activity is best outsourced when it is a standalone activity which does not affect in-house processes.

The term should not be confused with 'offshoring' (*see below for criticisms of this method*), which refers to getting work done in a different country, and this includes in-house and/or outsource.

<u>Advantages</u>

- Reduce workload and frees up time for the organisation to concentrate on core, holistic issues;
- Captures the economies of scale provided by external supplier;
- The organisation benefits from the higher resource availability and expertise (on process and relevant legislations) of supplier;
- Gives predictability to costs – reduces uncertainty of variable costs, and makes budgeting easier;
- Reduced overheads;
- Release cash for investment (as a result of selling away non-core activities).

<u>Disadvantages</u>

- Loss of control over outsourced activity;
- Legal fees for consultation and review of outsourcing arrangement;
- There could be compromise of confidential data;
- Unreliability of quality;
- Ties company to the financial stability of the supplier;
- Exposes company to bad publicity of the supplier – especially when non-renewable energy and employment conditions is concerned;
- Could lead to potential political backlash/opposition – especially when government is providing subsidies and grants to the outsourcing customer.

Can be mitigated by investigating, and performing a due diligence of, the supplier.

<u>Criticisms of 'offshoring'</u>

- Outsourcing transfers jobs, and leads to a politically unfavourable situation of exacerbating unemployment rates;
- Exposes the organisation to unnecessary geopolitical risk;
- Creates communication barriers – arising from difference in language and culture;
- Possible misalignment of interests due to a difference in expectations;
- Feeds to the depletion of in-house knowledge (particularly when a critical operation is being outsourced).

Shared services (p.267)

Activity is outsourced to an internal supplier ('insourcing') – a likely cost centre for the organisation.

Advantages

- Aligned interest – as the shared services entity is part of the group, it will be congruous from the angle of business objectives and will share compatible strategies;
- Confidentiality retained;
- The 'internal customer' retains some control, as collaboration is required for both to achieve a desired outcome;
- Allows business to focus on core activities;
- No fear of supplier bankruptcy.

Limitations

Most companies are unable to replicate the benefits stated above as they lack internal resources. However, the functions of a shared service centre can be "lifted and shifted" to a specialist provider (who leverages on the cost-benefits provided by labour arbitrage, and economies of scale).

Disadvantages

- Managerial resistance – especially when change management is not implemented effectively;
- Shared service organisations may not always be equipped to handle changes adeptly – e.g. integrating legacy systems (outdated version) with newer digital technologies may be unattainable due to the shortage of talent and skills required to undertake such a huge transformation program, as well as conflicting strategic priorities within the leadership team;
- Forming a shared services organisation requires pre-qualifying suitable members for the team – the task of matching human resource requirements to the capabilities of the organisation can be proven difficult as seen in the preceding point.

Concepts in Technology – Hardware and Software Solutions (p. 269)

Processing

- Centralised – all data processing is done centrally by a mainframe computer;
- Decentralised – processing done at multiple locations with relatively smaller standalone computers;
- Distributed – data processing is performed by a network of computers.

Distributed Networks

- LAN – refers to "*local area network"*, made up of computers connected in a small area;
- WAN – refers to "*wide area network*", where computers are located in different geographical locations.

Connectivity

- Internet – "interconnected networks" of a global nature; **B2C**
- Intranet – an "internet" within an organisation – a restricted network; **B2E**
- Extranet – an "extended intranet" **B2B**

Cloud computing

Fundamentally, cloud computing is about providing computing services through internet connectivity.

Bespoke vs Readymade software (p. 271)

Readymade software packages have become increasingly popular over the years.

But it is generally cheaper and more effective to redesign or adapt, and then use a software package (especially if the activity concerned is relatively non-core).

Advantages of readymade software package over bespoke software

- For the software developer, replication spreads its cost of development. Readymade software packages are mainly cheaper because of economies of scale;
- Bespoke systems could potentially take more time to develop;
- Readymade software packages are relatively error-free, and proven in terms of reliability – bug fixes and years of market deployment would've improved the software to a dependable quality;
- User manuals and training is available;
- Readymade packages are supported by a formal maintenance[1] contract, as is the norm – the developer is responsible for repairing and providing bug fixes for a fixed price;
- Comparability – customers are given the ability to evaluate, examine and weigh the readymade software against other competitors (as there are many options available).

Disadvantages of readymade software package

- Software rights are controlled by the supplier – whom has ownership of the software licensed to its customers: i) software could be withdrawn to force customers to upgrade, ii) support could be outsourced to an incompetent provider;
- The customer is tied to the financial stability of the supplier – developers could be driven out of the business;
- Readymade packages are not unique, and using them provides little competitive advantage – competitors can use readymade software as well;
- Poor functionality – probable mismatches between user requirements and package capabilities;
- Licensing agreements are usually drafted in favour of suppliers, and so legal redress may not be possible in view of the developer's legal protection;
- Eroding currency – software functionality may be lost to dynamic changes in the environment and so readymade packages will be phased out;
- Readymade packages are not as flexible/adaptable as bespoke systems (which has a longer product life-cycle as a matter of course).

---

[1] Types of maintenance

CORRECTIVE	Bug fixes (constitutes 17% of most maintenance activities)
ADAPTIVE	Changes and modifications
PERFECTIVE	Maintenance which improves system
PREVENTIVE	-

Advantages of a readymade software over a bespoke solution

(*With reference to Q3, June 2014*)

- Cost savings (e.g. June 2014: $19,995 [+$10,000 unforeseen expenditure] v. $18,000 for stage one: defining requirements alone)
- Time savings (e.g. fully operational within 3 months – whereas the first phase of a bespoke system can only begin in 18 months earliest)
- Support (e.g. support and maintenance [corrective, adaptive, perfective] contract is cheap to sign and maintain, whereas a bespoke system is expensive to maintain)
- Reliability (e.g. software package may be flawed in terms of compatibility and user-friendliness, but is nonetheless
- Better functionality (e.g. industry standards are incorporated into the software [due to improvements over time based on feedback given by active user groups], and exceeded the expectations of Bridge Co)

Selecting software packages (*more details from* p. 286 *onwards*)

1. **ANALYSE REQUIREMENTS**
   This is more important for readymade packages, as identifying requirements will prevent mismatches that bespoke software will not have. Equally important also, is for the organisation to find out if the supplier is a going concern – e.g. 3-year review of the audited financial statements of the supplier.

2. **UNDERTAKE FORMAL PURCHASING PROCESS**
   - Identifying potential suppliers – sending out invitation to tender (ITT)[1]
     This takes two forms: either the buyer finds the supplier and bears the cost (e.g. buyer posts an advertisement / invitation to tender [ITT]), or, the supplier finds the buyer.
   - Assessing responses to invitation to tender – creating a short-list of potential suppliers

3. **CHOOSE PACKAGE**
   - Invite shortlisted suppliers for…
   - Second-stage evaluation[2] – choosing the 'winner' using test scenarios

4. **IMPLEMENTATION**
   - Install
   - Troubleshoot
   - Data migration
   - Changeover
   - Preparing documentation

5. **MANAGING LONG-TERM RELATIONSHIP**[3]
   - Install
   - Troubleshoot

Integrating software
Relevant to bespoke software

1. **ANALYSE REQUIREMENTS**
   For bespoke systems, it is about balancing technical difficulty and functionality
2. **DESIGN**
   High-level and low-level (specific)
3. **DEVELOPMENT**
   Coding
4. **TESTING**
   Unit testing, systems testing, user-acceptance testing
5. **AMENDMENT AND FURTHER TESTING**
   "Satisfactory?"
6. **IMPLEMENT**
   Installation

1 An invitation to tender (ITT) – also referred to as 'calls for bids' and 'calls for tenders' – is a document prepared by the buyer formally requesting for suppliers and contractors to bid and forward their quotes. Click **here** to see an online sample.
Relevant to the topic of selecting a suitable IS/IT supplier, the information described in such a document should include:

- Package requirements – functional, non-functional etc.
- Explanation of evaluation procedures and rating system (where suppliers rate themselves first, and are then subjected to rating by the buyer in round two).

		Requirement score				
Criteria	**Weight**	**A**	**B**	**C**	**D**	**E**
Value	20%	80	45	40	15	35
Risk	20%	60	85	30	20	75
Difficulty	15%	55	80	50	15	25
Success	10%	30	60	55	65	30
Compliance	5%	35	50	60	50	50
Relationships	5%	80	70	50	85	80
Stakeholder	15%	25	50	45	60	60
Urgency	10%	60	25	40	65	80
Weighted Scores	100%	54.8	60.0	43.3	38.0	52.3

◂ *An example of a **weighted ranking** table used to shortlist suppliers.*

2 Second-stage evaluation is undertaken by the buyer, using mostly one or more of three techniques: test scenarios (testing by a panel of users who run the package to discover its abilities), visiting reference sites, and financial investigations. (*more details on* p.290)

3 Long-term relationship calls for the following to be observed:

- Good buyer-supplier relationship – compromise ("striking a middle ground") instead of conflict;
- Continual evaluation of supplier throughout business relationship;
- Lodge software package source code with an independent third party (via escrow agreement) to mitigate impact from supplier withdrawal;
- Plan for continual monitoring and contingent use of another supplier;
- Consider backward integration – beneficial in the sense that it brings certainty of maintenance and stops supply to rivals.

