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Business strategy and analysis

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Role of Factor Condition.
Role of Demand Factor.
Role of ~~suppo~~ related & support industries.
Role of structure, Strategy & domestic rivalry.

Ref: Application level manual, page no: 12 Ohmae's strategic thinking as an intuitive process

Ohmae's strategic thinking as an intuitive process
Ohmae says strategy is essentially a creative process in which the strategist must pay attention to a **strategic triangle** of 3 Cs.

1. **Corporate-based strategies** build competitive strength by focusing on the superior competences which the corporations has in comparison to rivals. He cites Sony's skills in miniaturisation of electronic circuitry and Coca Cola's control over distribution channels as examples of this.

2. **Customer-based strategies** gain superior market position by segmenting markets closely and ensuring products and service are closely tailored to requirements of each segment. The ability of Mercedes-Benz or BMW to cornering a particularly valuable segment of the car industry might be an example of this.

3. **Competitor-based strategies**. Close identification of the methods of rivals and exploitation of any weaknesses in them, such as absolute cost differences or flexibility of supply. Ohmae cites the example of Toyota utilising its superior R&D and quality assurance systems to launch Lexus to exploit the executive limousine market at prices unattainable to Jaguar and Mercedes-Benz who relied on more traditionally engineered cars and car plants.

Ref: Application level manual, page no: 15 Five types of strategies

Five types of strategies
Mintzberg (The Strategy Process) identified the following.

Intended: The result of a deliberate planning process.

Deliberate: Where the intended plans have been put into action.

Unrealised: Not all planned strategies are implemented.

Emergent: Sometimes strategies are created by force of circumstances.

Realised: It can be seen that the final realised strategy results from a balance of forces of the other types of strategies.

Ref: Application level manual, page no: 20 Resource-based view of strategy

Resource-based view of strategy

The **resource-based view** is an **inside-out** view of strategy. Firms do not look for strategies external to them. They develop or acquire resources and competences, **create** new markets, not just reacting to those already there, and exploit them.

Johnson, Scholes and Whittington say successful strategies require **strategic capability.**

Resources and competences are needed for the successful execution of defined strategies.

Fit

Resources must be available to fit with the current product-market demands and current needs.

Stretch

This means being at the leading/shaping edge of **new strategic** developments in the industry. This suggests that the organisation's ambitions cannot be met with current resources and competences. Ambition should outpace resources.

Leverage

Existing resources are used in many different ways, so that extra value is extracted from them.

Creation of new markets

A fundamental point made by Prahalad and Hamel (Competing for the Future) is that markets are not 'given'. They can be created by corporate action. Companies do not merely 'satisfy' customer needs: they 'create' them. For example, mobile phone ringtones drew on the mobile phone as fashion accessory, not just a communication device. Prior to the launch of ringtones there was no ringtone market in existence.

According to the **resource-based view** of strategy the role of resources is **more than simply to execute** strategies determined by desired positions in product markets. Rather, the focus of the strategist should be on **resources and competences**. These are **assets** for the long term. Such a combination of resources and competences takes years to develop and can be hard to copy.

Some of the implications are explained in the table below.

Factors	**Environment/ industry-based view**	**Resource-based view**
Profitability	Industry profitability determined by the five competitive forces. Position of a company in the industry determines its profitability.	Corporate profitability based on sustainable competitive advantage achieved from the exploitation of unique resources.
Approach	Outside-in, i.e. consider outside environment and markets then the company's ability to trade in these conditions.	Inside-out: consider key resources first,then how to exploit competitive advantage in available markets.
Diversity	Maintain diversified portfolio of products (see BCG matrix) to spread risk and generate cash in changing market conditions.	Focus only on products where company has a sustainable competitive advantage. 'Stick to the knitting'.
Key focus	Industry orientation and positioning in the market.	Focus on core competences which competitors do not possess and will find difficult to copy.

Ref: Application level manual, page no: 51 Stakeholder mapping: power and interest

Stakeholder mapping: power and interest

Mendelow suggests that stakeholders may be positioned on a matrix whose axes are power held and the likelihood of showing an interest in the organisation's activities. These factors will help define the type of relationship the organisation should seek with its stakeholders.

	Level of interest	
Low	**Low**	**High**
	A	**B**
Power		
High	**C**	**D**

a) **Key players** are found in segment D: strategy must be **acceptable** to them, at least. An example would be a major customer.

b) Stakeholders in segment C must be treated with care. While often passive, they are capable of moving to segment D. They should, therefore be **kept satisfied.** Large institutional shareholders might fall into segment C.

c) Stakeholders in segment B do not have great ability to influence strategy, but their views can be important in influencing more powerful stakeholders, perhaps by lobbying. They should therefore be **kept informed.** Community representatives and charities might fall into segment B.

d) Minimal effort is expended on segment A.

A single stakeholder map is unlikely to be appropriate for all circumstances. In particular, stakeholders may move from quadrant to quadrant when different potential future strategies are considered.

Stakeholder mapping is used to assess the **significance** of stakeholder groups. This in turn has implications for the organisation.

a) The framework of **corporate governance** should recognise stakeholders' levels of interest and power.
b) It may be appropriate to seek to **reposition** certain stakeholders and discourage others from repositioning themselves, depending on their attitudes.
c) Key **blockers** and **backers** of change must be identified.

Stakeholder mapping can also be used to establish political priorities. A map of the current position can be compared with a map of a desired future state. This will indicate critical shifts that must be pursued.

Ref: Application level manual, page no: 53 Corporate social responsibility and sustainability

1 Corporate social responsibility and sustainability

Social responsibility
If it is accepted that businesses do not bear the total **social cost** of their activities, it could be suggested
that **social responsibility** might be a way of recognising this.

The scope of Corporate Social Responsibility (CSR) varies from business to business. Factors frequently
included are:

Health and safety:
This includes workplace injury, customer and supplier injury and harm to third parties

Environmental protection:
Energy use, emissions (notably carbon dioxide), water use and pollution, impact of product on environment, recycling of materials and heat

Staff welfare:
Issues such as stress at work, personal development, achieving work/life balances through flexibility, equal opportunities for disadvantaged or minority groups

Customer welfare:
Through content and description of products, non-exclusion of customer groups, fair dealing and treatment

Supply-chain management:
Insisting that providers of bought-in supplies also have appropriate CSR policies, ethical trading, elimination of pollution and un-recycled packaging, eliminating exploitative labour practices amongst contractors

Ethical conduct:
Staff codes for interpersonal behaviour, prohibitions on uses of data and IT, management forbidden from offering bribes to win contracts, ensuring non-exploitation of staff

Engagement with social causes:
This includes secondment of management and staff, charitable donations, provision of free products to the needy, involvement in the local community, support for outreach projects such as cultural improvement or education

Justifications offered for management seeking to demonstrate 'social responsibility' outside a business's
normal operations are:

'The public' is a stakeholder in the business. A business only succeeds because it is part of a wider society
Self-regulation by the firm or industry now is likely to be more flexible and less costly than ignoring CSR and facing statutory regulation later

It attracts ethical investment funds and ethical customers

It improves relations with key external stakeholders such as regulators, government and legislators

Donations, sponsorship and community involvement are a useful medium of public relations and can reflect well on the business and its brands

Involving managers and staff in community activities develops them more fully

It helps create a value culture in the organisation and a sense of mission, which is good for motivation

In the long-term, upholding the community's values, responding constructively to criticism and contributing towards community well-being might be good for business, as it promotes the wider environment in which businesses flourish

Strategies for social responsibility

Proactive strategy	A strategy which a business follows where it is prepared to take full responsibility for its actions. A company which discovers a fault in a product and recalls the product without being forced to, before any injury or damage is caused, acts in a proactive way.
Reactive strategy	This involves allowing a situation to continue unresolved until the public, government or consumer groups find out about it.
Defence strategy	This involves minimising or attempting to avoid additional obligations arising from a particular problem.
Accommodation Strategy	This approach involves taking responsibility for actions, probably when one of the following happens. • Encouragement from special interest groups • Perception that a failure to act will result in government intervention

Ref: Application level manual, page no: 82 PESTEL analysis

PESTEL is a handy checklist environmental factors.

- Political
- Economic
- Social/cultural
- Technological
- Ecological/environmental
- Legal

Political factors

Political factors relate to the distribution of power locally, nationally and internationally. Political risk is the possibility that political factors will have an impact on the business's environment or prospects.

The impact could be positive or negative, the issue is the uncertainty created. Types of risk include the following.

Ownership risk:

A company or its assets might be expropriated (or nationalised) by the state, normally with compensation. Confiscation is, effectively, expropriation without compensation.

Operating risk: **Indigenisation/domestication**. The firm may be required to take local partners. There may be a guaranteed minimum shareholding for local investors.

Transfer risk may affect the company's ability to transfer funds or repatriate profits.

Political risk: The government of the host country may change taxes or seek a stake in the business to increase its power or to satisfy local public opinion.

Sources of political risk

The country
This covers government stability, international relations, the ideology of the government in power, the need for contacts, favouritism for local suppliers, political violence, governments' ability to change the law and operating conditions, governments' need to appease powerful stakeholders.

The product Consumer/basic products. High-tech components may have national security or armaments implications. Oil extraction in some countries places the oil companies near regions of ethnic or political conflict.

The company Size, connections, reputation, influence on the environment.

Managing political risk

Companies, especially transnational corporations, might take measures to reduce political risk. These include:

- Detailed risks assessments prior to investing in the country
- Seeking protection from legal agreements with the host country or from bi-lateral trade agreements between nations
- Partnering with a local business to increase acceptance of the project and to lobby for political support
- Raising finance for projects from host country to put local pressure on politicians to help safeguard investment
- Operate under the auspices of international bodies e.g. World Health Organisation, UNICEF etc.
- Share project with other firms to spread the risks between them
- Avoid total reliance on one country e.g. oil companies extract oil from many countries to offset risks of interrupted supplies or spiralling costs
- Lobbying for political support from home government for projects and to resolve issues
- Support for political groups in host country that are favourable to the project

Economic factors
A typical economic factor that should be considered in strategic decision-making is the economic structure of a country. Countries typically progress from reliance on primary industries (e.g. agriculture, minerals, forestry) through manufacturing to tertiary services (e.g. financial and commercial sectors).