Date	18/04/2018

Software Assessment Criteria (p. 279-)

When using the criterion below, be mindful that these are *imperatives* – i.e. non-negotiable requirements – which the buyer cannot compromise on.

Current requirements	
Functional requirements	*"Functional fitness" which are specific to an organisation.*
Non-functional requirements	*The essential ways how a system should function.*

Product requirements	
Technical requirements	*Buyer preferences – extends to operating system, software, and hardware platforms.*
Design requirements	*Stability. Flexibility.*

Supplier requirements	
Stability requirements	• *Size – implicitly suggests the experience of the supplier;* • *Location – geographic situation and time zone determines reachability and convenience of developer support;* • *Financial stability – use of supplier's audited financial statements (3 years – recommended) and due diligence necessary;* • *Legal status – organisational structure and state of corporate governance[1];* • *Other matters – e.g. litigation, takeover[2], directors' financial status.*
Citizenship requirements	*When supplier nationality differs, local policies on a range of issues – environment, employment, health and safety laws – will also vary. The evaluation must take into consideration whether the supplier is exercising good corporate citizenship as seen in the eyes of their domain country.*

Implementation requirements
Initial implementation requirements
• *Supplier support during installation* • *Data migration – the supplier must be able to aid with file transfer and data/file creation to make the system instantly usable.* • *Changeover[3] assistance – supplier should help with parallel running and direct changeovers.* • *Training provision*
Operability requirements
• *Supporting documentation that's understandable* • *Technical support* • *Escrow agreement to protect source code*

Cost and time constraints
• *Cost – benefits of implementing software has to outweigh its costs;* • *Time – time value of money*

[1] Good corporate governance practices will discourage corporate negligence and malpractice (e.g. third-party transactions) by requiring voluntary disclosures and justifications.

[2] Particularly if the supplier is about to be taken over. This can have impactful strategic implications when, for example, the acquirer is an industry rival.

[3] **Direct changeover** is a changeover of a new system that takes place immediately after a predetermined cut-off date.

Parallel running is a method where both systems are kept running, as the new system could be unreliable.

Information Technology controls (p. 296)

Physical access controls
- Keypad and card entry system
- Biometric machines

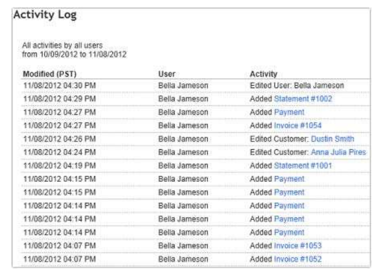
To protect physical assets (including people) from natural and man-made (e.g. theft, terrorism) disasters.

Logical access controls
- Passwords
- Firewalls
- Use of standalone systems – not part of any network

To protect data and software files from: unauthorised users and hackers.

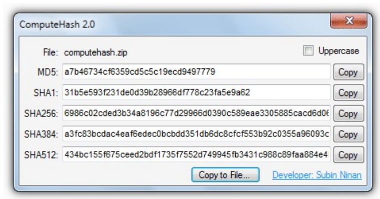
Operational controls
- Segregation of duties – activities and counter-checks, e.g. counter-signed cheques
- Audit trails – a *non-functional requirement* relevant for software

Administrative controls. These facilitate the smooth-running of day-to-day operations.



Input controls[1]
- Verification (ensuring data matches source)
- Validation (ensuring data is not incorrect)

To ensure the quality of data entered, through verification and validation – thereby preventing *garbage-in, garbage-out* situations.



---

1 Data verification is about ensuring the entered data matches its source.
E.g. on-screen prompts (self-checking, or system prompts), and dual input (an iconic example would be the "password re-entry confirmation" sequence).

Data validation is about ensuring data is not incorrect.
E.g. check digit (a complex algorithmic method that ensures the digits entered are reasonable), control totals (to filter for missed out documents and data repetitions), hash total (computer automatically recalculates and checks for completeness).

(*For more info, see pg. 298-300*)

Big Data (p. 301-)

Massive collection and processing of the quantitative (or structured) data.

“Big Data” is a generic term used to describe the exponential growth of data, provided from numerous sources, available to organisations. The data is not useful in itself, it is the analysis of such data which provides valuable insights to an organisation. The finance director is right to be interested in this, as it can lead to an in-depth insight into trends and the driving forces behind those trends.

Big Data systems are mainly used by large online retailers, such as the likes of Amazon and eBay, to collect a variety of data from a variety of sources.

Big Data strategies (p.303)

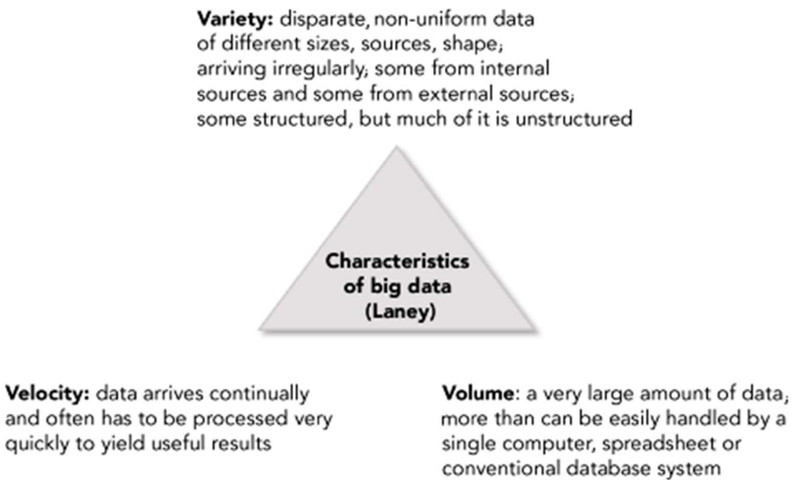
DATA TYPE		
Non-transactional data *Based on feelings, emotions, and experience of B2C interactions*	**Social Analytics** *Using non-transactional data to measure the effectiveness of the organisation’s digital campaigns.*	**Decision Science** *Using non-transactional data in order to undertake market research for generating new ideas.*
Transactional data *Based on factual evidence, e.g. day-to-day sales data – tends to be more reliable than non-transactional data*	**Performance Management** *Using day-today data to measure own performance.*	**Data Exploration** *Using transactional data in order to determine the needs, wants, and other specifics.* *‘Data mining’ falls under this category.*
	Measurement *To measure own performance.*	**Experimentation** *To explore and better determine the desires of individual customers.*

BUSINESS OBJECTIVE

Generally, Big Data strategies are only possible if the following areas can be satisfied:

*3+1 Vs (+1 C) of Big Data (+ its Strategic Implications) (p.301-302)

(*Based on Q3b, Sept/Dec 2016, "Retail World"*, refer to ACCA's "Big Data" article for more on the 3Vs / three Vs)



- <u>Volume</u>
  'Volume' is the quantity, and depth of data.
  The more data available, the greater the reliability of the trends and relationships discovered.
  Enhances understanding of customer expectations, leading to greater reliability of the results discovered.
  Time series and regression analysis use limited "volume" data (i.e. about 3 years' worth of data), and are able to analyse 2 variables (dependent and independent).
  Big data is generated over a greater period of time and allows for multivariate analysis (simultaneous observation and analysis of more than one outcome variable).
  This could help RW to understand its buyer's purchasing patterns better, and create more effective retail strategies.

- <u>Velocity</u>
  'Velocity' is about the speed of use of real-time data – including collection and processing of data – which is expected to be immediate by today's standards.
  Just take RW for instance: transactions are processed by IT systems – which can capture and process data in real-time. Strategies can be constantly updated based on these new pieces of information, delivering competitive advantage for RW.
  RW's IT systems can also 'mine' data in real-time, using current and past purchase data to make timely and relevant recommendations to customers.

- <u>Variety</u>
  'Variety' refers to the diversity ('breadth') of data and the sources they come from – qualitative and quantitative.
  Such breadth of data provides detailed understanding of the market and customer expectations, how much to stock, and where to locate new stores for example.
  The opportunities for data variety allows RW to capitalise and gain competitive advantage

Suppliers of RW are keen to carry out their own analysis, and would be willing to pay for the data as well – presenting an additional revenue stream for RW.

- *+ <u>Variability</u>*
  'Variability' refers to the state of trend changes – including seasonal peaks.
  Big Data technologies must be able to sustain daily, seasonal, and event-triggered data loads.

- *+ <u>Complexity</u>*
  'Complexity' annotates the difficulty of linking and transforming data across systems.
  Big Data technologies must be able to connect and correlate these relationships.

---

[1] The term '*data mining*' means collecting data to explore trends.

Businesses with data mining capabilities are interested o turn raw data into useful information. By using software to look for patterns in large batches of data, they are able to learn more about their customers and can develop more effective marketing strategies as well as increase sales and decrease costs.

Data mining depends on effective data collection and warehousing as well as computer processing.