Lesser developed countries	Reliant on a small number of products (e.g. crops or minerals) as the main export earner. Infrastructure is poor. Implications: Wealth and foreign exchange rate depend on yield of product and world price of product. Political actions aimed at securing control over incomes from product either domestically (e.g. insurgent liberation forces) or externally (e.g. develop cartels, invasion etc).
Newly industrializing countries	Rapid industrialisation and manufacturing base grows Implications: Infrastructure struggles to keep pace (e.g. power shortages, lack

	of housing, lack of roads, ports etc). Large shifts in population towards areas of industry and away from villages.
Advanced industrial country	There is a wide industrial base and a well developed service sector. The long-term trend of industrialised economies is one of positive growth. The different phases of the cycle have the following characteristics: **Recovery phase** Increased business confidence and investment causes growth to increase. Unemployment declines and consumer confidence/spending rises. **Boom phase** Growth exceeds the long-term trend. Demand is too great, leading to rising prices of goods, balance of trade deficits (as exports fall, imports rise), labour shortages and wage/factory price increases. **Recession phase** Demand falls, leading to increased unemployment and falling investment and business/consumer confidence. Recession is often first seen in building and capital goods sectors. **Depression phase** Weak consumer and business spending/confidence. Unemployment in excess of normal levels with falling (or even negative) inflation and wage cuts. In setting strategy an organisation needs to consider where the economy is currently and where it is heading. • Long-term exchange rates' behaviour affect the relative competitiveness of imported and domestically produced products and exports. A falling domestic exchange rate makes firm's exports more competitive and imported inputs more expensive. This may be determined by the value of key exports such as oil, minerals, crops, manufactured goods etc. • Interest rates (long-term and short-term) affect cost of finance and also levels of demand in the economy. • The economic infrastructure, for example access to payments systems, consumer and trade credit, access to venture and other capital, the quality of the stock exchanges.

Social/cultural factors

These factors affect strategy in several ways:

- They affect the **market for products**, e.g. religious proscriptions on food, financial services
- They affect **promotional strategies**, e.g. language of adverts, considerations of imagery and decency
- They affect **methods of conducting business** in countries, e.g. conventions of negotiation, giving and receiving of gifts, ensuring 'face' for contacts (i.e. maintaining self-respect and status)
- They affect **methods of managing staff**, e.g. language differences, attitudes to managerial authority
- They affect expectations of **business conduct**, e.g. extent of engagement with CSR, time horizon of investment, engagement in political matters.

Social factors include

Make-up of population: e.g. growth rate, proportion of old and young people

Family structure and size; the importance (or lack of it) of the extended family and relationships with non family members; the extended family provides contacts and work.

The **role of women** in the labour force and in society as a whole (expectations vary from society to society). In different cultures, gender stereotypes are more sharply drawn than in the industrialized west.

Extent of **social mobility**: the degree of social stratification and difference within each society and whether people can move between them, the changes in size, wealth and/or status of different groups within the population and the geographical distribution of the population between regions and urban, suburban and rural areas.

Technology

Technological differences and change operate at three levels:

1. **Apparatus, technique and organisation**: How technology is used in the business, e.g. the use of ICT within the firm .
2. **Invention and innovation**: These affect the products being offered, e.g. the impact of higher power handsets on the development from mobile phone handsets to Personal Digital Assistants.
3. **Metatechnology**: A technology that can have a variety of applications, e.g. lasers are a technology that have found uses in industry (welding), surgery (corrective eye surgery, key hole surgery), recorded music and software (CD, CD-ROM and DVD), and visual displays and light shows.

The strategic significance of the technological environment includes:

- Technological base, and therefore customer and staff familiarity with it, varies across countries. Operations will have to take this into account.
- Technological change challenges existing industry structure and competitive advantages and so strategies to harness or evade it are necessary.
- Technological change can render existing products obsolete. Therefore continuous R&D and learning is necessary to remain competitive.
- Technological change creates uncertainty which may influence the approach to strategy formulationthat is adopted.

Ecological environment factors

Climate change

Other ecological issues

Energy gap as fossil fuels diminish at a time when India and China are growing rapidly and demand more energy. Waste recycling issues as developed countries recognise the forecast use of landfill and also realize that much landfill is hazardous waste (e.g. NiCad batteries, electronic circuitry, oil and solvents in car engines).

Bio-diversity issues as growing of cash crops and destruction of forests for grazing or building land also destroys species of plant, insects and animals. Introduction of genetically modified organisms into the food chain leading to loss of species and potentially hazardous future effects.

Implications for business strategy

Need to accept 'polluter pays' costs – taxes on emissions and requirements that firms buy certificates from refuse firms confirming recovery or destruction of materials the firm introduces into the supply chain

Increased emphasis on businesses acceptance of CSR and of principles of sustainable development; Potential for economic gain from cleaning-up operations and selling surplus 'permits to pollute' to firms that have not cleaned up Potential competitive advantage from development of products that ecologically conscious buyers will favour Need to monitor ecology-related geo-political and legislative developments closely

Legal factors

Legal factors relate to the role of law in society and its role in business relationships. This can be assessed in terms of:

Systemic factors: How effective is the legal system at enforcing contracts? To what extent are legal decisions likely to be interfered with by politicians i.e. are the courts independent of government? How easy is it to get hold of legal advice? How speedy are the courts? To what extent is regulation delegated? Are rights of private property genuinely enforceable?

Cultural factors: To what extent are business relationships conducted formally or informally? The USA is regarded as a litigious society; in Japan (partly because the small size of the legal profession), business is widely believed to be based more on long-term relationships.

Context and regulatory factors: cover civil and criminal law, laws relating to consumer protection and advertising, employment and so forth. Furthermore, to what extent is competition promoted, regulated and enforced? Intellectual property rights are examples of specific issues which need to be considered

Page 95 Ohmae's five Cs: factors encouraging development of global business

Ohmae's five Cs: factors encouraging development of global business

Ohmae (The Borderless World) has identified a number of reasons which might encourage a firm to act globally arranged into a 'five C's' framework. (recall in Chapter 1 the discussion of three of these C's under Ohmae's prescriptions for strategic thinking. By adding an extra two C's Ohmae extends his analysis into global business).

The customer Are consumer tastes across the world converging upon similar product characteristics?

The company itself Selling in a number of markets enables fixed costs to be spread over a larger sales volume.

Competition The presence of global competitors, who are enjoying the benefits of global commitment, could encourage a previously local or regional operator to expand its activities.

Currency volatility Setting up assembly overseas is a way of reducing the exchange rate risks inherent in exporting and may also help to get around government imposed trade barriers.

Country Locating business activities overseas may provide cheaper access to labour, materials and finance, along with the goodwill of host governments.

Ref: Application level manual, page no: 118 Industry life cycle

Industry life cycles

The concept of life cycle analysis is popular in strategic management. In later chapters life cycle analysis will be used to describe the stages products pass through from their first introduction to the market through to their withdrawal and replacement.

The present section considers the application of life cycles at a higher level, that of the industry as a whole.

The stages of the industry life cycle are:
Introduction – newly invented product or service is made available for purchase
Growth – a period of rapid expansion of demand or activity as the industry finds a market
Maturity – a relatively stable period of time where there is little change in sales volumes year to year but competition between firms intensifies

Decline – a falling off in activity levels as firms leave the industry and the industry ceases to exist or is absorbed into some other industry.

The industry life cycle is analysed into these phases.

	Introduction	Growth	Shakeout	Maturity	Decline
Customers	Experimenters, innovators	Early adopters	Growing selectivity of purchase	Mass market, for branded	Price competition, Commodity product
R&D	High	Extend product before competition	Seek lower cost ways to supply to access new markets	Low	
Company	Early mover Production focused	React to more competitors with increased marketing	Potential consolidation through buying rivals	Battles over market share	Cost control or exit
Competitors	A few	More entrants to the market	Many competitors, price cutting but winnowing out of weaker players	Depending on industry, a few large competitors	Price-based competition, fewer competitors
Profitability	Low, as an investment	Growing	Levelling off	Stable, high or under pressure	Falling, unless cost control

Strategic implications of industry life cycles

The financial returns to firms in an industry vary according to the stage.

Management must pursue different strategies at each stage:

Introduction stage

- Support product despite poor current financial results
- Review investment programme periodically in light of success of launch (e.g. delay or bring forward capacity increases)
- Monitor success of rival technologies and competitor products

Growth stage

- Ensure capacity expands sufficiently to meet firm's target market share objectives
- Maintain barriers to entry (e.g. fight patent infringements, keep price competitive)
- Ensure investors are aware of potential of new products to ensure support for financial strategy
- Search for additional markets and product refinements
- Consider methods of expanding and reducing costs of production (e.g. contract manufacturing overseas, building own factory in a low cost location)

Shakeout phase

- Monitor industry for potential mergers and rationalisation behaviour
- Seek potential merger candidates
- Periodic review of production and financial forecasts in light of sales growth rates
- Shift business model from customer acquisition to extracting revenue from existing customers
- Seek to extend growth by finding new markets or technologies

Maturity phase

- Maximise current financial returns from product
- Leverage the existing customer database to gain additional incomes (e.g. mobile phone operators seeking to earn from content management)
- Engage in integration activities with rivals (e.g. mergers, mutual agreements on competition)
- Ensure successor industries are ready for launch to pick up market

Decline phase

- Evaluate exit barriers and identify the optimum time to leave the industry (e.g. leases ending, need for renewal investment)
- Seek potential exit strategy (e.g. buyer for business, firms willing to buy licenses etc)

Ref: Application level manual, page no: 120 Porters 5 force analysis

The threat of new entrants

Barrier to entry	
Scale economies	If the market as a whole is not growing, the new entrant has to capture a large slice of the market from existing competitors, to make sales to cover high fixed costs.
Product differentiation	Existing firms in an industry may have built up a good brand image and strong customer loyalty over a long period of time. A few firms may promote a large number of brands to crowd out the competition.
Capital requirements	When capital investment requirements are high, the barrier against new entrants will be strong, particularly when the investment would possibly be high-risk.
Switching costs	Switching costs refer to the costs (time, money, convenience) that a customer would have to incur by switching from one supplier's products to another's. Although it might cost a consumer nothing to switch from one brand of frozen peas to another, the potential costs for the retailer or distributor might be high.

Access to distribution channels	Distribution channels carry a manufacturer's products to the endbuyer. New distribution channels are difficult to establish, and existing distribution channels hard to gain access to.
Cost advantages of existing producers, independent of economies of scale	These include: • Patent rights • Experience and know-how (the learning curve) • Government subsidies and regulations • Favoured access to raw materials
Response of incumbents	• Incumbents have substantial resources including cash to fight back • May cut prices to keep market share • Slow growth in a mature market may mean all companies' profits are reduced.

Entry barriers might be lowered by:

- Changes in the environment
- Technological changes
- Novel distribution channels for products or services

Generally an industry with low barriers to entry will be characterised by a large number of small firms.

The threat from substitute products

A substitute product is a product /service produced by another industry which satisfies the same customer needs.

Substitutes affect profitability of an industry through:

Putting a ceiling on prices e.g. air fares will determine the maximum level of train fares over similar routes

Affecting volumes of demand

Forcing expensive investments and service improvements e.g. CDs + DVDs supplied with booklets, posters and other offers to make them more attractive as artefacts compared to virtual downloads.

Threat from substitutes determined by:

Relative price/performance e.g. speed of plane travel against the speed of train travel may be higher but does it justify the higher price?

Switching costs from one to another e.g. download may be cheaper than CD but necessitates buying an MP3 player.

The bargaining power of buyers (customers)

Buyers (customers) may include:

- Industrial customers and distributors seeking to obtain lower costs to boost their own margins, or better inputs and smoother transactions with suppliers
- Governmental or other not-for-profit organisations seeking to gain more benefit for their clients
- Consumers wanting better quality products and services at a lower price

Satisfying their wants may lead them to trade around the industry, forcing down the profitability of the industry. Buyer power is increased by:

- The customer buying a large proportion of total industry output
- The product not being critical to the customer's own business and a lack of proprietary product differences which would otherwise make them favour or be locked into one supplier
- Low switching costs (i.e. the cost of switching suppliers)
- Products are standard items and hence easily copied
- Low customer profitability forcing them to prioritise cost reductions
- Ability to bypass (or acquire) the supplier
- The skills of the customer's purchasing staff
- High degrees of price transparency in the market

The bargaining power of suppliers
Suppliers can exert pressure for higher prices but this depends on a number of factors.

- Are there just one or two dominant suppliers to the industry, able to charge monopoly or oligopoly prices?
- The threat of new entrants or substitute products to the supplier's industry.
- Whether the suppliers have other customers outside the industry, and do not rely on the industry for the majority of their sales.
- The importance of the supplier's product to the customer's business.
- Whether the supplier has a differentiated product which buyers need to obtain.
- Would switching costs for customers be high?
- The level of switching costs for their customers.

Competitive rivalry
The intensity of competition will depend on the following factors.

Market growth:
Rivalry is intensified when firms are competing for a greater market share in a total market where growth is slow or stagnant.

Cost structure
High fixed costs may lead a company to compete on price, as in the short run any contribution from sales is better than none at all.

Switching
Suppliers will compete if buyers switch easily (e.g. Coke vs Pepsi).

Capacity
A supplier might need to achieve a substantial increase in output **capacity**, in order to obtain reductions in unit costs.

Uncertainty
When one firm is not sure what another is up to, there is a tendency to respond to the uncertainty by formulating a more competitive strategy.

Strategic importance
If success is a prime strategic objective, firms will be likely to act very competitively to meet their targets.

Exit barriers

These make it difficult for an existing supplier to leave the industry.

Non-current (fixed) assets with a low break-up value (e.g. there may be no other use for them, or they may be old)
The cost of redundancy payments to employees
If the firm is a division or subsidiary of a larger enterprise, the effect of withdrawal on the other operations within the group

Limitations of the Five Forces model

Ignores the role of the state:

In many countries, the state is a positive actor in the industry via ownership, subsidy, or presentation or regulation of competition. The Five Forces model seems to present government as just as a rule setter which is country-specific and reflects the US experience. However, another view is that the government can influence each of the other forces by legislation and economic policies.

Not helpful for not-for-profit organisations:

The Five Forces are those which determine industry profitability. If profitability is not a key objective for managers, they might not consider five forces analysis to be helpful.

Positioning view and not resource-based:

Assumes profitability will be determined by dealing better with the five forces i.e. outside-in. Individual business', strategic decision-makers should focus on product-market strategy. This ignores competence building for innovation to enter new industries.

Assumes management are required to maximise shareholders' wealth:

In some countries, companies pursue market share objectives instead, as has been the case in Japan, traditionally, and South Korea, where large groups, with easy access to credit (and in the 1980s in Japan almost zero cost of capital) did not overtly pursue profit objectives.

Ignores potential for collaboration to raise profitability:

The model underplays the potential for collaboration (e.g. supply chain collaboration) to build long-term relationships with suppliers, customers or distributors, joint ventures, to avoid substitutes, and so on.

Dynamic industries:

The model is less useful in industries that are rapidly changing as it is difficult to predict how the forces may change. Dynamic industries may require a greater focus on risk management.

Ref: Application level manual, page no: 156 Kays 3 sources of core competencies

Core competences – Kay's three sources

Kay (1993) argues that there are three distinct capabilities a company can develop that add value. These capabilities or core competences can originate from three sources.

Competitive architecture

This is the network of relationships within and around a business. There are three divisions as described below.

Internal architecture – relationships with employees
External architecture – relationships with suppliers, intermediaries and customers
Network architecture – relationships between collaborating businesses.

The knowledge, routines and information exchanges created by these relationships (particularly those which are long term) can produce core competences which other businesses cannot replicate.

Reputation
This is the reason why customers come back, investors invest, potential employees apply for jobs and suppliers supply. Reputations (at least good ones) are not developed overnight – they can take years. Once a business has a good reputation it provides a core competence that rivals cannot match. Examples (may) include BMW and Virgin Atlantic (reputation for quality and service).

Innovative ability
This is the ability to develop new products and services and maintain a competitive advantage. Organisation structure, culture, routines, etc. and collaboration between employees, customers and suppliers (i.e. the architectures discussed above) influence the ability of a business to innovate. Sony has consistently been innovative.

Ref: Application level manual, page no: 162 Hamel and prahald strategies

Strategic architecture: competences and the future
Hamel and Prahalad (1994) identify **strategic architecture** as one of several 'architectures' a company has.

1. **Information architecture** includes hardware, software and informal communication patterns.
2. **Social architecture** includes generally accepted standards of behaviour and hierarchy of values.
3. **Financial architecture** includes funding, reporting processes.
4. **Strategic architecture**: The linkage between the company's vision and its current position which takes the form of managers with strategic mindsets rather than the existence of strategic plans.

Hamel and Prahalad take a 'radical' view of the future and make two propositions:

- The future is not just something that 'happens' to organisations.
- Organisations can 'create' the future.

Ref: Application level manual, page no: 164 Value chain analysis

The value chain

The term 'value chain' was in common use before Porter's formulation here.
In overview, value chain analysis sees the firm as an input/output device.

Inputs from suppliers Value – creating activities Outputs to customers

The value chain consists of the organisation's resources, activities and processes that link the business together, and the profit margin. Together these create the total value of output produced by the business, quantified by the price paid by the customer.

Porter groups the various activities of an organisation under generic headings that he claims can be observed in all organisations. The groupings do not correspond to the functional divisions of the organisation structure but rather are deliberately formulated to help identify the **activities** carried out by the firm in the generation of value to a customer.

Value activities

Primary activities relate to production, sales, marketing, delivery and service, in other words anything directly relating to the process of converting resource inputs into outputs.

Activity	Comment
Inbound logistics	Receiving, handling and storing inputs to the production system (i.e. warehousing, transport, stock control etc).
Operations	Convert resource inputs into a final product or service. Resource inputs are not only materials. 'People' are a 'resource', especially in service industries.
Outbound logistics	Storing the product and its distribution to customers: packaging, warehousing etc.
Marketing and sales	Informing customers about the product, persuading them to buy it, and enabling them to do so: advertising, promotion etc.
After sales service	Installing products, repairing them, upgrading them, providing spare parts, advice (e.g. helplines for software support).

Support activities provide purchased inputs, human resources, technology and infrastructural functions to support the primary activities. Each provides support to all stages in the primary activities. For instance procurement where at each stage items are acquired to aid the primary functions. At the inbound logistics stage it may well be raw materials, but at the production stage capital equipment will be acquired, and so on.

Activity	Comment
Procurement	Acquire the resource inputs to the primary activities (e.g. purchase of materials, subcomponents, equipment).
Technology development	Product design, improving processes and/or resource utilisation.
Human resource management	Recruiting, training, developing and rewarding people.
Management planning and firm infrastructure	Planning, finance, and quality control: these are crucially important to an organisation's strategic capability in all primary activities.

Ref: Application level manual, page no: 180 Product life cycle

Product life cycle (PLC) revisited

Many businesses will not wish to risk having only a single product (or group of closely related products) or all their products at the same stage of development. Many will seek to maintain a balanced portfolio of products with variety to protect against downturns in the fortunes of individual products and to have products at different stages of development. The product life cycle and BCG models (to be discussed shortly) can help assess the balance of a product portfolio.

Strategies for each stage can be summarised as:

1. Introductory stage

Attract trend-setting buyer groups by promotion of technical novelty or fashion Price high (skim) to cash in on novelty or price low (penetration) to gain adoption and high initial share Build channels of distribution

2. Growth stage

Build brand awareness to resist impact from new entrants Improve and refine product features High promotion of benefits to attract early majority of potential buyers Penetrate market, possibly by reducing price

3. Maturity stage

Defend market position by matching pricing and promotion of rivals Modify markets by positioning product to gain acceptance from non-buyers (e.g. new outlets or suggested new uses) Modify the product to make it cheaper or of greater benefit Intensify distribution

4 Decline stage

Harvest cash flows by minimising spending on promotion or product refinement Simplify range by weeding out variations Narrow distribution to target loyal customers to reduce stocking costs

The response of competitors is particularly important – there may be threats as they attempt to defend their position, or opportunities, e.g. when a competitor leaves the market.

A company will not wish to have all products at the same stage as they may all decline together. Solutions:

- Products with different length cycles.
- Lots of products in development/introductory stage.
- Lots of products in maturity to support others.