Date	20/04/2018

Porter's value chain revisited (p. 324)

Technologies are commonly used in restructuring an organisation's supply chain, as deploying them provides benefits such as:

- Increased efficiency (from faster cycle times and lower costs);
- Reduced complexity (achieved through disintermediation);
- Data integration (through sharing data along the value/supply chain);
- Enables cost savings through outsourcing;
- Spurs innovation – customers can now order using new ways, and the company can develop newer products with the help of technology.

(*Based on Q4b, June 2012, "Jayne Cox Direct"*)

Upstream supply chain

Textbook note: Buy-side e-commerce, facilitated through e-procurement systems

- *Independent Marketplace Sites*
  Wider range of suppliers
  Choose suppliers based on quality (relevant for a bespoke manufacturer), time (reliability and *JIT* opportunities), and cost
  Procure through *independent marketplaces* (online, electronic marketplaces). This way, supply cost could be reduced, and current suppliers would be compelled to provide better service and customer-focus.
  For suppliers, it is important to establish their presence online (through these sites) to make it easier for customers to find them.

- *ERP*
  E-mail ordering is a cumbersome system, seeing that suppliers even claim that they didn't receive orders. Henceforth, "electronic procurement system" (ERP) should be considered. Using ERP, inputs by the procurement department will automatically be entered into the supplier's sales systems. All invoice reconciliation processes are automated and this can help avoid non-delivery situations, reduce admin cost, and improve supplier relationships.

Downstream supply chain

Textbook note: Sell-side e-commerce. Facilitated through e-marketing, e-branding, and Customer Relationship Management (CRM) systems[1]

- *Order and delivery tracking system*
  An order-and-delivery tracking system allows customers to track their orders (i.e. percentage of completion), and receive real-time updates on likely delivery dates. This provides the customer with a sense of progress and increases customer satisfaction, reduces inventory costs

- *Automated e-mails / text / SMS messaging confirmation*
  It would be helpful if customers receive messages confirming delivery and time, so that customers will more likely to be at their home/delivery addresses to receive the purchased goods.

- *Route planning software*
  Such a software improves van utilisation, saves fuel cost, and delivery time.

- *Automated FAQs (Frequently Asked Questions)*
  Automated FAQs can be implemented to improve poor after-sales service. Such a facility should allow customers to make complaints and order replacement materials.

- *Online newsletters*
  Such e-Newsletters can provide customers with the latest offers via personalised e-mails, which should thus boost customer retention. This should convert JCD's "push"[2] supply chain into a "pull"[2] model – which is more efficient.

---

[*] Expectations for suppliers/customers are the same, be it upstream or downstream.

<u>Examples of what customers demand of their suppliers:</u>

- Legal compliance
- Commitment to health, safety and the environmental best practices
- Avoidance of bribery and corruption, money laundering, conflicts of interest and anti-competitive conduct
- Respect for human rights and avoidance of modern slavery
- Duty of protecting confidential information
- Possess an indiscriminatory workplace, offers grievance processes and freedom of association
- Possess an ethics and compliance programme
- A culture that encourages people to speak out without fear of retaliation.

<u>Examples of what suppliers demand of their customers:</u>

- Timely communication – especially when a payment delay is foreseen
- Prompt payment
- Good personal relations with sales representatives
- Avoid rush orders
- Refer damaged or faulty goods to the supplier promptly, with supporting documentation
- Address issues of concern in the supplier-customer relationship

[1] Customer Relationship Management (CRM) systems are widely used by corporations nowadays to coordinate and manage their interactions with customer. The suite will generally be able to perform the following – see *pg. 344*:

- *Data analytics features* – to identify trends and patterns from different sources such as social media posts, sales data, and other disparate customer data;
- Qualify prospects for upselling and cross-selling opportunities;
- *Customer service management*. Generates customer profiles – e.g. contact details, demographics, transaction history etc.

- *Manage sales process*. Connects sales and marketing networks together, and allows both departments to share contacts, deals, and insights;
- Provide sales forecast;
- *Campaign management* – manage advertising, direct mail, e-mail and other campaigns;
- Collects and keep track of real-time customer activity.

As we can observe from the above, we can see that the functions all serve the three basic stages (“ARE”):

- **Acquisition** – “forming relationships with new customers / first-time customers”. A Harvard research shows that acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one.
- **Retention** – difficult for *dot coms*, because internet service is much depersonalised, plus, customers are better informed, and have many choices online.
- **Extension** – motivating the customer to buy more products (“increasing involvement with organisation”).

The benefits of using a CRM system is as follows:

- Enhanced ability to target profitable customers
- Integrated assistance across channels
- Enhanced sales force efficiency and effectiveness
- Improved pricing
- Customized products and services
- Improved customer service efficiency and effectiveness
- Individualized marketing messages also called campaigns
- Connect customers and all channels on a single platform

2 “Push” supply chain

Such a supply chain focuses on selling from stock. Under a push system, companies need to have predictability in their supply chains that allows them to plan production to meet their needs and gives them time to prepare a place to store the stock they receive.

“Pull” supply chain

The “pull” will not feature ready stock, as it is about anticipating customer demand (achieved conventionally through offering discounted early bird booking), and mastering “on-demand” / “just in time” production.

6Is of new media marketing / The characteristics of new media marketing / Advantages of new media marketing (p. 334-)

Traditional marketing mediums are "one-way" – where the company "pushes" the message to the public. Even *dot coms* use this form of advertising, because they acknowledge the effectiveness of "push" strategies – which expose marketing messages to more members of the public than the "pull" method.

Since the advent of the Internet, many corporations now have a budget for internet marketing. The 6I model looks at the six differences between traditional and internet marketing:

Interactivity *"Pull" factor*	Internet marketing is a "two-way" process, where the audience can interact and communicate with the companies. To begin interactions with prospective customers, companies require e-mail addresses and contact details from their users, and would seek permission to send promotional messages (this one though, is a "push" strategy).
Intelligence *"Knowledge". "Information".* *As a natural outcome of long-term "interactions"*	Having "profiled" the customer over the duration of a long-term interaction, the business can also learn from other particulars such as "conversion rates", "clicks-per-page", along with many other snippets of business intelligence gathered through internet marketing means. *Using business intelligence* If, for instance, site visitors are unhappy with a certain product (identified as poor conversion rate), the business is signalled to investigate, and respond in real-time immediately. Accompanied with analytical software tools to convert data into intelligence, there is a wealth of information available on the website. As such, the need/extent/cost for market research will be reduced.
Individualisation *"Personalise"*	Personalisation One-to-one. Essentially, tailoring the product according to the needs of a single customer. Mass customisation One-to-some: delivery (of a message, for example) to a group of customers with like-minded preferences ("market segment").
Integration *Promotes personalisation, 360° view of customer (consolidation of customer details from multiple sources)*	Using the internet as a direct-response tool, enabling customers to respond to offers and promotions on other media (traditional or not), and provide services such as "mixed-mode buying" (e.g. a transaction can be carried out via internet and phone concurrently). *For example*

	Integrated "call-back facilities" / e-mail (marketing communications) and website (channel). Because of these integrated systems, companies can personalise the experience with their customers, e.g. Pizza Hut knows the preference of their customers ("Mr Dinesh, will it be Hawaiian Pizza again?").
Industry restructuring *Changing of partners and processes*	<u>Disintermediation</u> (p.320-) Bypassing physical channel partners, such as advertising agencies. <u>'Channel conflicts'</u> However, downline distributors (external physical intermediary) will be unhappy and may seek to commence co-operations with rival businesses, and on a relevant note, agents and sales staff may be unhappy from reduced commissions as a result of diluted markets. Also, a certain segment of customers might also be displeased due to their unfamiliarity with new technology. <u>Re-intermediation</u> Creation of new digital intermediaries between customers and suppliers, e.g. online marketplaces and accreditation agencies. <u>Countermediation</u> Creation of new digital intermediary by an established company / major customers to combat or exploit "re-intermediation" (in the case of the latter,
Independence of location	Makes the location of customer and supplier irrelevant.

(*Reference: Q3a, June 2008*)

<u>Intelligence</u>

- Internet allows a sustained, long-term dialogue between company and customer.
- AEC's website must be designed to capture the potential customers' personal details (particularly his/her e-mail address and contact information).
- Unfortunately, AEC's website captures such information only from those who wish to download the sample study materials – effectively ignoring those who only wish to sign-up for the courses. The restrictive weakness in this design can be remedied ("redesign") by enquiring personal particulars from all prospects looking to sign up for the courses (even those who don't want to buy the study materials) – usually done with the aid of certain incentives.
- What's the outcome of these long-term interactions with customers?
- Valuable market research data can be collected cheaply (and analysed using proper software), as they are routinely available on the company's website itself.

- To illustrate an example: AEC can see which of its courses/training modules are viewed by prospects. This observation will also be measured in terms of conversion rates – i.e. "how many views are turned into successful sales?"
- These important intelligence to analyse why certain products/services are viewed or shared but not bought.
- It is interesting to note that, by AEC being unaware of the availability of such intelligence on their website – ignorance of knowing how to use such intelligence – shows that much learning is required.

Individualisation

- Personalisation ("one to one") and mass customisation ("one to some") are made possible by this new form of media.
- For example, a website can be developed specifically for corporate/strategic clients ("B2B marketplaces"), where information irrelevant to them (such as CPD courses), will not appear on this website.
- Personalisation strengthens customer relationships.
- Individual students may wish to also have access to their own customised webpage, e.g. if they state they're currently enrolled into the "Professional" courses, information related to all passed modules must not be presented to them.

Internet to add variety to 7Ps (4+3P) (p. 338)

Essentially, this model is about how the internet gives companies more options to vary their marketing mix.

Product  Varied product mix: • *More frequent updates* • *New product development* • *Digital products*	Core product A core product is a company product or service that is most directly related to its core competencies. Extended product Accessories and complementary products to the core offering. The internet allows companies to broaden their product scope by offering more of these extended products. New, digital products Digital products are information. In the example of a smartphone, it is usual that the customer researches and knows the choice of product to purchase – thanks to the company providing these "digital products", i.e. information made available beforehand.
Price  • *Increased price transparency* • *Reverse auctions* • *Dynamic pricing* • *Alternative pricing (e.g. bundling)*	Implications on differential pricing / discrimination pricing Transparency of pricing sparked by internet technologies will reduce pricing differentials. However, if businesses do not adjust their pricing, aware customers will be able to look-up the product on independent marketplaces and instantly have enhanced knowledge to base their purchasing decisions on. Standalone sites and ethical reasons are exceptions. Downward pressure on price In a traditional auction, the seller quotes the selling price, as well as the minimum bid. In a reverse auction, buyers quote the maximum price they'll pay, as can be observed at extranet marketplaces. "Surge" pricing 1. System automatically adjusts pricing according to demand; likewise 2. Price per unit drops with increased buying – thus encouraging aggregate buying. (see p. 357 for ACCA article "Business Strategy and Pricing")
Place  • *Accessibility and distribution*	Accessibility ("Distribution") How easy is it to access the products/services of the organisation? How many places are available to get the product? Internet has the greatest implication for place, due to its global reach, in terms of the following: • Place of purchase – seller-controlled/seller-oriented marketplaces, buyer-controlled/buyer-oriented marketplaces, independent marketplaces.

	• New channel structures – disintermediate, re-intermediate, countermediate – there's no longer to buy from a physical store as there is the option to direct-purchase. • Channel conflicts – negative implication that stakeholders, e.g. wholesaler (physical intermediary), sales force (internal intermediary), select group of customers (whom may switch to physical intermediary rivals) are displeased with the move to internet media. • Virtual organisations – see *Chapter 8*. Any customer in any part of the world can now access the organisation's products/services.
Promotion  • *Supplement traditional marketing*	In view that traditional advertising is more effective, and internet media plays the role of supporting the former by offering a new additional channel for marketing. <u>How can the supplementation take place?</u> • Incentives in traditional media for reminding customers to visit website • Send e-mail reminders (*permission marketing*, not *spamming/interruption marketing*) • Frequent update of content – to become more user friendly, attractive, and better performing. <u>Where investment is required:</u> A sensible balance must be made between traditional and internet marketing promotion investments (offline and online).
People  • *Replacing people*	Consider whether people can be replaced by the internet or its associated technologies (and save cost): • *Autoresponders* • E-mail notifier • Call-back – automatic dialling • FAQs – system answers questions • Search engines • Virtual assistants – *smart* search engines
Process  • *Making upstream and downstream more efficient*	For more details on how organisations are able to improve, re-design, and re-engineer their supply chain networks to make them more effective and efficient, see *p. 255*.
Physical evidence 	As the website represents the company's online presence, its design, user-friendliness, and performance must be attractive (this extends to the business' products too).

(*Reference: Q3b, June 2008*)

Product

- Sample videoed training sessions;
- Candidates must be allowed to choose and pay per manual, without being forced to buy the complete set.
- Bundling. CPD courses offer a package with accommodation and transport services. Students/candidates must also be allowed to book and pay online for the courses they signed up for.

Price

- Customers booking courses online (as no phone calls are needed) must be given a discount. AEC could also consider differential pricing – which translates into cheaper fees for poorer countries for example, website displays should be designed in different local languages, so that customers in richer countries won't be unhappy.
- Dynamic pricing: offer early bird and late bird. Alternating pricing structures allow students to rent manuals without necessarily buying them.

Place

- The internet has a 24/7 global reach.
- All 3 AEC products are digital and can be marketed, sold, and distributed digitally. Currently, only training manuals are exploiting this global reach.
- Training courses are nonetheless, offered in 8 physical centres around the world – making AEC restrictive and unable to explore global reach for its courses (such as through webcast and podcast techniques). Any student, from anywhere in the globe must have access to these resources.

Link-building:	Banner advertising
Traditional media:	Push media

To support customer interactions – currently website – passive for training courses, but not post-sales. AEC should consider integrating training courses into websites to allow candidates to buy and pay for training courses. Again, AEC should provide teenagers with training instructions and answer their enquiries, allowing them to receive course feedback through website.
Doing this should speed up AEC's administrative resources and improve customer service.

*4Cs of Pricing Decisions (p. 357-)

This framework looks at pricing strategies which can be adopted by for-profits and non-profits organisations – which can be looked at, and decided, from the viewpoint of financial and non-financial factors / economic and non-economic:

Mission and marketing objectives
Pricing strategy must be aligned with mission (profit/not-for-profit) and marketing objectives.
To consider: the organisation’s purpose, its self-perception, its feeling about its position in the market, and material relating to the organisation’s culture and ethics.
For these reasons mentioned, pricing CANNOT be separated from mission.

Pricing objectives	4Cs
Determined by the state of balance adopted by the organisation between: cash flow, revenue, competitors’ psyche, and elasticity of demand.	

COST	1
Profit: Revenue to exceed cost?	
Non-profit: Revenue to match cost?	
COMPETITION	**2**
The organisation has to be fully aware of what products are offered by their competitors, what their prices are, and how they compete.	
These all vary by targeted market segment, state of commoditisation of product etc.	
Competition can be based on price or can be non-price competition. In non-price competition the company is in some way differentiating its products or services so that price is not the only factor influencing purchasing decisions.	
Types of competition	

- *Perfect*: Both supplier and customer markets are fragmented – "many small customers and small suppliers", equal bargaining power, no domination;
- *Oligopoly*: Market is dominated by a few large suppliers / customers;
- *Monopoly*: One company dominates;
- *Monopolistic competition*: A number of suppliers supplying similar but not identical goods – some differentiation, so price varies;
- *Price*: Competition based on cost and pricing;
- *Non-Price*: Competition based on quality and differentiation (focused strategies).

CUSTOMER / CONSUMER 3

Affordability: How much can the customer afford to pay?

Willingness / Perception of value: How much is the customer willing to pay?

Consumers will react to prices and price changes. For example, luxury goods are likely to be more sensitive to price changes than necessities. Price discrimination can allow different prices to be charged for the same product in different markets.

These factors will, however, differ from one market segment to another, and has to be considered also from the angle of not just how much, but how many units of a product/service is demanded of.

CONTROLS 4

Controls over prices can be set by governments and regulators.

Is the price subject to: Contractual bounds? Government regulations?

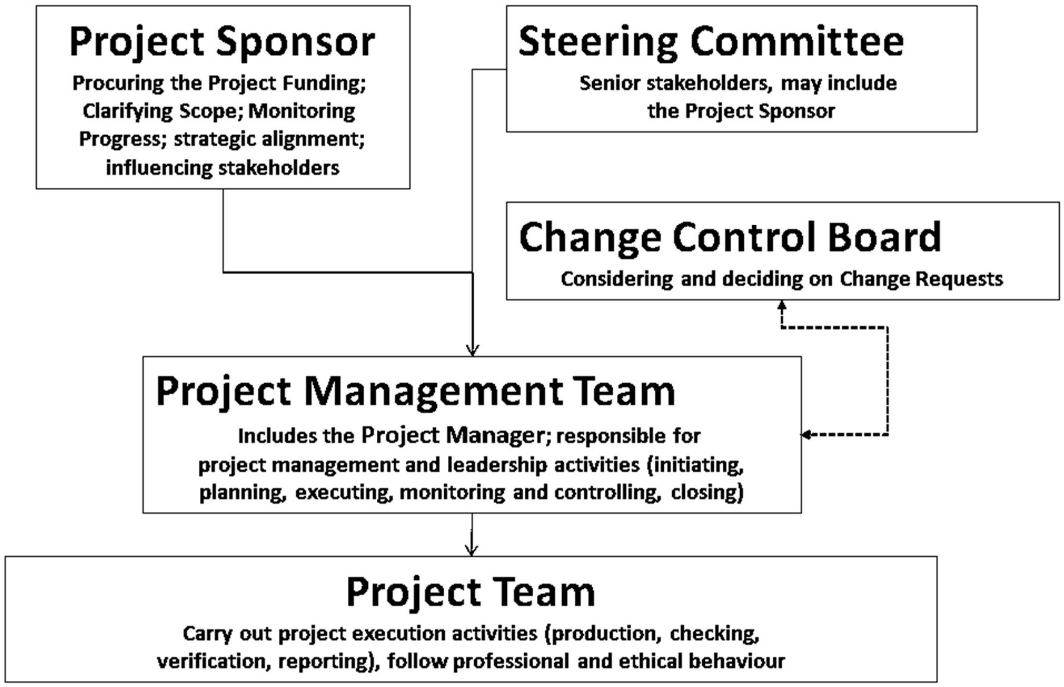
SETTING PRICES

1. Maximise prices (by increasing selling price and/or reducing costs)
2. Break-even (relevant for not-for-profit organisations)
3. Cost-based (cost focus, "inward-looking")
4. Competition-based (competition focus, "outward-looking", "cost leadership" – must match cost)
5. Marketing-orientated (non-price competition, "differentiation", based on 7Ps, features etc.)