Ref: Application level manual, page no: 181 BCG matrix

MS

MA

		Related market share	
		High	Low
% rate of market growth	High	Star	Problem/ ???
	Low	Cash cow	Dog

Stars

Stars are products with a high share of a high growth market. In the short term, these require capital expenditure in excess of the cash they generate in order to maintain their market position, but promise high returns in the future.

- Their market share is big enough to exploit opportunities but high growth rates will attract newcomers/competition.
- Therefore cash must be reinvested heavily to hold their existing position and build upon it.
- Overall moderate net cash flow.

Cash cows

In due course, stars will become cash cows, with a high share of a low-growth market. Cash cows need very little capital expenditure and generate high levels of cash income. Cash cows generate high cash returns, which can be used to finance the stars.

- Low growth so high market share is unlikely to be attacked by new firms wishing to enter the market.
- Therefore little investment required to defend position but large enough market share to exploit available opportunities.
- Large positive cash flow.

Question marks (or problem children)

Question marks are products in a high-growth market, but where they have a low market share. Do the products justify considerable capital expenditure in the hope of increasing their market share, or should they be allowed to 'die' quietly as they are squeezed out of the expanding market by rival products? Because considerable expenditure would be needed to turn a question mark into a star by building up market share, question marks will usually be poor cash generators and show a negative cash flow.

Attractive markets but insufficient market share to exploit them.

- Choice between getting out or getting big.
- If deciding to stay in the market, must invest heavily to gain market share.
- Large negative cash flow.

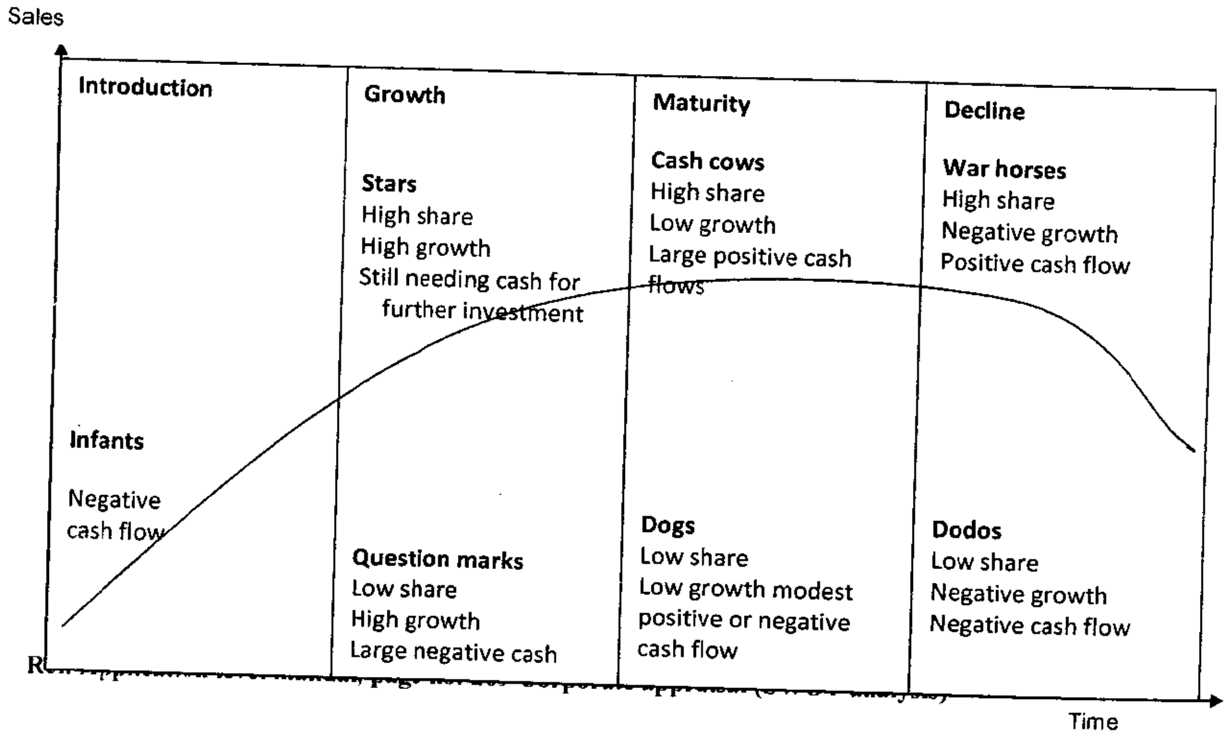
Dog products

Dogs are products with a low share of a low growth market. They may be ex-cash cows that have now fallen on hard times or question marks that never succeeded in gaining critical mass in a market. Dogs should be allowed to die, or should be killed off. Although they will show only a modest net cash outflow, or even a modest net cash inflow, they are 'cash traps' which tie up resources such as stocks and productive capacity and provide a poor return on investment, and not enough to achieve the organisation's target rate of return.

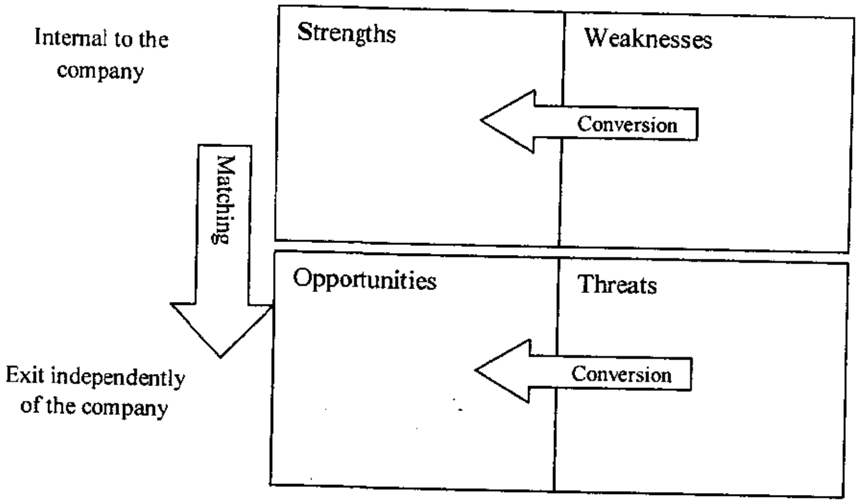
- Unattractive markets without the market share to really benefit from what could be achieved if bigger.
- The best strategy may be to exit the market ('divest').
- Modest cash flow.

There are also infants (i.e. products in an early stage of development), war horses (i.e. products that have been cash cows in the past, and are still making good sales and earning good profits even now) and even cash dogs, which are dogs still generating cash, and dodos, which have low shares of low growth markets and which are losing cash.

The **product life cycle** concept can be added to a market share/market growth classification of products, as follows.



SWOT Analysis



Here are some examples of questions that might be asked to assess an organisation's opportunities and threats.

Opportunities

- What opportunities exist in the business environment?
- What is their inherent profit-making potential?
- What is the organisation's ability to exploit the worthwhile opportunities?

Threats

- What threats might arise?
- How will competitors be affected?
- How will the company be affected?

Match strengths with market opportunities
Strengths which do not match any available opportunity are of limited use while opportunities which do not have any matching strengths are of little immediate value.

Conversion
This requires the development of strategies which will convert weaknesses into strengths in order to take advantage of some particular opportunity, or converting threats into opportunities which can then be matched by existing strengths.

Ref: Application level manual, page no: 212 Gap analysis

Gap analysis compares two things:

The organisation's **targets** for achievement over the planning period
What the organisation would be **expected to achieve** if it carried on in the current way with the same products and selling to the same markets, with no major changes to operations. This is called an **F0 forecast,** by Argenti.

Gap analysis: The comparison between an entity's ultimate objective and the expected performance from projects both planned and under way, identifying means by which any identified difference, or gap, might be filled.
Strategies to fill the gap
The planning gap may originate from a number of causes:

- Ambitious objectives being set by management (or imposed on management by investors)
- Underperformance of existing product portfolio (e.g. maturity stage approaching)
- Difficult environment (e.g. industry or economic slow-down)

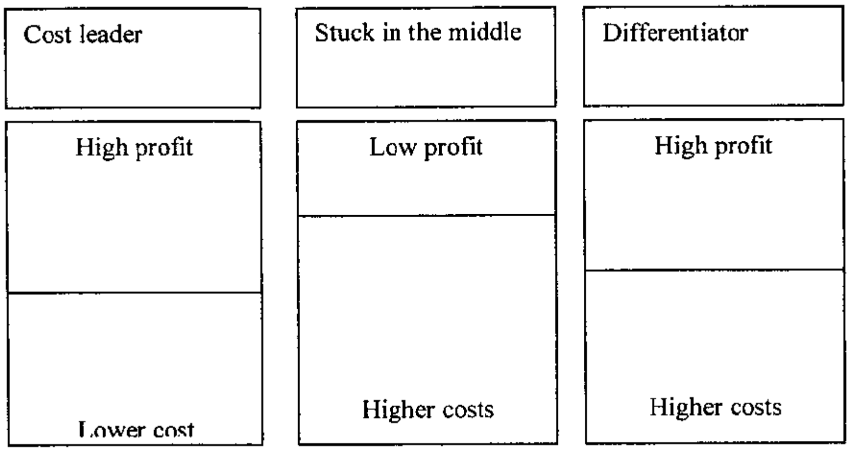
The gap could be filled by new product-market growth strategies. For example a management team wishing to increase profitability might consider:

Efficiency strategies: reduce the costs of present products and economise on the assets used.
Expansion strategies: develop new products and/or new markets.
Diversification strategies: enter new industries which have better profit and growth prospects.

Ref: Application level manual, page no: 214 Competitive strategy

Porter argued that selecting and implementing one of these strategies is the only way to effectively counter
the industry forces identified in his Five Forces model.

The diagram below summarises his argument.



Competitive pressures will increase as a market ages so that once the mature stage of the industry is reached only two competitive strategies will deliver competitive advantage (i.e. superior ROI).

Low cost: A firm following this strategy will withstand the shrinking margins better and so, as rivals fall away, may be left as a major player with enhanced power against the power of suppliers and buyers.

Differentiation: A firm presenting itself as a superior provider may escape price pressure by avoiding straight-forward price comparisons with rivals.

A **stuck in the middle** strategy is one where the firm has sought to attract many segments at different price points and so is seen as not being as differentiated as the market leader but, perhaps because of the costs of serving the differentiated segment, not able to make good profits at the cost leader's prices.