STRATEGIC APPROACHES TO PRICING

1. Price skimming (high-to-low, to cover R&D cost, "*skimming* rich, high-end first adopters" before targeting "lower-level markets")
2. Penetration pricing (low-to-high, low-price entry)
3. Product line pricing (range of products for different market segments)
4. Related product pricing ("captive pricing" – pricing strategies which lock-in customers, e.g. printers)
5. Demand manipulation ("dynamic", demand ↑↓, price ↑↓ - e.g. late booking discounts)

Date	25/04/2018



PRINCE (*PRojects IN Controlled Environments*) Methodology (p. 366)

Project management is not a strategic-level activity, and is very much operational in fact.

Project management concepts can be used in managing change within an organisation – which must be carried out as a plan, and not in a haphazard manner.

The main difference between a business and a project is the feature that businesses are a continuous, “going concern”, as against projects, which are temporary in nature and serve a unique purpose.

Project sponsor (p. 396-)

At the head of every project is the *project sponsor*, whose role is akin to that of a “customer” interested in ensuring the undertaking meets higher-level business objectives. It is this “customer” who arranges for funds, lobbies the proposal at the board-level, and the individual who appoints the project manager.

Apart from appointing the project manager, the sponsor is the link between the project management team and senior management – e.g. through activities which include determining budgets and funding (“inputs”). The project sponsor is also in charge of preparing the PID (*see next section*)… along these lines, prioritise the strategic importance of the projects and measuring performance (“outputs”).

Project manager (p. 394-)

The *project manager* is the “deliverer” of the project. It is preferable that a person of this capacity be an all-rounded, versatile individual capable of integrating, and coordinating the project… as this is the person who takes ultimate responsibility for achieving the project objectives within time, budget, and scope constraints.

In a similar fashion to the project sponsor, the project manager does plan, communicate, monitor, and control to the best of his/her ability within the specifications of the project.

As we shall see later, the project manager is also involved in *post-project review*, but does not shoulder the responsibility for *benefits management*.

Triple constraints of a project (p. 369)
A project has to be bound by the following to avoid overbloom, loss of competitive edge, and wastages:

- *Time* looks at the duration of the project – "how long is the project going take?"
- *Cost* seeks to quantify "how much" the project is going to cost
- *Scope* identifies the boundaries of a project, plugging the gaps such as: what products to deliver (e.g. buildings / software / hardware), what activities should be undertaken etc.

All three elements will be detailed in a *project initiation document*[1] (PID).

Types of projects

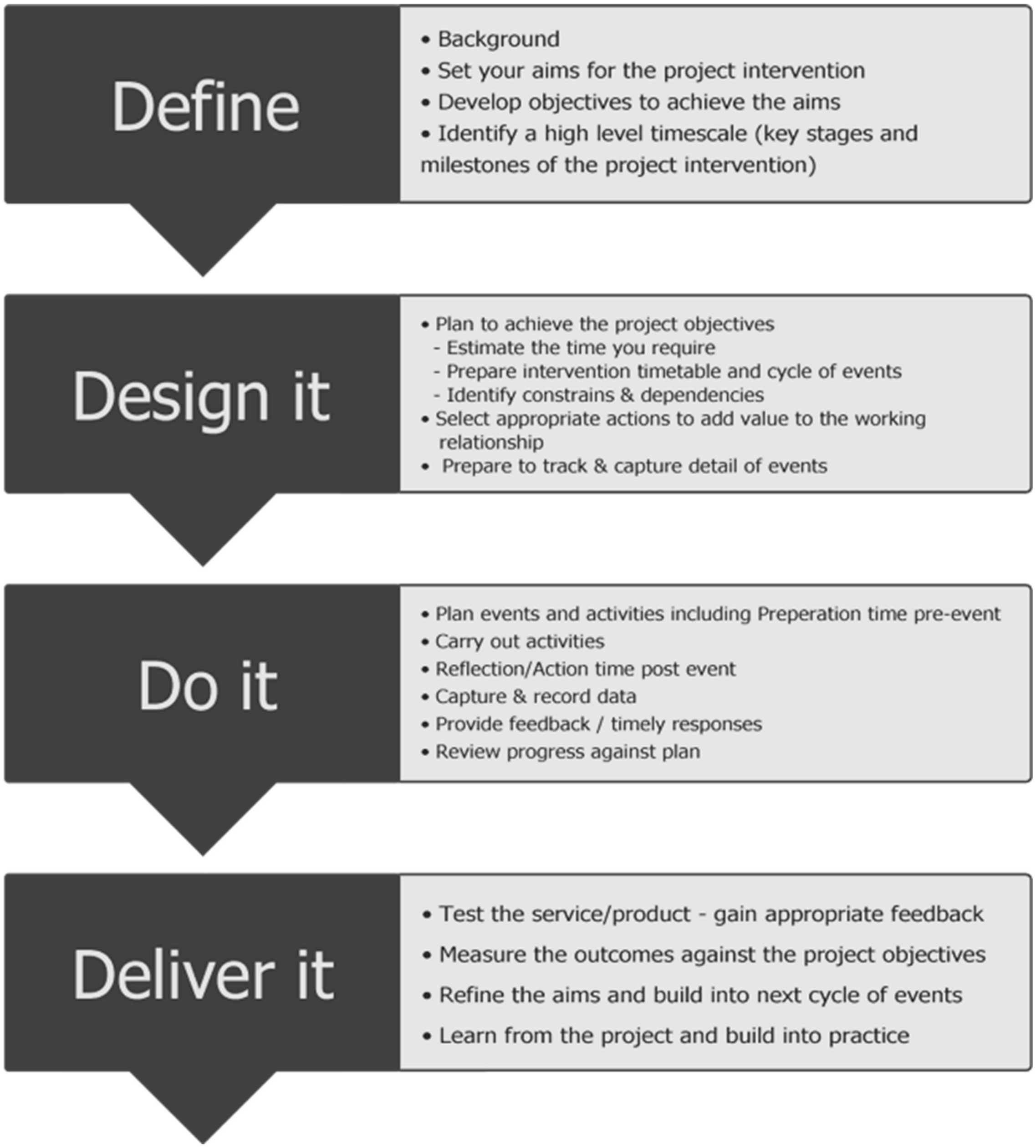
Every project surely has a dominating emphasis on one of the three constraints listed as above – unless it is one whereby all factors are equally important, then this would present us with an incredibly demanding and difficult project.

- Time-based
  Competitive-edge, event-based project that has most importantly got to be finished on time due to instances such as when rivals are doing it simultaneously.
- Cost-constrained
  A project with a low-budget. Such an event is reserved for "commodity processes" (bottom-left of *Harmon's Matrix*) that are non-core and routine.
- Scope-constrained
  A project which is safety and/or quality-critical is deemed a scope-constrained project. No compromises should be made with regards to time and cost if the outcome is not achieved.

---

[1] A "project initiation document" (also known as a "project charter") is a paper which complements the business case. Being an authoritative document prepared by the Board to keep all project stakeholders informed, the PID specifies the importance of a project – allowing others to understand the terms of reference [background, objectives, and benefits (primarily highlighted by the business case)] – for wide distribution.

Maylor's 4D Project Lifecycle Model (p. 368)



↑ *For illustrative purposes only. The terms used do not fully correspond to the text. See p.377 for definitive content.*

Date	27/04/2018

Maylor's 4D in practice

Define

- Perform stakeholder mapping using *French & Raven* and *Mendelow's matrix*
- Benefits management[1] and prepare business case[2]
- Prepare PID
- Schedule kick-off meeting (formal project launch)
- Develop *preliminary* scope statement[3]

Design ("Planning")

- Risk management[4]
- Scope management[3]

Delivery

- Completion
- Testing / Control – taking corrective action
- Deployment
- Further planning – support and maintenance, handover

Development (*see trailing section 'Development'* or turn to *p.402*-)

- Deployment
- Resistance handling
- Project review ("lessons learnt")
- Ongoing management

1 "Benefits management" is a separable subset of the project management process. This on-going activity seeks to identify the benefits in a project, and ensure the said benefits actually materialise. (For more details, see *p.405*-)

2 A "business case" is part of a proposal prepared by anyone seeking permission to undertake a project (usually this is the project sponsor's responsibility). The business case will usually include a description of business drivers ("resource, process or condition that is vital for the continued success and growth of a business"), and a cost-benefit analysis (part of benefits management) among other descriptors for the usage of business resources.

3 A "scope statement" outlines the project's parameters – project deliverables and major objectives. The creation of such a document will prevent *scope creep* – similar to "mission creep", it is the core reason why projects can fail is because the direction of the project has lost focus on major objectives.