Ref: Application level manual, page no: 215 Porters 3 generic strategies

Porter's three generic strategies

Illustrated in the diagram below:

Competitive basis

Competitive scope	Low cost	Differentiation
Broad	Cost leadership	Differentiation
Narrow	Cost focus	Differentiation focus

Cost leadership
A cost leadership strategy seeks to achieve the position of lowest-cost producer in the industry as a whole. By producing at the lowest cost, the manufacturer can compete on price with every other producer in the industry, and earn the higher unit profits, if the manufacturer so chooses.

How to achieve overall cost leadership

a) Set up production facilities to obtain economies of scale.
b) Use the latest technology to reduce costs and/or enhance productivity (or use cheap labour if available).
c) In high technology industries, and in industries depending on labour skills for product design and production methods, exploit the learning curve effect. By producing more items than any other competitor, a firm can benefit more from the learning curve, and achieve lower average costs.
d) Concentrate on improving productivity.
e) Minimise overhead costs.
f) Get favourable access to sources of supply.
g) Use value chain to streamline activities and reduce non-value adding activities.

Classic examples of companies pursuing cost leadership are Black and Decker and South West Airlines. Large out-of-town stores specialising in one particular category of product are able to secure cost leadership by economies of scale over other retailers. Such shops have been called category killers; an example is Toys R Us.

Differentiation
A differentiation strategy assumes that competitive advantage can be gained through **particular characteristics** of a firm's products.

How to differentiate

a) **Build up a brand image** (e.g. Pepsi's blue cans are supposed to offer different 'psychic benefits' to Coke's red ones).
b) **Give the product special features** to make it stand out (e.g. Russell Hobbs' Millennium kettle incorporated a new kind of element, which boils water faster).
c) **Exploit other activities of the value chain.**

Generic strategies and the Five Forces

	Advantages		Disadvantages	
Competitive force	**Cost leadership**	**Differentiation**	**Cost leadership**	**Differentiation**
New entrants	Economies of scale raise entry barriers	Brand loyalty and perceived uniqueness are entry barriers		
Substitutes	Firm is not so vulnerable as its less cost-effective competitors to the threat of substitutes	Customer loyalty is a weapon against substitutes		
Customers	Customers cannot drive down prices further than the next most efficient competitor	Customers have no comparable alternative Brand loyalty should lower price sensitivity		Customers may no longer need the differentiating factor Sooner or later customers become price sensitive
Suppliers	Flexibility to deal with cost increases	Higher margins can offset vulnerability to supplier price rises	Increase in input costs can reduce price advantages	
Industry rivalry	Firm remains profitable when rivals go under through excessive price competition	Unique features reduce direct competition	Technological change will require capital investment, or make production cheaper for competitors Competitors learn via imitation Cost concerns ignore product design or marketing issues	Imitation narrows Differentiation

Focus (or niche) strategy

In a focus strategy, a firm concentrates its attention on one or more particular segments or niches of the market, and does not try to serve the entire market with a single product.

Porter suggests that a focus strategy can achieve competitive advantage when 'broad-scope' businesses fall into one of two errors:

- Underperformance occurs when a product does not fully meet the needs of a segment and offers the opportunity for a differentiation focus player.
- Overperformance gives a segment more than it really wants and provides an opportunity for a cost focus player.

Advantages

- A niche is more secure and a firm can insulate itself from competition.
- The firm does not spread itself too thinly.
- Both cost leadership and differentiation require superior performance – life is easier in a niche, where there may be little or no competition.

Drawbacks of a focus strategy

- The firm sacrifices economies of scale which would be gained by serving a wider market.
- Competitors can move into the segment, with increased resources (e.g. the Japanese moved into the US luxury car market, to compete with Mercedes and BMW).
- The segment's needs may eventually become less distinct from the main market.

Conceptual difficulties with generic strategy

In practice, it is rarely simple to draw hard and fast distinctions between the generic strategies as there are conceptual problems underlying them.

Cost leadership

– **Internal focus**: Cost refers to internal measures, rather than the market demand. It can be used to gain market share: but it is the **market share which is important,** not cost leadership as such.

– **Only one firm**: If cost leadership applies cross the whole industry, only one firm will pursue this strategy successfully. However, the position is not clear-cut.

- More than one firm might **aspire** to cost leadership, especially in dynamic markets where new technologies are frequently introduced.
- The boundary between cost leadership and cost focus might be blurred.
- Firms competing market-wide might have different competences or advantages that confer cost leadership in different segments.

– **Higher margins can be used for differentiation**: Having low costs does **not** mean you have to charge lower prices or compete on price. A cost leader can choose to 'invest higher margins in R&D or marketing'. Being a cost leader arguably gives producers more freedom to choose **other** competitive strategies.

Differentiation: Porter assumes that a differentiated product will always be sold at a **higher** price.

– However, a **differentiated product** may be sold at the same price as competing products in order to **increase market share**.

– **Choice of competitor**. Differentiation from whom? Who are the competitors? Do they serve other market segments? Do they compete on the same basis?

-**Source of differentiation**. This can include **all** aspects of the firm's offer, not only the product. Restaurants aim to create an atmosphere or 'ambience', as well as serving food of good quality.

Focus probably has fewer conceptual difficulties, as it ties in very neatly with ideas of market segmentation.
In practice most companies pursue this strategy to some extent, by designing products/services to meet the
needs of particular target markets.

Ref: Application level manual, page no: 221 Product-market growth matrix

Product-market growth matrix
Ansoff drew up a **growth vector matrix**, describing how a combination of a firm's activities in current and new markets, with existing and new products can lead to **growth**

		Product	
		Present	New
Market	Present	Market penetration	Product development
	New	Market development	Diversification

Growth vectors
Ansoff identifies four directions (or vectors) of growth available to the business. Unlike Porter's generic strategies, where only one should be followed, management can pursue all four of Ansoff's vectors if it wishes to.

Market penetration
The firm seeks to do four things:

- **Maintain or to increase its share** of current markets with current products, e.g. through competitive pricing, advertising, sales promotion
- Secure dominance of growth markets
- Restructure a mature market by driving out competitors
- Increase usage by existing customers (e.g. airmiles, loyalty cards)

The ease with which a company can pursue this strategy depends on its market and its competitors. If the market is growing it may be relatively easy to gain share. However if markets are static (mature) it is not.

Market development: present products and new markets

There are many possible approaches. Here are some examples.

New geographical areas and export markets (e.g. a radio station building a new transmitter to reach a new audience).

Different package sizes for food and other domestic items so that both those who buy in bulk and those who buy in small quantities are catered for.

New distribution channels to attract new customers (e.g. organic food sold in supermarkets not just specialist shops, Internet sales).

Differential pricing policies to attract different types of customer and create **new market segments.** For example, travel companies have developed a market for cheap long-stay winter breaks in warmer countries for retired couples.

This strategy is likely to be more successful, the closer the characteristics of the new market are to existing
markets (or segments).

Product development: new products and present markets
This has several advantages.

- The company can exploit its existing marketing arrangements such as promotional methods and distribution channels at low cost.
- The company should already have good knowledge of its customers and their wants and habits.
- Competitors will be forced to respond.
- The cost of entry to the market will go up.

Diversification: new products and new markets
Diversification occurs when a company decides to make **new products for new markets**. It should have a clear idea about what it expects to gain from diversification.

> **Growth**: New products and new markets should be selected which offer prospects for growth which the existing product-market mix does not.
>
> **Investing surplus** funds not required for other expansion needs, bearing in mind that the funds could be returned to shareholders. Diversification is a high risk strategy, having many of the characteristics of a new business start-up. It is likely to require the deployment of **new competences.**

Because of the extent of the change, diversification normally involves more risk than the other strategies.

Ref: Application level manual, page no: 223 Ansoffs diversification

Ansoff identifies **two classes** of diversification:

1. **Related diversification**: Integrating activities in the supply chain or leveraging technologies or competences.

2. **Conglomerate diversification**: The development of a portfolio of businesses with no commercial similarity or links between them.

Related diversification
Horizontal integration is development into activities which are competitive with or directly **complementary** to a company's present activities.

Competitive products: Taking over a competitor can have obvious benefits, leading eventually towards achieving a monopoly. Apart from active competition, a competitor may offer advantages such as completing geographical coverage.

Complementary products: For example, a manufacturer of household vacuum cleaners moving into commercial cleaners. A full product range can be presented to the market and there may well be benefits from having many of the components common between the different ranges.

By-products: For example, a butter manufacturer discovering increased demand for skimmed milk. Generally, income from by-products is a windfall to be counted, at least initially, as a bonus.

Vertical integration occurs when a company becomes its own supplier (backward) or distributor forward).

- **Backward integration**: taking over responsibility for **upstream processes e.g.** a clothing retailer producing or designing its own clothes.
- **Forward integration**: taking over responsibility for **downstream processes e.g.** an electrical goods retailer setting up its own installation, servicing and repairs service.

Advantages of vertical integration

- A **secure supply of components** or **materials,** hence lower supplier bargaining power
- **Stronger relationships** with the final consumer of the product
- A share of the **profits** at all stages of the value chain
- More effective pursuit of a **differentiation strategy**
- Creation of **barriers to entry**

Disadvantages of vertical integration

- **Over-concentration**: A company places 'more eggs in the same end-market basket' (Ansoff).

Such a policy is fairly inflexible, more sensitive to instabilities and increases the firm's dependence on a particular aspect of economic demand.

– The firm **fails to benefit from any economies of scale or technical advances** in the industry into which it has diversified. This is why, in the publishing industry, most printing is subcontracted to specialist printing firms, who can work machinery to capacity by doing work for many firms.

Conglomerates

The characteristic of conglomerate (or unrelated) diversification is that there is no common thread, and the only synergy lies with the management skills. Outstanding management seems to be the key to success as a conglomerate, and in the case of large conglomerates they are indeed able, because of their size and diversity, to attract high-calibre managers with wide experience.

Two major types of conglomerate can be identified. The **financial conglomerate** provides a flow of funds to each segment of its operation, exercises control and is the ultimate risk taker. In theory it undertakes strategic planning but does not participate in operating decisions. The **managerial conglomerate** extends this approach by providing managerial counsel and interaction on operating decisions, on the assumption that general management skills can be transferred to almost any environment.