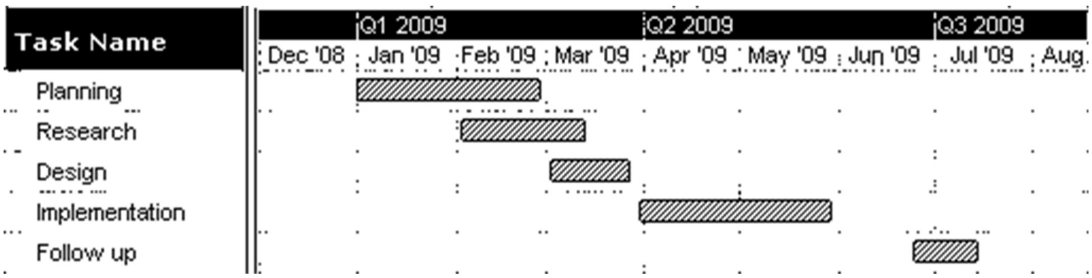
"Scope management" involves defining and controlling work in the project (p. 385), which basically can be planned for using:

- *Work breakdown structure* – divisions of work processes into their atomic equivalents (i.e. tasks are divided until the point they can no longer be divided)
- Product breakdown structure – where whole products are split into sub-products (until the point these products can no longer be separated)

4 "Risk management" here refers to planning for risks. This process requires the organisation to perform the following:

- Identify all possible risks;
- Document risks in a risk register;
- Assess risk register for probability (likelihood) and impact;
- Respond (based on "*TARA*" *framework – p.385*).

Gantt chart (p. 388)
A method of illustrating activities (tasks or events) displayed against time.

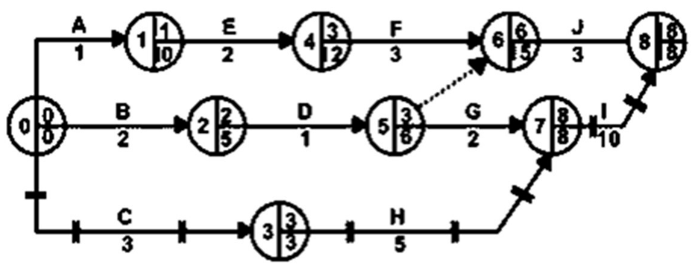


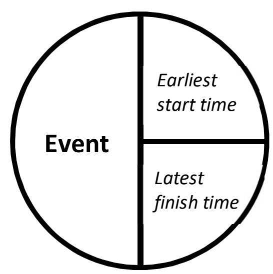
Observers of the Gantt chart above can quickly conclude the following:

- Number of days to completion
- Minimum duration
- Project time elapsed

The Gantt chart is not entirely without its downsides.
As a project management tool, the Gantt chart can be messy and confusing, provides only limited information, and fails to show dependencies.

Critical path network (p. 388)





Versus the Gantt chart, a critical path network makes full use of the project's activity list and, as a result, is able to display more info:

- Activities of a work breakdown structure
- Time / duration to complete each activity
- Interdependencies between activities
- Milestones or deliverable items ("logical end points")

The critical path method seeks to calculate the longest path of planned activities to logical end points or to the end of the project, and the earliest and latest that each activity can start and finish without delays.

Project integration management (p. 389-)

- This activity takes place at the "design" phase of a project.
- PIM involves coordinating various aspects of the project to ensure that stakeholder needs and expectations are met.
- At the centre of PIM is the document known as the "master project plan".

Master project plan

- This blueprint describes the product, and what's important etc. such that it acts as a reference ("baseline") for all subsequent planning, monitoring, and control within the project.
- The master project plan aligns the business case, project initiation document, and project plan. This provides the team with a sense of direction, avoiding a "ninth key" (high stakes) approach.
- *Being a flexible document, constant/regular updates of the project plan is a sign of strength that the organisation is well-aware of the project's consistency and alignment with its associated circumstances. ("…the project management plan should be dynamic, flexible and receptive to change when the environment or project changes")*
- The project manager is supposed to prepare and deliver this document to the project sponsor.

<u>Contents</u>

- Resources – e.g. HR, physical, financial etc. – to be sourced in advanced;
- Breakdown structure of disparate activities
- Time-planning tools used (Gantt chart, critical path network etc.)
- Project quality plan – i.e. standards and requirements
- Project evaluation plan ("measurable")
- Management process – e.g. from approval and review, up to authorisation etc.
- Technical process – e.g. data and tracking processes, use of Enterprise Project Management Software etc.

Dealing with slippage (*usually of 'time'*) (p. 400-)

It may be unforeseen during certain projects that the undertaking is unable to meet the desired deadline for delivery. To cope with these instances, the project management team has the following options:

DO NOTHING	No response, essentially. It is acknowledged that certain projects, particularly those which are safety-critical, cannot be rushed to make up for lost time, due to the reality that any compromise in time and quality could jeopardise the deliverable(s) of the project.
ADD RESOURCES	This only applies to tasks/areas of the project which are divisible. People (with the right skills), time, and money are required for this option. As because this option also deals with briefings and re-organisation, it will cause further delays, so the project manager must be aware not to over-assign additional resources to any project.
WORK SMARTER	Remove bureaucracy.
RE-PLAN	This option calls for a return to the drawing board. The project team is expected to update its estimation standards / techniques, and correct the root causes which have led to project slippage.
RESCHEDULE	Rescheduling is about changing the 'phasing' of the project, not postponing the deadline. What this means is that the project management team will now attempt to recover lost time by focusing only on the critical deliverables first.
INTRODUCE INCENTIVES	If it is ascertained that the key factor behind slippage is due to a lack of motivation. A move as such will definitely increase the cost of the project.
CHANGE SPECIFICATIONS	This is the same as saying "simplifying the scope". Has "re-planning" elements in the sense that the team will be required to make alterations to the business case, the PID, and then consequently modify the plan.

4D: 'Development' phase of a project (p. 402-)

At the 'development' stage, it is already assumed that the project deliverables have already been completed. What remains of the project is to 'conclude' or 'close' the project, made up of – review and learning.

What to review?	Project management processes and products
What to learn?	Lessons obtained from solving mistakes in the current project.

To achieve the above, the project management team is expected to carry out the following activities:

Post-project review	This activity is *non-technical* by nature. There will be a review of project management processes, as well as the preparation of a "post-completion audit report" to mark the formal closure of the project. Lessons learned would have been documented in the report mentioned. These lessons are subsequently fed back into the project management standards of the organisation through recommendations provided in another document known as the "project completion report". This stage is mostly carried out by the project manager, who officially hands the aforementioned papers to the project sponsor to be signed off at the end.
Post-implementation review	A relatively *technical* operation. During a post-implementation review, the final product is reviewed. There will be extensive usage of feedback and observations – provided after the product has been tested. The 'lessons' will be fed into the organisation's production standards.
Benefits realisation review (p. 405-)	This review evaluates if 'benefits' were realised (normally performed one year after the completion of the project). In general, there will be a comparison of planned costs and benefits (based on the business case's cost-benefit analysis) versus the actual benefits obtained… carried out through a series of annual reviews. These reviews will hold the *benefit owner* accountable as that the project's benefits are not simply overstated / costs understated to justify the execution of the project before. In track with review and learning, these investigations will attempt to feed lessons back to the organisation's benefits management process.

Benefits management (p. 405-)

According to *Ward and Daniel*, BM concerns delivering business benefits as predicted in the business case. As probably explained before in an earlier section, BM is an on-going process that seeks to identify the benefits, and ensure that they materialise. Being "on-going", BM doesn't fall under the purview of the project manager.

"IDENTIFY AND STRUCTURE BENEFITS"

First-cut business case

The process begins with the establishment of investment objectives[1] and the business case.

The next step in forming this document is to draft a *first-cut* business case, which will highlight elements such as financial and non-financial benefits[2] that are attributable to the business (see *p. 421 for "business benefits"*).

Once that is done, the responsibility of defining, agreeing, and delivering these benefits will be assigned to "benefit owners" – usually relegated to personnel with authority to make business-level decisions.

Before undertaking the following sequence, the organisation needs to "enable" change [for example, initiating training, informing members of the organisation of the implications of the change, defining new measures and job descriptions etc.] and consider stakeholder implications [those affected and affecting, whether positively/negatively].

"PLAN"

Benefits realisation plan ("benefits plan")

A benefits realisation plan and comprehensive business case will be the main outputs of the planning stage – the former must of course, be consistent with the business case.

Constructing these documents will provoke management to describe the benefits of a project/change, performance measurements (to establish the 'baseline' and resultant variance), and map out a "benefits dependency network" (a map that points out from hardware/software enablers[3], to change enablers, business changes, benefits, and achievement of objectives. For more details, see *p. 417*).

"EXECUTION AND DELIVERY"

In the course of running this phase, progress will be closely monitored against targets and the end deliverables.

Re-appraisals and revisions will be common to address problems (e.g. resources, personnel, unexpected events) and incorporate further benefits.

If benefits are not managed (monitored and controlled) during this stage, it is virtually certain that the planned benefits may not be realised at all.

"REVIEW AND EVALUATE"

Here (after the product has been delivered), the project management team will perform a review of what has, or has not, been achieved.
In connection with this, lessons for maximising benefits and increasing future investment value will be explored.

---

1 Usually, clearly defined objectives ("SMART") set here are limited to 3-6 (or not too many) as it exponentially determines the project's breadth and complexity.

Investment objectives are, in turn, motivated by "drivers" (see *p. 407*) important to senior management because they are strategic issues which drive change – classified as: organisational (external) or business (internal).

How identified? Using environmental analysis frameworks, such as PESTEL, 5 Forces, and SWOT.

2 To summarise, business benefits fall under two major categories:

- Performance improvements
- Advantage on behalf of stakeholders

Business benefits argued in any business case can typically be categorised under four degrees of explicitness (*p. 421*):

- ***OBSERVABLE***
  A benefit based on experience and judgment… questionable to include as it presents problems arising from the lack of clarity, and potential "teething" issues (small problems from untried methods).
- ***MEASURABLE***
  A benefit which is currently being measured, but impossible to estimate before investment becomes operational… Therefore, it can be difficult to specifically attribute the benefits to just any factor.
- ***QUANTIFIABLE***
  A benefit which can be forecasted based on evidence (e.g. as a percentage). Not only would the change team need to prudently determine if the benefits are specifically attributable, there needs to be an investigation on whether the benefit could be linked to an unexpected disadvantage as well (e.g. cost hikes).
- ***FINANCIAL***
  A benefit based on a quantifiable benefit, expressed in precise monetary value

** Never use these degrees for costs.*

It is most difficult to convert benefits from measurable (uncertain) to quantifiable (predictable). The project management team needs to be aware that methods must be designed to gather and provide more reliable info to make possible such a conversion.

A cost-benefit analysis can only have *financial* values. Nevertheless, the lack of tangible benefits must not always result in the termination/rejection of a project, as:

1. Less-direct benefits can still be retained in the business case as "potential benefits" which are capable of being measured in due course;
2. Intangible benefits could provide the organisation with a competitive advantage.

3 *IS/IT* (information systems and information technologies) are utilised to support the realisation of identified benefits. Again, it needs to be reminded that the procurement/development of these systems should be considered only after the organisation has planned for their usage (to avoid under/over-investment).

Date	30/04/2018

Handy's "Best Fit" Theory (p. 440)

	TIGHT ↔	FLEXIBLE
Leader	Authoritarian	Participative
Subordinates[1]	Submissive	Independent
Task	Simple, repetitive	Challenging, unstructured
Environment	Limited time and resources	Generous resources

The original model identifies four variables: leader, subordinates, task, and environment… as well as the state of these variables ranked in a continuum from tight to flexible/loose.

According to *Handy*, if the four variables line up, things should "work fairly well", whilst any crossover (e.g. tight leader, flexible subordinate) will cause both parties to be incompatible, leading to a dysfunctional organisation.

Transactional v. Transformational Leadership (p. 440-441)

- Transactional leadership is exercised by a majority of managers within organisations. This style of leadership is useful for managing day-to-day operations – punctuated by budgets, plans, and 'doing things right'.
  Applying *French & Raven*'s theory, we can conclude that transactional leaders will only possess legitimate/rational power, and fundamentally lack charisma/referent power to influence their subordinates.

- Transformational leadership is the leadership style of a visionary, and focuses on the long-term instead of the short (transactional). Leaders of this nature are seen to be less specific than their transactional counterparts, they are more charismatic, naturally influential, and can bring about innovation and organisational change.

---

1 Management professor Douglas McGregor had also come up with a model of "Theory X" and "Theory Y" to identify employees whom are motivated by rewards, and job satisfaction, respectively.

Job rotation ("Horizontal loading")

Job rotation can be simply described as "moving jobs around the same level (horizontal)".

A popular management technique used by organisations that realise that rotation is an excellent control for detecting fraud and error, builds business continuity (as more employees are equipped to deal with the jobs), as well as an effective training method for greenhorn employees (typically fresh graduates).

Job enlargement

A management approach that seeks to widen the job scope of an employee horizontally.

This approach is demotivational as it increases the workload of an employee.

Job enrichment ("Vertical loading")

Contrary to job rotation, enrichment is about exposing an employee to "vertical" jobs.

Job enrichment is programmed as a combination of the following:

- Tasks and challenges of *skill variety*
- Meaningful responsibilities with *task identity* and *task significance*[1]
- *Feedback* and encouragement
- *Autonomy*

It is postulated that, by taking up work of a higher order responsibility, employees will be more satisfied with their jobs in the long run.

---

1 "Task identity" defines the notion that the task includes all activities required to complete the core product/service offered by the company.

"Task significance" denotes that a particular job has an impact on the work of others, and the organisation's performance.

Competency frameworks (p. 454)

A competency framework defines the competencies for each role within the organisation.

It documents all skills necessary for any position, and highlights the criteria for recruitment, training, and keeps the organisation aware of the gaps through informed revisions, updates, and changes in the design of the internal human resource management process.

Date	04/05/2018

Managing strategic change (p. 500-)

When you change strategies, it is said that you are intent on changing the organisation's culture, reward systems, and control systems as well.

Because it is assumed that every pendulum of change will be met with inertia and resistance, managing change has to be about 'selling' the change to the organisation and its people.

To effectively 'sell', the manager has to understand the following:

- Why is the strategic change required?
- What is the basis / are the bases ("strategic intent")?
- What are the directions and methods possible?
- What changes in structures, processes, and relationships are necessary?
- What resources and activities do we need?

Frameworks applicable to this section:

* To apply when there are 'proposed changes', or arguments for/against change:

- *Balogun and Hope Hailey* – types of strategic change
- *Balogun and Hope Hailey* – internal contextual factors
- POPIT (p. 509)

** To apply after 'types of strategic change' is used:

- Turnaround

Balogun & Hope Hailey* Types of Strategic Change * (p. 501-)

Nature	speed and size of change ("how big is the change?")

<u>Incremental</u>

Relatively easier than "Big Bang" changes, although "no change" is the easiest. Employees prefer "changes that seep into the organisation" over "sweeping changes".

<u>Big Bang</u>

Fast, applicable to 'turnarounds'. Not recommended unless organisation is facing a financial crisis – when facing losses (extends to 'reconstruction' and 'revolution')

Scope	the need to change business model and culture

<u>Realignment</u>

Building upon existing business models.

<u>Transformational</u>

Dramatically more difficult in the sense that business model / culture changed. Identical to Big Bang as it is only necessary during a financial crisis.

Extent of change

Speed of change	**Transformation**	**Realignment**
Incremental	**Evolution:** Transformational change implemented gradually through inter-related initiatives; likely to be proactive change undertaken in participation of the need for future change	**Adaptation:** Change undertaken to realign the way in which the organisation operates; implemented in a series of steps
Big Bang	**Revolution:** Transformational change that occurs via simultaneous initiatives on many fronts: • more likely to be forced and reactive because of the changing competitive conditions that the organisation is facing	**Reconstruction:** Change undertaken to realign the way in which the organisation operates with many initiatives implemented simultaneously: • often forced and reactive because of a changing competitive context

Crucial when there are "core rigidities" (i.e. the cling of core competences which have been made irrelevant by time)

When big and quick changes are necessary, especially during 'turnaround' or 'restructuring' situations

Big Bang and Transformational changes are too drastic of changes, and employees will almost always be resistant to disruptions as these. So in most cases, adaptation is what's necessary. The nature and scope of change will, nevertheless, depend on perception. In a typical exam scenario, it is advisable to argue from all (usually both) perspectives.

B&H **Internal Contextual Factors*** (p. 503)

Factors which influence the success or failure of change. If these factors are in favour of the change, then the changes are more likely to succeed, same goes vice versa. Conflicting sentiments within the organisation is also a symptom for failure.