Advantages of conglomerate diversification

- **Risk-spreading**: Entering new products into new markets offers protection against the failure of current products and markets.

- **High profit opportunities**: An improvement of the **overall profitability and flexibility** of the firm through acquisition in industries which have better economic characteristics than those of the acquiring firms.

- **Escape** from the present business.

- **Better access to capital** markets.
- **No other way to grow.**
- **Use surplus cash.**
- **Exploit under-utilised resources.**
- **Obtain cash, or other financial** advantages (such as accumulated tax losses).
- **Use a company's image and reputation** in one market to develop into another where corporate image and reputation could be vital ingredients for success.

The example of Virgin Group above may be an example of conglomerate diversification.

Disadvantages of conglomerate diversification

- The **dilution of shareholders' earnings** if diversification is into growth industries with high P/E ratios.
- **Lack of a common identity and purpose** in a conglomerate organisation. A conglomerate will only be successful if it has a high quality of management and financial ability at central headquarters, where the diverse operations are brought together.

- **Failure in one of the businesses will drag down the rest**, as it will eat up resources.
- **Lack of management experience**: Japanese steel companies have diversified into areas completely unrelated to steel such as personal computers, with limited success.

- **Poor for shareholders**: Shareholders can spread risk quite easily, simply by buying a diverse portfolio of shares. They do not need management to do it for them.

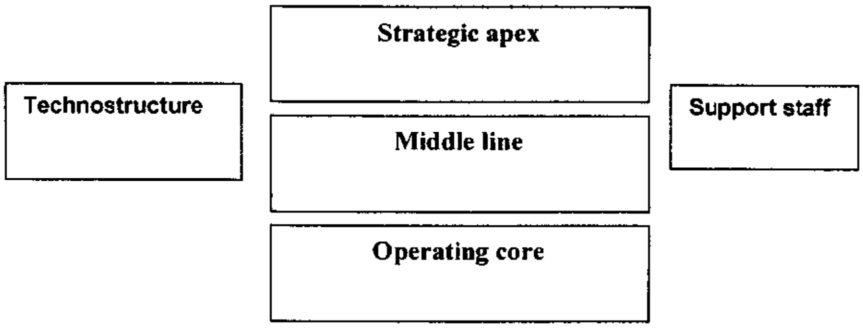
Ref: Application level manual, page no: 340 Mintzbergs organizational forms

Mintzberg uses topological diagrams called **organograms** to represent the structures and coordinating mechanisms of an organisation.

Formal organisation charts show merely the divisionalisation and scalar chain of the **formal organisation**. They do not show:

- The methods by which co-ordination takes place
- Where power lies

Mintzberg's theory of organisational configuration (sometimes called **the structure of sixes**) details the main features by which both formal structure and power relationships are expressed in organisations. All organisations can be described by five distinct components that operate within the sixth, the ideology of the organisation.



The **operating core** encompasses those members who perform work directly related to the production of goods and services.

The **strategic apex** has to ensure that the organisation serves its mission. The apex is responsible to the organisation's owners (e.g. the board of directors).

The **middle line** is joined to the operating core by middle managers in formal authority.

The **technostructure** contains analysts (e.g. accountants, IT, work planners) who aim to effect 'certain forms of standardisation in the organisation'.

Support staff provide support outside the normal workflow (e.g. mail room, legal counsel). These are not the technostructure in that they have no standardised function or control over the work of the operating core.

The organisation has a sixth essential component that Mintzberg calls **ideology**. This is exactly equivalent to **culture**.

Ref: Application level manual, page no: 345 Shamrock

Handy defines the **shamrock organisation** as a 'core of essential executives and workers supported by
outside contractors and part-time help'. This structure permits the buying-in of services as needed, with consequent reductions in overhead costs. It is also known as the **flexible firm**.

Professional core	Contractual fringe
Flexible labour fource	Customers

The **professional core** are permanently employed staff who provide the core competencies and distinctive knowledge base of the organisation.

The **flexible labour force** are temporary and part-time workers who can be deployed, when required by peaks in demand (e.g. seasonal tasks or projects).

The **contractual fringe** are external providers (consultants, sub-contractors and freelancers) who can undertake non-core activities and/or provide specialist services more economically than the organisation could arrange internally. Many organizations now **outsource** activities such as IT, logistics, maintenance, call-centre management and so on.

Customers are a fourth cluster, to whom the organisation may be able to 'sub-contract' some tasks. Information and communication technology (such as the Internet) has allowed sales, service and supply to be conducted on a 'self-service' basis: booking tickets, downloading music/books, getting on-line help and so on. (Even low-tech equivalents, such as home-assembly furniture, enable the organisation to devolve activities to customers and save costs.)

Organisations are increasingly seeking to be lean at the core – where activities are important to their competitive strategy – while maintaining access to a full range of flexibly deployed services at the periphery.

Ref: Application level manual, page no: 447 Lynch expansion method

Expansion method
Lynch summarised possible expansion methods in the matrix below.

Company **New location**	**Internal development**	**External development**
Home country	Internal domestic development	Joint venture Merger Acquisition Alliance Franchise/licence
Abroad	Exporting Overseas office Overseas manufacture Multinational operation Global operation	Joint venture Merger Acquisition Alliance Franchise/licence

Ref: Application level manual, page no: 450 Mergers and acquisition

A merger is the joining of two separate companies to form a single company.

An acquisition is the purchase of a controlling interest in another company.

The classic reasons for mergers/acquisitions as a part of strategy are as follows.

Reason	Effect on operation
Marketing advantages	New product range Market presence Rationalise distribution and advertising Eliminate competition
Production advantages	Economies of scale Technology and skills Greater production capacity Safeguard future supplies Bulk purchase opportunities
Finance and management	Management team Cash resources Gain assets Tax advantages (e.g. losses bought)
Risk-spreading	Diversification
Retain independence	Avoid being taken over by acquiring predator by becoming too big to buy
Overcome barriers to entry	Acquired firm may have licences or patents
Outplay rivals	Stop rival getting the target

Ref: Application level manual, page no: 451 Porters attractiveness tests

Porter's attractiveness tests

An acquisition at a bargain price is unlikely to make up for a long-run lack of profits due to a flawed industry structure. For reasons of cost, the ideal acquisition is in an industry not yet attractive but capable of being made attractive.

Porter proposes two tests:

1. The 'cost of entry' test
Unfortunately attractive industries tend to have high costs of entry. Premiums likely to be paid for the acquisition of companies are an important consideration.

2. The 'better off' test
The acquisition must do something for shareholders that they cannot do for themselves. Diversification for its own sake will not increase shareholder wealth. Asset stripping brings only oneoff benefits and is not a sound basis for long-run investment.

Synergy as a motive for acquisitions

Synergy: The benefits gained from two or more businesses combining that would not have been available to each independently. Sometimes expressed as the 2 + 2 = 5 effect. Synergy arises because of complementary resources which are compatible with the products or markets being developed and is often realised by transferring skills or sharing activities.

Synergies arise from four sources:
Marketing and sales synergies
- Benefits of conferring one firm's brands on products of another

- Use of common sales team and advertising
- Ability to offer wider product range to the client

Operating synergies

- Economies of scale – in purchasing of inputs, capital equipment etc.
- Economies of scope – including use of distribution channels and warehousing.
- Rationalisation of common capacity (e.g. logistics, stores, factories)
- Capacity smoothing (e.g. one firm's peak demand coincides with the other's slack time)

Financial synergies

- Risk spreading allows cheaper capital to be obtained
- Reduction in market competition if firms in similar industry
- Shared benefits from same R&D
- Possibly more stable cash flows
- Sale of surplus assets

Management synergies

- Highly paid managers used to fix ailing firm rather than administer successful one
- Transfer of learning across businesses
- Increased opportunity for managerial specialisation in a larger firm

Ref: Application level manual, page no: 495 Balances scorecard

Balanced scorecard

Kaplan and Norton's **balanced scorecard** was developed in the early 1990s following research into performance measures in high-performing US firms, notably in the IT industries of Silicon Valley, Northern California.

According to their research these firms conducted regular assessments of **four different perspectives**, as follows.

Perspective	Question	Explanation
Customer	What do existing and new customers value from us?	Gives rise to targets that matter to customers: cost, quality, delivery, inspection, handling and so on.
Internal business	What processes must we excel at to achieve our financial and customer objectives?	Aims to improve internal processes and decision making.
Innovation and learning	Can we continue to improve and create future value?	Considers the business's capacity to maintain its competitive position through the acquisition of new skills and the development of new products.
Financial	How do we create value for our shareholders?	Covers traditional measures such as growth, profitability and shareholder value but set through talking to the shareholder or shareholders direct.

Kaplan and Norton claimed that the scorecard is **balanced** in the sense that managers are required to think in terms of all four perspectives, to **prevent improvements being made in one area at the expense of another**.

Developing a balanced scorecard

Kaplan (Advanced Management Accounting) offers the following 'core outcome measures'.

Perspective	Core outcome measures
Financial	• Return on Investment • Profitability • Revenue growth/revenue mix • Cost reduction • Cash flow
Customer	• Market share • Customer acquisition • Customer retention • Customer profitability • Customer satisfaction • On-time delivery
Innovation and learning	• Employee satisfaction • Employee retentio • Employee productivity • Revenue per employee • % of revenue from new services • Time taken to develop new products
Internal business	• Quality and rework rates • Cycle time/production rate • Capacity utilization

Kaplan and Norton suggest the following process for setting the BSC.

1 Senior executives decide strategy.
2 Budgets and information systems are linked to the measures in the BSC. This allows divisional and operational management to monitor the performance of their areas of responsibility.
3 Personal scorecards are developed and, through performance management (described in Chapter 12) become the basis for staff development and incentive payments.
4 Collaborative working occurs as many targets require team work to achieve.
5 Therefore strategy is 'operationalised' through being turned into day-to-day operations.

Kaplan and Norton recognise that the four perspectives they suggest may not be perfect for all organisations: it may be necessary, for example, to add further perspectives related to the environment or to employment.

Ref: Application level manual, page no: 540 Four V's

The operations function

Operations management is concerned with the **design, implementation** and **control** of the processes in an organisation that transform inputs (materials, labour, other resources, information and customers) into output products and services.

The operations function might be considered as one of the three traditional 'core functions'.
Marketing and sales: This is responsible for identifying customer needs and perhaps more significantly, for communicating information about the organisation's products or services to customers so as to procure sales orders.

Product and service development: This is responsible for designing new products and services that will meet customer needs, to generate sales orders.

Operations: This is responsible for fulfilling customer orders and requests through production of the goods or services, and for delivery of products or services to the customer.

Operations: the four Vs
The **four Vs** of operations are **volume, variety, variation** in demand and **visibility**. Each of these factors
affects the way in which an operation will be organised and managed.

	Type	Implication
Volume	Operations differ in the volume of inputs they handle and the volume of output they produce. For example, there is a big difference between the volume of output at a McDonalds and at a small bistro, even though both provide a dining service.	High volume might lend itself to a capitalintensive operation, with specialisation of work and well-established systems for getting the work done. Unit costs should be low. Low-volume operations mean that each member of staff will have to perform more than one task, so that specialisation is not achievable. There will be less systemisation, and unit costs of output will be higher than with a high volume operation.
Variety	Variety refers to the range of products or services an operation provides, or the range of inputs handled. For example, an operation might produce goods to customer specification, or it might produce a small range of standard items.	When there is large variety, an operation needs to be flexible and capable of adapting to individual customer needs. The work may therefore be complex, and unit costs will be high. When variety is limited, the operation should be well defined, with standardisation, regular operational routines and low unit costs.
Variation	For some operations, demand might vary with the time of the year (for example, operations in the tourist industry) or even the time of day (e.g. telecommunications	When the variation in demand is high, an operation has a problem with capacity utilisation. It will try to anticipate variations in demand and alter its

	traffic and commuter travel services). Variations in demand might be predictable, or unexpected. For other operations, demand might be fairly stable and not subject to variations.	capacity accordingly. For example, the tourist industry takes on part-time staff during peak demand periods. Unit costs are likely to be high because facilities and staff are under-utilised in the off-peak periods. When demand is stable, it should be possible for an operation to achieve a high level of capacity utilisation, and costs will accordingly be lower.
Visibility	Visibility refers to the extent to which an operation is exposed to its customers, and can be seen by them. Many services are highly visible to customers. High visibility calls for staff with good communication and inter-personal skills. They tend to need more staff than low visibility operations and so are more expensive to run. Some operations are partly visible to the customer and partly invisible, and organisations might make this distinction in terms of front office and back office operations.	When visibility is high, customer satisfaction with the operation will be heavily influenced by their perceptions. Customers will be dissatisfied if they have to wait, and staff will need high customer contact skills. Unit costs of a visible operation are likely to be high. When visibility is low, there can be a time lag between production and consumption, allowing the operation to utilise its capacity more efficiently. Customer contact skills are not important in low visibility operations, and unit costs should be low.

Ref: Application level manual, page no: 545 JIT philosophy

Three key elements in the JIT philosophy

Element	Comments
Elimination of waste	Waste is defined as any activity that does not add value. Examples of waste identified by Toyota were: Overproduction, i.e. producing more than was immediately needed by the next stage in the process. Waiting time: Waiting time can be measured by labour efficiency and machine efficiency. Transport: Moving items around a plant does not add value. Waste can be reduced by changing the layout of the factory floor so as to minimise the movement of materials. Waste in the process: There could be waste in the process itself. Some activities might be carried out only because there are design defects in the product, or because of poor maintenance work. Inventory: Inventory is wasteful. The target should be to eliminate all inventory by tackling the things that cause it to build up. Simplification of work: An employee does not necessarily add value by working. Simplifying work is an important way of getting rid of waste in the system (the waste of motion) because it eliminates unnecessary actions.

	Defective goods are quality waste. This is a significant cause of waste in many operations.
The involvement of all staff in the operation	JIT is a cultural issue, and its philosophy has to be embraced by everyone involved in the operation if it is to be applied successfully. Critics of JIT argue that management efforts to involve all staff can be patronising.
Continuous improvement	The ideal target is to meet demand immediately with perfect quality and no waste. In practice, this ideal is never achieved. However, the JIT philosophy is that an organisation should work towards the ideal, and continuous improvement is both possible and necessary. The Japanese term for continuous improvement is Kaizen.

JIT is a **collection of management techniques**. Some of these techniques relate to basic working practices.

Work standards: Work standards should be established and followed by everyone at all times.

Flexibility in responsibilities: The organisation should provide for the possibility of expanding the responsibilities of any individual to the extent of his or her capabilities, regardless of the individual's position in the organisation. Grading structures and restrictive working practices should be abolished.

Equality of all people working in the organisation: Equality should exist and be visible. For example, there should be a single staff canteen for everyone, without a special executive dining area; and all staff including managers might be required to wear the same uniform. An example of this is car manufacturer Honda.

Autonomy: Authority should be delegated to the individuals responsible directly in the activities of the operation. Management should support people on the shop floor, not direct them.

Development of personnel: Individual workers should be developed and trained.

Quality of working life: The quality of working life should be improved, through better work area facilities, job security and involvement of everyone in job-related decision-making.

Creativity: Employees should be encouraged to be creative in devising improvements to the way their work is done.

Use several small, simple machines, rather than a single large and more complex machine. Small machines can be moved around more easily, and so offer greater flexibility in shop floor layout. The risk of making a bad and costly investment decision is reduced, because relatively simple small machines usually cost much less than sophisticated large machines.

Work floor layout and work flow: Work can be laid out to promote the smooth flow of operations. Work flow is an important element in JIT, because the work needs to flow without interruption in order to avoid a build-up of inventory or unnecessary down-times.

Total productive maintenance (TPM): Total productive maintenance seeks to eliminate unplanned breakdowns and the damage they cause to production and work flow. Staff operating on the production line are brought into the search for improvements in maintenance.

JIT purchasing: With JIT purchasing, an organisation establishes a close relationship with trusted suppliers, and develops an arrangement with the supplier for being able to purchase materials only when they are needed for production. The supplier is required to have a flexible production system capable of responding immediately to purchase orders from the organisation.

Ref: Application level manual, page no: 547 Quality management

Quality management

Quality assurance focuses on the way a product or service in produced. Procedures and standards are devised with the aim of ensuring defects are eliminated (or at least minimised) during the development and production process).

Quality control is concerned with checking and reviewing work that has been done. Quality control therefore has a narrower focus than quality assurance.

The **cost of quality** may be looked at in a number of different ways. For example, some may say that producing higher quality output will increase costs – as more costly resources are likely to be required to achieve a higher standard. Others may focus on the idea that poor quality output will lead to customer dissatisfaction, which generates costs associated with complaint resolution.

Type of cost	Definition	Examples
Prevention Cost	Costs incurred prior to making the product or delivering the service – to prevent substandard quality products or services being delivered.	The cost of building quality into the product design or service design. The cost of training staff in quality improvement and error prevention. The cost of prevention devices (e.g. fail-safe features).
Appraisal cost or inspection cost	This is a cost incurred after a product has been made or service delivered, to ensure that the output or service performance meets the required quality standard or service performance.	The cost of inspecting finished goods or services, and other checking devices such as supplier vetting. Customer or client feedback forms (although these may be a way of keeping service staff 'on their toes').
Internal failure cost	This is a cost arising from inadequate quality, where the problem is identified before the transfer of the item or service from the organisation to the customer or client.	Cost of materials scrapped due to inefficiencies in the procedures for goods received and stores control. Cost of materials and components lost during production or service delivery. Cost of output rejected during the inspection process. Cost of re-working faulty output. Cost of reviewing product and service specifications after failures or customer dissatisfaction.

		Loses due to having to sell faulty output at lower prices. Not charging for a service so as to pacify dissatisfied and angry customers or clients.
External failure cost	This is a cost arising from inadequate quality, where the problem is identified after the transfer of the item or service from the organisation to the customer.	Cost of product liability claims from customers or clients. Cost of repairing products returned by customers, including those forming part of service. Cost of replacing sub-standard products including those included with a service. Delivery costs of returned units or items. Cost of the customer services section and its operations. Loss of customer goodwill and loss of future sales.

The demand for better quality has led to the acceptance of the view that quality management should aim to **prevent** defective production rather than simply detect it.

Most modern approaches to quality have therefore tried to assure quality in the production process, (quality assurance) rather than just inspecting goods or services after they have been produced.

Total Quality Management (TQM) is a popular technique of quality assurance. Main elements are:

- **Internal customers and internal suppliers**: All parts of the organisation are involved in quality issues, and need to work together. Every person and every activity in the organisation affects the work done by others.

  TQM promotes the concept of the **internal customer** and **internal supplier**. The work done by an internal supplier for an internal customer will eventually affect the quality of the product or service to the external customer. In order to satisfy the expectations of the external customer, it is therefore also necessary to satisfy the expectations of the internal customer at each stage of the overall operation. Internal customers are therefore linked in **quality chains**. Internal customer A can satisfy internal customer B who can satisfy internal customer C who in turn can satisfy the external customer.

- **Service level agreements**: Some organisations formalise the internal supplier-internal customer concept by requiring each internal supplier to make a **service level agreement** with its internal customer. A service level agreement is a statement of the standard of service and supply that will be provided to the internal customer and will cover issues such as the range of services supplied, response times, dependability and so on. Boundaries of responsibility and performance standards might also be included in the agreement.

- **Quality culture within the firm**: Every person within an organisation has an impact on quality, andit is the responsibility of everyone to get quality right. This means not just those individuals directly involved with production and dealing with customers, but also everyone in support roles and performing back office functions.
- **Empowerment**: Recognition that employees themselves are often the best source of information about how (or how not) to improve quality. **Empowerment** includes two key aspects.
    - Allowing workers to have the **freedom to decide how to do** the necessary work, using the skills they possess and acquiring new skills as necessary to be an effective team member.
    - Making workers **responsible** for achieving production targets and for quality control. The TQM quality cost model is based on the view:

- **Prevention costs and appraisal** costs are subject to management influence or control. It is better to spend money on prevention, before failures occur, than on inspection to detect product or service failures after they have happened.

- **Internal failure** costs and **external failure costs** are the consequences of the efforts spent on prevention and appraisal. Extra effort on prevention will reduce internal failure costs and this in turn will have a knock-on effect, reducing external failure costs as well.