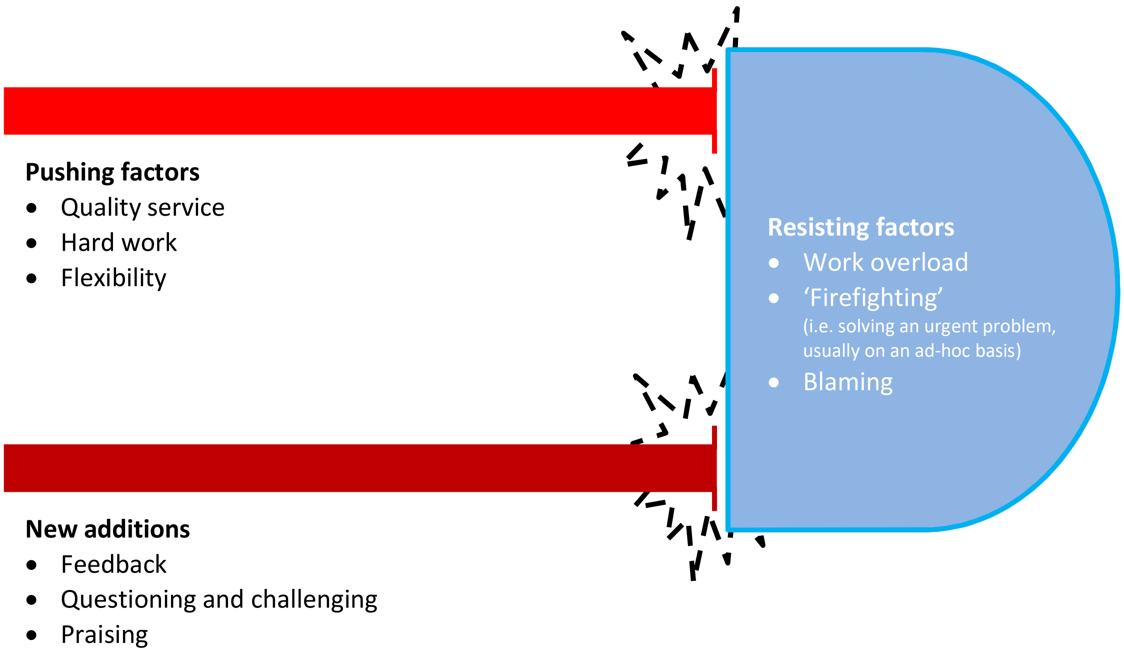
- Time: Incremental / Big Bang – depending on time horizon.
- Scope: Realignment (to paradigm – business model and culture) / Transformational.
- Power: Leader of change (proponent of the more dynamic change) must have power (see *'French and Raven'*) to make the changes.
- Preservation: Can key human resources and competences be retained?
- Diversity: Contextual. May or may not favour the change.
- Cap**ability**: Does management have change experience? Have they managed changes in the past? Single business unit entities may be relatively inexperienced in "big way" changes, so the chances of failure may be higher in this instance.
- Cap**acity**: Availability of resources (see '6M' for "manpower" & "money" specifically).
- Readiness: Preparedness of the employees. Do they look forward to the change? Mere compliance (i.e. meeting the minimum) is not sufficient for employees to commit and help in the success of the proposal.
  Besides existing management, once disillusioned and demotivated staff might feel more 'ready' (i.e. less resistant) when a takeover is imminent.

When it is an acquirer-acquired situation, we should perform the contextual factors analysis as if the merger has already occurred, therefore, we are analysing the factors of TWO companies combined.

Kurt Lewin's Forcefield Analysis (p. 505-506)

Can be applied in any change situation. The analysis looks at typical "pushing" and "resisting" factors.

For a strategy to work, there should be "new additions" applied to strengthen the "pushing" factors.



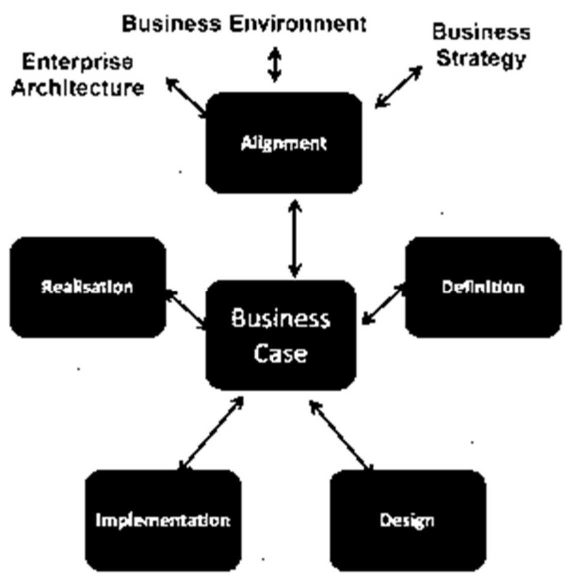
Business change lifecycle model (p. 507)

Definition: Preparing business case, and analyse current situation

Design: Preparing benefits plan

POPIT model can be used both in the 'Definition' and 'Design' stages

Benefits Management: Undertake benefits realisation review



POPIT (p. 509)

The POPIT model recognizes the equal importance of people, organisational structure, processes, and information technology when enhancing a business process (improvement, redesign, re-engineering). It takes a holistic view of change, considering all elements which could affect the success of the project. (*see P3 March/June 2016, Q4b*)

Used in the ‘Define’ and ‘Design’ stages, POPIT are elements to consider when analysing / designing a process.

<table>
<tr><td colspan="2">People</td><td>Do the people involved in the process have the pre-requisite technical skills and motivation?
Do they understand the purpose of what they’re doing?</td></tr>
<tr><td colspan="2">Organisation
Structure and cultural context</td><td>Is the management structure supportive of this?
Are individual/department scope (‘roles’) and responsibilities well-defined?
Are the departments working together / interacting?</td></tr>
<tr><td colspan="2">Processes
Made clearer using a ‘swimlane diagram’</td><td>Are processes, activities, entities, inflows/outflows
Deficiencies?
Management structures (how many departments / heads involved – cut through?)…
Is there adequate IT support – important for rectifying issues with IT infrastructure so that ‘workarounds’[1] will not be necessary?
Are documents / paper needed?
Potential for delays / errors?</td></tr>
<tr><td rowspan="2">Information and Technology (“IS/IT”)</td><td>Information</td><td>Do people get the information they want?
Is information of quality necessary for effective implementation?
Is management able to make decisions?</td></tr>
<tr><td>Technology</td><td>Happy with performance and reliability of software?
Satisfied with functional and non-functional characteristics?</td></tr>
</table>

1 Workaround
A method for overcoming a problem or limitation in a program or system.

Kotter's *Change Management Styles and Roles* (p.515)
Styles adopted by change leaders ("agents").

Education and communication

The style of letting people know of the change in advance, hence reduces likelihood of misinterpretation and spreading of rumours. Because this is top-down, there is a lack of participation / consultation with lower levels of the organisation.

Intervention

Change leader encourages some participation / collaboration, while end-decision is arrived at by the change leader. This style risks being seen as 'manipulative', as it creates the illusion that consideration is

Collaboration / participation

Involving people in deciding the changers to be made, and consider their inputs – better acceptance and commitment. This style is useful in eliminating "core rigidities".

However, this collaborative management style will be time-consuming.

Direction

Typical style of the transformational leader – long-term vision and guidance is given. Due to the general nature of this style, it is merely relevant for transformational changes – not adaptations.

Coercion

Threats and sanctions which punish others to push through with a change.

Different styles suit different managers
As mentioned in the text, there is no fixed rule labelling whichever management style as the best. Choice of style here requires the consideration of: time, capability, and stakeholder expectations. Success lies in the ability to adapt the management styles to different situations.

Roles in change management (p. 517-)

A *change agent* is someone (or a 'group') that helps affect strategic change in an organisation.

In implementing these transformations, change leaders / agents can not only come from the ranks of the strategic-level managers, but also middle managers.

Here are some of the roles these individuals/groups play:

<u>Strategic leaders</u>

- Building a vision (excellent when the organisation is facing uncertainty)
- Strategic analysis and formulation
- Developing people
- Providing expertise (*a source of competitive advantage*)
- Setting SOPs and controls
- Managing continual change ("being open to change")

<u>Middle managers</u>

- Put change handed down from top managers into action ("to act as implementers of strategy")
- Interpret change strategy to operational staff ("to translate change")
- Reinterpret (*particularly when environmental changes make a change policy irrelevant*)
- Relevance-bridge ("to act as an intermediary between top management and lower-level staff")
- Advise ("to act as 'internal consultants'" – especially when managers are experienced)

<u>Outsiders</u>

- To facilitate change process (*applies to 'consultants' specifically*)
- Break down cultural barriers

In turnaround situations, new CEO and management will be brought in to replace the existing senior management – this includes the CEO, CFO/Finance Director, COO/Sales and Marketing Director(s).

These outsiders are more likely to be objective, have brand-fresh perspectives, and will not be weighed down by organisational culture ("cultural baggage").

Turnaround (p. 521)

"Reconstruction".

As described by *Balogun & Hope Hailey*, the turnaround strategy is an example of a reconstructive change. In such times of crisis, the organisation would need perhaps a very capable 'hybrid CEO'-type outsider, and a toolkit of turnaround strategies:

Criteria

Characteristics of a Hybrid CEO:

- Experience
- Turnaround specialist
- Good domain skills (i.e. knowledgeable about industry and its "*5 Forces*")

Elements

- Crisis stabilisation / damage control
  What this does is that such controls ensure that revenues do not further decline, and costs are prevented from further increases. Most successful turnaround efforts focus on: i) reducing direct operational costs; ii) improve productivity gains – insignificant changes which have a big impact (operational in nature).
- Reason for changes in management (which necessitate the invitation of outsiders)
  Old management is responsible for current problems, turnaround experience is needed, different approaches.
- Gaining support
  …from powerful stakeholders ("key players").
- Withdraw
  …from unprofitable markets, clarify "target markets" – focus on key market segments.
- Re-focus
  Just like the previous point, the organisation will perhaps need to withdraw from unprofitable markets, and withdraw unprofitable products, or clear slow-moving stock at cost price. Reduce scope of product/service range, while outsourcing non-core activities.
- Financial restructuring
  Negotiate for early settlement discounts, favourable financing terms.
- Prioritise
  …'critical improvement areas', i.e. making small changes which lead to significant revenue increases / cost savings.