In other words, higher spending on prevention will eventually lead to lower total quality costs, because appraisal costs, internal failure costs and external failure costs will all be reduced. The emphasis should be on **getting things right first time** and **designing quality** into the product or service.

Ref: Application level manual, page no: 550 Sourcing strategies- Single, multiple and delegated

Sourcing strategies
There are a range of possible strategies open to an organisation when deciding who they will purchase their supplies from.

Supply sourcing strategies	
Options	Comments
Single	**Description** The buyer chooses one source of supply. **Advantages** • Stronger relationship with the supplier. • Possible source of superior quality due to increased opportunity for a supplier quality assurance programme. • Facilitates better communication. • Economies of scale. • Facilitates confidentiality. • Possible source of competitive advantage. **Disadvantages** • Vulnerable to any disruption in supply. • Supplier power may increase if no alternative supplier. • The supplier is vulnerable to shifts in order levels.
Multiple	**Description** The buyer chooses several sources of supply. **Advantages** • Access to a wide range of knowledge and expertise.

	• Competition among suppliers may drive the price down. • Supply failure by one supplier will cause minimal disruption. **Disadvantages** • Not easy to develop an effective quality assurance programme. • Suppliers may display less commitment. • Neglecting economies of scale.
Delegated	**Description** A supplier is given responsibility for the delivery of a complete sub-assembly. For example, rather than dealing with several suppliers a 'first tier' supplier would be appointed to deliver a complete sub-assembly (e.g. a PC manufacturer may delegate the production of keyboards). **Advantages** • Allows the utilisation of specialist external expertise. • Frees-up internal staff for other tasks. • The purchasing entity may be able to negotiate economies of scale. **Disadvantages** • First tier supplier is in a powerful position. • Competitors may utilise the same external organisation so unlikely to be a source of competitive advantage.

Ref: Application level manual, page no: 552 purchasing mix

The purchasing mix
The purchasing manager has to obtain the best purchasing mix.

Quantity
The size and timing of purchase orders will be dictated by the balance between two things:

- Delays in production caused by insufficient inventories
- Costs of holding inventories: tied up capital, storage space, deterioration, insurance, risk of pilferage

A system of inventory control will set optimum reorder levels (the inventory level at which supplies must be replenished so as to arrive in time to meet demand) to ensure economic order quantities (EOQ) are obtained for individual inventory items.

Quality
The production department will need to be consulted about the quality of goods required for the manufacturing process, and the marketing department about the quality of goods acceptable to customers. Purchased components might be an important constituent of product quality.

Price
Favourable short-term trends in prices may influence the buying decision, but purchasing should have an eye to the best value over a period of time – considering quality, delivery, urgency of order, inventory-holding requirements and so on.

Delivery
The lead time between placing and delivery of an order can be crucial to efficient inventory control and production planning. The reliability of suppliers' delivery arrangements must also be assessed.

Ref: Application level manual, page no: 634 Johnson, scholes and whittington change model

Types of change
Change itself may be divided into two types, **incremental** and **transformational**, and so may the management approach to change be divided into **reactive** and **proactive**.

Incremental change is characterised by a series of small steps. It is a gradual process.

Transformational change is characterised by major, significant change being introduced relatively quickly.

Step change describes an unexpected jump (upwards) or drop (downwards) in the pace of change. The step is caused by an unexpected event (e.g. environmental disaster, unexpected change in government etc).

Planned change involves following a series of pre-planned steps.

Emergent change views change as a series of continuous open-ended adjustments to the environment.

Johnson, Scholes and Whittington suggest the model of change shown below:

		Nature of change	
		Incremental	**Transformational**
Management role	**Proactive**	Tuning	Planned
	Reactive	Adaption	Forced

The importance of **proactive management** is that it implies that organisational change may be undertaken **before** it is imposed by events. It may, in fact, result from the process of forecasting and be a response to expected developments. **Forced change** is likely to be both painful and risky.

Levels at which change efforts may focus

There are three main levels to which organisational development and change efforts may be directed:

Individual level where the focus is on improving individual skill levels, attitudes and motivation. Techniques employed could include education and training, management development, coaching and counselling, team building activities, inter-group activities, role analysis, job re-design, planning and objective setting activities and process consultation.

Organisation structure and systems level: The characteristics of the organisational situation in which people work (e.g. job redesign, reward systems, setting clear objectives) that help achieve organizational goals.

Organisational climate and interpersonal style levels: The improvement of social and other informal processes among organisation members by creating a system with a wide climate of high interpersonal trust and openness and a reduction in the negative consequences of excessive social conflict and competitiveness.

Ref: Application level manual, page no: 635 Change process

Change processes

For an organisation to be innovative, and continually responsive to the need for change, a systematic approach should be established, for planning and implementing changes.

Although each situation should be considered individually, the following general steps can be identified in a major change initiative.

Step 1
Determine need or desire for change in a particular area.

Step 2
Prepare a tentative plan. Brainstorming sessions are a good idea, since alternatives for change should be
considered.

Step 3
Analyse probable reactions to the change.

Step 4
Make a final decision from the choice of alternative options. The decision may be taken either by group
problem-solving (participative) or by a manager on his own (coercive).

Step 5
Establish a timetable for change.

- 'Coerced' changes can probably be implemented faster, without time for discussions.
- Speed of implementation that is achievable will depend on the likely reactions of the people affected.
- Identify those in favour of the change, and perhaps set up a pilot programme involving them. Talk with any others likely to resist the change.

Step 6
Communicate the plan for change. This is really a continuous process, beginning at Step 1 and going through to

Step 7
Implement the change.

Step 8
Review the change. This requires continuous evaluation.

Ref: Application level manual, page no: 636 The three stage approach (iceberg model)

The three-stage approach (iceberg model)

The Lewin/Schein three-stage **model of change** identifies key steps as **unfreeze, move** and **refreeze.**

UNFREEZE	MOVE	REFREEZE
Existing behavior	Attitudinal/behavioural Change	New behavior

Step 1
Unfreeze is the most difficult (and in many cases neglected) stage of the process, concerned mainly with selling the change, with giving individuals or groups a motive for changing their attitudes, values, behaviour, systems or structures.

Unfreezing processes require four things:
- A trigger
- Someone to challenge and expose the existing behaviour pattern
- The involvement of outsiders
- Alterations to power structure

Step 2

Move is the second stage, mainly concerned with identifying what the new, desirable behaviour or norm should be, communicating it and encouraging individuals and groups to 'own' the new attitude or behaviour. This might involve the adoption of a new culture. To be successful, the new ideas must be shown to work.

Step 3
Refreeze is the final stage, implying consolidation or reinforcement of the new behaviour. Positive reinforcement (praise and reward) or negative reinforcement (sanctions applied to those who deviate from the new behaviour) may be used.

Ref: Application level manual, page no: 637 Coercive change approach

Coercive change is enforced without participation. Change of culture and power structures is left to the end of the change process. There are several problems with a coercive approach:

- Underestimation of the forces of resistance
- Failure to muster forces in favour
- Failure to attack root causes of resistance
- Management shift their attention too quickly elsewhere
- Failure to ensure implementation

This approach is necessary in situations of **crisis** where there simply is no time to consult, or where decisions need to be taken quickly. An example is a sudden environmental shock.

Most of the time, a **mixed approach between coercive change and adaptive change** is suitable. Adaptive change may be too slow, whereas coercive change is often resented and therefore not accepted.

Ref: Application level manual, page no: 637 Change agents

A change agent is an individual (sometimes called a **Champion of Change**), a group or external consultancy with the responsibility for driving and 'selling' the change.

The role of the change agent varies depending on the brief they are given. It may include:

- Defining the problem
- Suggesting possible solutions
- Selecting and implementing a solution
- Gaining support from all involved

To be effective a change agent should have the following skills and attributes:

- Communication skills
- Negotiation and 'selling' skills
- An awareness of organisational 'politics'
- An understanding of the relevant processes

The **champion of change model** recognises the importance of change being led by a **change agent**, who
may be an individual or occasionally a group.

Step 1
Senior management are the change strategists and decide in broad terms what is to be done. There is a need for powerful advocacy for change at the strategic apex. This will only occur if senior management are themselves agreed on the need for change. This is a role requiring a clear vision of what the change is to achieve.

Step 2
They appoint a change agent to drive it through. Senior management has three roles:

- Supporting the change agent, if the change provokes conflict between the agent and interest groups in the organisation
- Reviewing and monitoring the progress of the change
- Endorsing and approving the changes, and ensuring that they are publicised

Step 3
The change agent has to win the support of functional and operational managers, who have to introduce and enforce the changes in their own departments. The champion of change has to provide advice and information, as well as evidence that the old ways are no longer acceptable.

Step 4
The change agent galvanises managers into action and gives them any necessary support. The managers ensure that the changes are implemented operationally, in the field. Where changes involve, say, a new approach to customer care, it is the workers who are responsible for ensuring the effectiveness of the change process.

It is important to realise that successful change is not something exclusively imposed from above. There is a sense in which middle and junior managers are **change recipients** in that they are required to implement new approaches and methods. However, they are themselves also **change agents** within their own spheres of responsibility. They must be committed parts of the change process if it is to succeed.

Ref: Application level manual, page no: 638 The Gemini 4Rs framework for planned strategic change

The Gemini 4Rs framework for planned strategic change

Management consultants Gouillart and Kelly describe a four-dimensional process for business transformation in their book Transforming the Organisation. Known as the Gemini 4Rs framework, this approach aims to cover all the important components of the organisation's identity.

Reframing involves fundamental questions about what the organisation is and what it is for:

- **Achieve mobilisation**: Create the will and desire to change.
- **Create the vision** of where the organisation is going.
- **Build a measurement system** that will set targets and measure progress.

Restructuring is about the organisation's structure, but is also likely to involve cultural changes:

- **Construct an economic model** to show in detail how value is created and where resources should be deployed.
- Align the physical infrastructure with the overall plan.
- Redesign the work architecture so that processes interact to create value.

Revitalising is the process of securing a good fit with the environment:

- Achieve market focus.
- Invent new businesses.
- Change the rules of competition by exploiting technology.

Renewal ensures that the people in the organisation support the change process and acquire the necessary
skills to contribute to it:

- **Create a reward system** in order to motivate.
- **Build individual learning.**
- **Develop the organisation** and its adaptive capability.